

I. Filing Requirements, Standard deduction (\$6,300, \$12,600) + Exemptions (\$4,000)

a. Filing: Worldwide Income for Citizen and Residents, Age (day before birthday, date of death) and >65yrs and/or blind \$1,250 (MFJ, QW, MFS), \$1,550 (Single, HOH). Dependent unearned income \$1,000. Statutory Residency Test, Domicile Residency Test, Permanent Place of Abode.

- Dependent's Standard deduction, greater of: \$1,000 or earned income (up to \$5,750) + \$350. Needed for filing ITIN if no SS#. Exemption phaseout from \$150-300k. Backup withholding 28%.

- Self-Employed >\$400, Church employee >\$108.28. Foreign income reporting >\$10k FBAR 114 (Bank Secrecy Act of 1970, Currency and Foreign Transactions Reporting Act), >\$50-400k 8938, TD F 90-22.1.

- MFJ, on Dec 31, dies during the year. Annulment must amend open years. Decedent's representative can change from MFJ to MFS. Same Sex IRS RR 2013-17, Notice 2013-61.

- 1040 NR U.S. Income only, file by 6/15. Resident Alien with Green card or Substantial Presence Test. U.S. citizen married to a NR Alien file MFJ w/ ITIN and W-7 if both sign, or HOH (if lived together). Dual-status, enter and leave the U.S. in tax year.

b. Injured Spouse Allocation 8379 (MFJ, request tax refund), past due obligations by other spouse. CA Injured Spouse ineffective if Federal Income taxes owed and all income is community property; otherwise each spouse is entitled to 1/2 of tax refund and/or Injured Spouse's share of over-payment.

- Innocent Spouse Relief 8857 (MFJ, request relief from liability/balance due). CA community property of either spouse to satisfy a debt. Relief: liability attributable to spouse's omission of income, claim of false deductions, or credits. Unfair to hold taxpayer liable: General Innocent Spouse relief, Separation of liability, and/or Equitable relief (more than one is allowed).

c. Failure to File: 5%/mo up to 25% Balance (Fraud 15%/mo up to 75% Balance); >60 days \$135 penalty or <tax. 180/106 days Combat extension from discharge.

- Failure to Pay: 0.5%/mo up to 25%, 1% after IRS notice to levy; Installment plan in effect 0.25%/yr. Combined (FILE - PAY) penalty >\$1,000. <90%. 110% current of AGI >\$150k (MFS \$75k). 4868 extension (6/2mo).

d. Pay within 120 days, call IRS. Extension to Pay due to Hardship, 1127. IRS installment payments <\$25K 9465, <\$50K 9465-FS; IRS Reduced fee 13844. IRS payment relief 433-A / Emergency 911. Offer in Compromise 656,A,B; Fresh Start IR-012-53. 1040V Payment Voucher, Direct refund 8888.

- Accuracy (negligence and/or substantial understatement) 20% penalty. Under reporting, 6yr statue - Greater 10% or \$5,000 Balance. Frivolous \$5,000 up to \$25,000 (court). Jurat penalty \$500, TFRP (FICA payment) 100% penalty. Criminal penalties - up to \$100/250k (Corp \$200/500k) and/or 1,3,5yrs

- Preparer: Unreasonable position greater \$1,000 or 50% preparer fee; Reckless greater \$5,000 or 50% preparer fee; Privacy violation \$1,000/each, 1yr; also civil \$250; Refund check violation \$500; EIC preparer \$500 up to \$25,000; Abusive tax shelter greater \$1,000 or 100% Income; No tax shelter # nor 8271 \$250; No SS#, signature, PTIN #, file correct, copy Kept or Given \$50/each up to \$25,000.

e. Quick refund for NOLs and tax credit carrybacks, 1045. Where's my Refund / IRS2GO app. TAS taxpayeradvocate.irs.gov. Per Diem gsa.gov; M&IE incidentals \$5/day. W-4/4P, CA DE-4, IRS Withholding Calculator changing allowances. 1040X later of 3yrs or 2yrs from date the tax was paid.

f. Recognizing Losses: 1) NOLs, 2yrs back or 20yrs forward, 3yrs casualty, 5yrs farming/qualified disaster, 10yrs liabilities. NOLs only offsets income. §382 NOL not exceed corporation's stock times LT tax-exempt rate. 2) PALs, limitations. 3) At-Risk Losses, excess losses carried forward. 4) Capital Losses, back 2yrs, 3yrs (Corp) remaining losses forward 5yrs. §1244 small business stock losses. Worthless stock losses. Wash sale (30 days), and related party losses disallowed. 5) Net gains §1231

(>1yr) property are capital gain rates; net losses are ordinary losses. §1231 losses require §1231 gains re-characterized as ordinary income for 5yrs. 6) Investment Theft Losses, casualty loss rules not subject to the \$100 floor, year discovered. 7) Personal Casualty Losses. Disaster Relief deduct loss in current year or immediately preceding year. 8) Gambling Losses. Group of 2 or more, Statement by Person(s) Receiving Gambling Winnings, 5754. Professional gamblers losses to income, excess gambling losses are NOL. 9) Bad Debt Losses. 10) Abandonment Losses. 11) Hobby. Tax Shelters 8918, 8264, 8271.

2016 Standard deduction \$6,300 S, \$12,600 MFJ, \$9,300 HOH; 39.6% S, \$415,050, \$464,850 MFJ; Itemized deductions limitation \$259,400 S, \$311,300 MFJ; Personal exemption \$4,050, phases out \$381,900 S, \$433,800 MFJ; AMT exemption \$53,900 S, \$83,800 MFJ; EIC \$6,269, \$5,572, \$3,373, \$506; Estates exclusion amount \$5,450,000; Gifts \$14,000; Adoption credit \$13,460; Foreign earned income exclusion \$101,300; Small employer health insurance credit 10 employees in excess \$25,400. IRA phaseout \$98-118K MFJ/QW, \$61-71K S/HOH, \$0-10K MFS. ROTH IRA phaseout \$184-194K MFJ/QW, \$117-132K S/HOH, \$0-10K MFS. DB \$210k, DC \$53k. Rules based vs Principles based.

II. Dependent Exemptions, \$4,000.

a. Qualified Child: Relationship (blood/adopted), Age (<19, full-time student <24, disabled), Residency >6mos, Support >50%, Joint Return (no, except for refund). Foster payments not provided by child.

b. Qualified Relative: Lived with taxpayer all year, or Related and resides >6 months. Gross Income <\$3,900, Support >50%, not a Qualified Child.

c. QC & QR, Taxpayer cannot be claimed as dependent, Joint return cannot claim spouse (except no tax liability or refund), U.S. Citizen/Resident Alien/National or resident of Canada/Mexico.

d. Support: Food, Housing (FRV), Education, etc., not Health Insurance, Scholarships, worksheet.

- Multiple Support Agreement 2120, eligible if >10%.

e. HOH: related dependent (Parent/Grandparent), unmarried for tax purposes/MFS, >50% dependent resides, >50% household maintenance (rent, interest, taxes, utilities, food). Married dependent only if Taxpayer can claim an exemption. MFS spouse can't live in home last 6mos of year, worksheet.

- Tie-Breaker: 1) child's Parent, 2) Custodial parent (more time), 3) Household person's >AGI (no parent), 4) parent can/not claim Household person's >AGI and/or >parent's AGI (parent can claim).

- 8332 Release, Spousal Dependent Exemptions waiver. Splitting benefits, assign: Dependent exemption, Child, and Additional Child credit. NOT assignable: HOH, Education, Dependent Childcare, and EITC credits. 8332 MUST Mail, Austin, TX.

f. Qualified Widow(er), dependent, >50% household maintenance, MFJ/MFS year of death, then 2yrs.

III. Child and EIC, custodial parent.

a. Child Tax credit, \$1k/per dependent child, <17yrs old, 1040 Ln 51, worksheet, phaseout.

b. Additional Child Tax credit, refundable, earned income >\$3k (or 3 or more kids), 8812, worksheet calculates 15% credit, phaseout.

c. EIC, combat income (not Alimony or retirement monies) refundable, max \$503, \$3,359/5,548/6,242, cannot file MFS and/or investment income >\$3,300, Sch EIC, checklist 8867, phaseout. EIC prior disallowance 8862. EIC worksheet: \$500 Preparer penalty, 8867, records.

- CA EIC 3514: \$6,580 (0, \$214) , \$9,880 (1, \$1,428) , \$13,870 (2, \$2,358/>2, \$2,653).

d. EIC /wo QC, AGI max (S, MFJ) \$14,340/19,680, 25-65yrs, cannot be dependent or QC, phaseout.

- EIC QC, AGI max (S, MFJ) \$37,870/43,210, \$43,038/48,378, \$46,227/51,567 (1,2,3 children), blood QC dependent (custodial parent), u19 or student u24, disabled. Taxpayer must claim QC exemption, QC cannot file MFJ except for refund.

IV. W2 - Wages, Income, Taxes.

a. Gross Income, Earned/Unearned income. Statutory employee (FICA taxes) Sch C expenses. Non-Accountable plan payments are income. Rewards points redeemable in cash or items of value are taxable, 1099-Misc. Ln 7 items: taxable portion of Scholarships, grants, fellowships "SCH", taxable employer Dependent Care Benefits "DCB", Household employee earnings "HSH".

- Child working for parent (sole proprietor/partnership only) u18yrs no SS tax, and u21yrs no FUTA tax. Parent working for child no FUTA tax. FUTA tax, 940.

- Expenses per diem rate \$259-172, \$65-52 is for meals.

b. Excluded Income: Social Security (\$25/32k, 85% 34/44k), most SSDI/VA/Worker's Comp, Public assistance, Federal Tax refunds, Gifts, Life insurance (accelerated death benefits, terminal/chronic), many Awards, §125 plan benefits, Accountable plan reimbursements, §121 gain, damages for personal injury/sickness, debts discharged.

- Employer benefits not income: HSA, FSA, and HRA insurance premiums paid (20% penalty for non-medical deduction before 65yrs), Mass Transit <\$250/130/mo, Parking reimbursement <\$245/mo, Qualified Bicycle commuting \$20/mo. Qualified Educational assistance <\$5,250/yr. Qualified moving exp reimbursement. Qualified Employer Plan awards <\$1,600, and NQ Awards <\$400. Dependent Care Assistance up to \$5k (MFS \$2.5k), Group insurances and Life insurance <\$50k.

c. Unemployment 1099-G, taxable. Substitute W2 4852 (after Feb 15). FICA/Medicare surtax 0.9% 8959 S/HOH >\$200k, MFJ >\$250k. State Tax Refunds (prior year), taxable if itemized in prior year. Penalty tax for failing to have Minimum essential health coverage, 8959 computation.

d. Independent Contractor, no SS/Medicare taxes, 8819. Independent Contractor but treated as Employee (IRS 3320-120) file SS-8. Qualified Joint Venture (QJV) spouses split Sch C and SE.

e. Disability Retirement Benefits are taxable. Private (before-tax) Disability Income, 1040 Ln 7 (before retirement age), 1040 Ln 16a,b (Retirement Benefits).

f. Tip 4137 Employees report <\$20/mo. Employer reportable >\$20/mo, allocated tips.

g. Gambling, W-2G, losses (Sch A Misc) up to winnings (1040 Ln 21), diary. T.C. Summ. Op. 2012-78.

h. Scholarships, Fellowships, and Grants, fully/partially/not taxable (qualified expenses), 1040 Ln 7.

i. Claim of Right repayment deduction. Awards and Notary Wages exempt from SE tax, 1040 Ln 21.

j. Alimony cash or payments on their behalf (and combat pay) is qualifying non-passive income, taxable to recipient 1040 Ln 11. Property Settlement disguised as Alimony is non-deductible subject to recapture calculation (3yr rule). Alimony payer deducted on 1040 Ln 31a. Not alimony payments if contingencies tied to child. Child Support (not deductible nor income), payments recognized before Alimony.

k. Foreign Income excluded up to \$100,800 (each) and Foreign Cost Exclusion (or deduction) 2555 / 2555-EZ, Sch C must pay FICA SS/Medicare taxes, physical presence test 330 days of 12/mos.

l. 1099-C Canceled debt >\$600, 1040 Ln 21, except if insolvent. Foreclosure or Repossession is treated as a sale/exchange of property, gain if borrower's basis <FMV. 1099-C flows to Sch C,E,F.

- 1099-C, no income recognized: Bankruptcy, Insolvency, Gifts, Deductible debt, Purchase price reduction, Pay-for-Performance Success Payments under the Home Affordable Modification Program, Non-recourse debt, Student loans, Qualified Farm Indebtedness, Qualified Real Property Business Debt, Qualified Principal Residence Indebtedness 982 <\$2M (2016) mortgage acquisition indebtedness.

m. 1099-A Acquisition or Abandonment of Secured Property, no loss for property held for-personal-use, gain on Sch D.

n. Insolvency (liabilities exceed assets exempt retirement funds), worksheet (Pub 4681, Canceled Debts, Foreclosures, Repossessions, and Abandonments). Separately owned assets not included in insolvency of other spouse. CODI (cancellation of debt income) Tax attributes excluded from taxable income.

o. Household Worker paid >\$1,800 must pay SS/Medicare/FUTA taxes. Household Employer files Sch H,

with FICA and FUTA taxes >\$1k/qrt, and I-9 for Employment Eligibility Verification.

p. Clergy generally Self-employed income, except otherwise or vow of poverty (includes foreign income). Lower of housing/parsonage allowance (or paid/FMV) included for SE income and tax (excess is income), excluded if for retirement and excluded from gross income. Exempt from SE tax for religious members 4361, religious sects 4029. Expenses on Sch A, (2106), C; if housing allowance then calculate non-deductible (percentage/allocate) Sch C expenses with worksheet.

V. 1099-R - Retirement.

a. IRA/ROTH IRA, \$5,500 (\$6,500 50yrs, 2013) by April 15. ROTH IRA 5yr rule once, and again for each conversion to a ROTH IRA. Alimony and combat pay is qualifying non-passive income. Spousal Active Participant, phaseout, worksheet. IRA deductible phaseout \$98-118k MFJ/QW, \$61-71K S/HOH, \$0-10k MFS. ROTH IRA phaseout \$183-193K MFJ/QW, \$116-131k S/HOH, \$0-10k MFS. MFS contributions up to earned income (higher phaseout if "living apart" during tax year). MyIRA \$129/191k and \$15k or 30 yrs.

- Non-deductible contributions to IRA above phaseout allowed. Distributions of Non-deductible IRA and ROTH not taxable (but 10% penalty before 59½ 8606). ROTH IRA and Non-deductible IRA losses, deductible Sch A Misc. ROTH IRA conversion 8606. Highly-compensated employees >5% owners, >\$100k, top 20%.

b. DC (ERISA) Plans (\$51k 2013), DB (\$205k 2013), Employer-Matching, contribution limits. Before 59½ 10% penalty, after 70½ 50% penalty, 5329. 401k (\$17.5/5.5k, 2013), SIMPLE (\$12/2.5K, 2013).

- Self-Employed Retirement plans, 1040 Ln 28. Deferred-Compensation contributions, W2 box 12.

c. Retirement Savings Contribution Credit \$1k/(2k MFJ), first \$2k contributions, 8880, phaseout.

d. Qualified Charitable Distributions from retirement accounts up to (\$100k), individual >70½.

e. Required Minimum Distributions (RMD), begin April 1 of year following the year when taxpayer turns 70½yrs. Excess 6% penalty if not withdrawn by extension or amend date. Prohibited IRA transactions re-characterize as non-IRA on 1st day of year of distribution.

f. Distributions: Hardship 5329 avoid 10% penalty, Separation from service 55yrs, loans >\$10k or 50% of up to \$59k. IRA up to \$10k first home (only). §72(t)(2)(A)(iv) series of substantially equal periodic payments for the longer of 5yrs, or until age 59½: Life Expectancy, Joint Life Expectancy, Amortization, or Annuity Method. Prohibited transactions penalty 15%, and/or 100% if not fixed.

g. Pensions and Annuities, 1099-R, actuarial tables 4972, Simplified method or General rule. After-tax contributions not taxable. NUA of company stock at Capital Gains rates.

h. SS \$25/32k, 85% \$34/44k, SSA-1099 and RRB-1099 taxable up to 0/50/85%, 1040 Ln 20 a,b, worksheet. SSDI not taxable, SSA-1099. Excess RRB >SS taxable. Children's SSA-1099 support. Supplemental Security Income (SSI) disabled adults, children, over 65 who meet the financial limits.

i. Reverse Mortgage payments not taxed. §1035 Life to Annuity, Endowment, LTC ok. §1035 Annuity to LTC ok. Ordinary Taxes on gain for §1035 Annuity to Life, Endowment.

VI. Sch B - Interest, Dividend, year earned.

a. 1099-INT payer >\$10. Nominee interest >\$10 taxpayer must issue 1099-INT and can exclude. Foreign Investment interest included. Bank gift FMV >\$20 is interest. Original Issue Discount 1099-OID, securities bought at discount, interest amortized to par.

- Muni Interest Federal tax-exempt. Treasury interest not taxed by States. Private Activity bonds taxed.

b. 1099-DIV payer >\$10. Qualified >60 days (Capital Gains rates or NQ dividend at Ordinary Income rates) / 90 days (Preferred stock) / 1yr LTCG, basis. Retained undistributed capital gains 2439 to Sch D, even if not taken, taxable. Non-taxable distributions reduces basis, if basis <0 take capital gain.

c. Sch B >\$1500. QDCGT worksheet 0%, 15%, 20%.

d. Foreign Tax credit 1116 (or Sch A deduction), 1099-T, deductible directly on 1040 Ln 47 if <\$300 (\$600 MFJ). Foreign Investment 8938, Forms FBAR 114, TD F 90-22.1, 3520.

e. Kiddie Tax: 8814 Parent (>\$2k GI <\$9.5k), effects Sch A. 8615 Child (GI>\$2k, \$1,050 deduction) parent's 1040 tax rate, must use for child's capital gains, AMT \$7,250, 18yrs, <24yrs full-time students.

VII. Sch D - Capital Assets.

a. Real property, Real Estate, 1099-S, land. Personal property: Tangible (incl. precious metals), Intangible. Use: Personal, Investment, Business, Inventory. UNICAP capitalizes costs of inventory used for production and resale.

b. Sch D, 8949, 1099-B consolidated statement, worksheet. Basis (FMV), Adjusted basis pluses/minuses (Securities settlement for injured capital asset reduces basis). Securities trade date, various, 1099-B, 8453/1099-B MUST Mail if not efiled, Austin, TX.

- Capital Gains rates 0/15/20/25/28%, covered (basis, starting 2012) non-covered (basis not provided), Sch D. Qualified Dividends/Capital Gains, Dispositions of Capital Assets worksheet, 8949.

- \$3k capital loss/yr per return (ST loss first, must be deducted each year once incurred), carryover. STGG / LTCG (>1yr) 8949. 7 yrs worthless securities. Wash Sales 30 days before/after full/partial disallowed loss, added to basis. Installment sale (relative), resold <2yrs, installment sales reporting lost.

- Net Investment Income tax 3.8% 8960. Medicare surtax 0.9% 8959. S/HOH \$200k, MFJ \$250k.

c. Gift's basis. Gain: lesser FMV (except spouse) or donor's adjusted basis (+ tax). Loss: FMV (+ tax). Gift taxes are the portion of gift tax paid attributed to gift's gain. Inherited gift basis step-up to FMV.

d. Main residence §121 \$250/500k, 2yrs owned/used of 5yrs (excl. temporary absences). §1031 Realtor provides docs to Title company, sales proceeds kept in escrow, 8824. Non-like-kind exchanges "boot" is taxable. Reduced Exclusion (% of \$250/500k) for unforeseen circumstances. §1033 Involuntary Conversion 2,3,4,5yrs. Both §121 and §1031 (Sch E) recapture depreciation 4797, if gain on sale.

- Selling Primary residence/Business rental, no capital gain up to §121 exclusion Converting Vacation/Rental to Primary residence within 5yr window (necessitates calculation of "non-qualified use"), §121 exclusion gain limited to fraction of 5yrs as Primary residence. Recapture rental depreciation at 1) ordinary income rate for gain up to §121 exclusion. Gain above §121 exclusion 2) recognize capital gain and recognize depreciation as capital expense. Depreciation as landlord now taken as a capital expense.

- Selling Business rental, recognize capital gain and depreciation as capital expense. Recapture §1250 depreciation at ordinary income rate up to 25% - depreciation as landlord now taken as a capital expense.

e. Business, Real Estate up to 25% (or marginal rate, whichever is lower). Collectibles (excluded precious metals); and §1244 Small Business stock \$50/100k MFJ (lesser of ordinary income or) up to 28%. §1202 Qualified Small Business stock up to 28% QSBS 50% gain exclusion. §1231 depreciable Business property >1yr. Non-business Bad debt, Sch D loss. §1031 Exchange never inventory conversions.

f. Installment Sales pro rated: 1) Return of basis, 2) Gain, and 3) Interest, creates a Gross Profit Percentage GPP Gain/Payment each year. Installment note disposed (early to buyer), profit is sales price minus basis (calculated with GPP). Related party disposed of <2yrs disallowed as disguised sale.

g. Rollover of gain from publicly traded securities QSBS, limit \$50k/yr or \$500k lifetime, Sch D, 8949.

VIII. Sch D/8949 Brokerage.

a. "Basis was reported" or "Non-covered": January 1, 2011 corporate stock, January 1, 2012 stock in a mutual fund or acquired through a dividend reinvestment plan (DRP), January 1, 2013 any other specified security, January 1, 2014 "Not Complex" debt includes options and most OID, January 1, 2016 debt that is "Complex". Backup withholding can apply to payments reported on 1099 under certain conditions.

- 8949: Basis reported (code A ST, D LT); basis not reported (code B or E); transactions not coded A or B (code C or F). Sale or exchange of capital assets not reported on another form or schedule; Gains from involuntary conversions (other than casualty or theft) of capital assets not held for business or profit; Non-business bad debts.

- Sch D: 8949/1099-B, 2439, 6252, 4797 Part I, 4684, 6781, or 8824; Gain or loss from a partnership, S-Corporation, Estate, or Trust; Capital gain distributions not entered directly on 1040 Ln 13; Capital loss carryover.

- Exception from reporting 8949 individual transactions: on 8949 column (a) enter name of broker and "see attached statement", in column (f, codes) enter M in, and mail 8949 & 1099-B attached to 8453.

b. Stock rights (warrants) are distributions. Basis of expiring nontaxable stock rights is \$0. Basis of exercised/sold Nontaxable stock rights (stock FMV >15% rights): Basis of rights = $[\text{FMV rights} / (\text{FMV stock} + \text{FMV rights})] \times \text{stock basis}$; Basis of stock = $[\text{FMV stock} / (\text{FMV stock} + \text{FMV rights})] \times \text{stock basis}$. Taxable stock rights basis is FMV of right (distribution date). Basis of any stock (acquired with rights) is amount paid for stock plus basis for right; holding period for stock acquired is stock rights exercise date.

c. Return of capital - distributions (not earnings and profits) is return of investment in the security, capital gains treatment based on holding period, "Non-dividend Distribution Exceeding Basis" (or "NDEB").

d. Redemptions - sale of open-end fund shares. Tax-exempt obligations sold, exchanged, or redeemed is a taxable gain or loss. Special rule for mutual funds issuing capital gains distributions redeemed at a loss within 6mos of purchase are treated as a LT capital loss up to the amount of capital gain distribution; any loss in excess of that amount is treated as a ST capital loss.

e. Basis of mutual funds generally includes commission (or should be added); FIFO or Average basis for total shares owned.

f. Employee Stock Purchase Plan, employers issue 3922 showing basis (ESPP price less FMV on grant date, but >85% of FMV).

- NQ ESPP (NOT §423): Report Compensation income [FMV purchase date – discounted stock price] taxed on purchase date (W2 box 1); 8949 gain/loss 1099-b basis (discounted stock price) may include 8949 adjustment (W2 box 1 discounted compensation).

- Q ESPP (§423) disqualifying disposition (NOT >2yrs and >1yr), W2 box 1 (box 14) Compensation income [FMV sale date – discounted stock price]. Report [generally transaction fees] 8949 gain/loss 1099-b basis (FMV sale date) may include 8949 adjustment (W2 box 1 discounted compensation).

- Q ESPP (§423) qualifying disposition (>2yrs and >1yr), W2 box 1 Compensation income lessor of 1) Grant date discount [FMV grant date – discounted stock price] or 2) Actual gain/loss [FMV sale date – discounted stock price]. Report 8949 gain/loss 1099-b basis (discounted stock price) may include 8949 adjustment (W2 box 1 discounted compensation).

g. Restricted Stock Awards:

- RSA §83(b) Compensation income, elect to pay ordinary income tax on grant date, basis (grant price, less any purchase price) within 30days. Report 8949 gain/loss 1099-b basis (FMV grant date) may include 8949 adjustment (discounted compensation income).

- RSA (NOT §83(b)) Compensation income (FMV vested, less any purchase price), W2 box 1 and taxes w/h. Report 8949 gain/loss 1099-b basis (FMV vesting date) may include 8949 adjustment (W2 box 1 discounted compensation).

h. Non-Qualified Stock Options, Employee stock option (ESO) "Statutory" plans: employee receives granted options from grant date until 3mos before the option is exercised. "Non-statutory" stock options are compensation subject to federal income, social security, and medicare tax.

- Stock Options compensation income (FMV exercise date, less any purchase price), W2 box 1 (box 12, code V) and taxes w/h, Cashless exercise program [FMV sale date – grant stock price]. Report [generally transaction fees] 8949 gain/loss 1099-b basis (FMV exercise date) may include 8949 adjustment (W2 box box 12, code V).

- Pub 525 & 550 Option's FMV ascertainable on grant date (rarely), usually on exercise or vesting date; compensation included in wages (FMV on exercise date less amount paid for the option). Stock substantially vested taxable compensation (FMV on vesting date less amount paid for the option). Income derived from exercised stock (e.g., dividends) is taxable even if the stock itself is not yet substantially vested. Transferred options include as income any money or property received; the transferee includes as

income the excess of the FMV of the stock acquired above price paid and any amount included in income at the time of transfer.

i. Incentive Stock Options, ISO plans limited to \$100k/employee on grant and employers issue 3921. ISO (for disabled) employee within 12 months before the option is exercised and option must be nontransferable except at death.

- ISO disqualifying disposition (NOT >2yrs and >1yr), Compensation income W2 box 1 (box 12 or 14) and taxes w/h, Cashless exercise program [FMV exercise date – exercise stock price]. Report 8949 gain/loss 1099-b basis (FMV exercise date) may include 8949 adjustment (W2 box 12 or 14).

- ISO qualifying disposition (>2yrs and >1yr). Report 8949 gain/loss 1099-b basis (FMV exercise date) and Alternative Minimum Tax (AMT) preference item (compensation income if treated as NQ stock options, FMV sale date – exercise stock price).

j. NUA: 401(k) employer stock (purchased with before-tax contributions and employer matches) with a basis <FMV instead of rolling stock in 401(k) over into an IRA, elect to take a stock distribution subject to income tax in a brokerage account (less than 55, a 10% early withdrawal penalty tax), only the basis of the stock is recognized as a taxable distribution, when sold taxed at capital gain rates.

k. Bond premium - Tax-exempt bonds must amortize premium (not deductible) must reduce the basis by the amortization each year. Taxable bonds can elect to amortize premium over bond's term (reduces taxable interest) and basis of the bond must be reduced by amortized amount each year.

- Amortization schedule, YTM method: calculate yield (discount rate of present value) on the date the bond was acquired to two decimal places. Use fixed accrual periods and bond premium for the accrual period: 1) Interest on Adjusted Basis = Adjusted acquisition price (basis at beginning of accrual period) x Yield Rate, 2) Premium Amortized = Coupon Payment – Interest on Adjusted Basis, 3) New Adjusted Basis = Adjusted Basis – Premium Amortized (earlier periods), 4) New Unamortized Premium = Unamortized Premium – Premium Amortized, 5) Interest on Adjusted Basis = New Adjusted Basis x Yield Rate

- Bond premium greater than stated interest may deduct the difference on Sch A Ln 28, but limited to total bond premium deductions (in prior periods) minus the amount included as interest on the bond (in prior periods). Report full amount of interest on Sch B Ln 1; above Ln 2 enter a Subtotal (all interest on Ln 1); below Subtotal print "ABP Adjustment" and the amortization amount; subtract this amount from the Subtotal and enter the result on Ln 2; statement attached indicating IRC §171 election.

l. Bond discount - Bond's discount reported as Sch B interest income for; any gain in excess of discount is Sch D capital gain. Election to accrue the market discount as income each year.

m. Accrued interest - bond is sold between interest dates. Accrued interest is considered ordinary income on Sch B; gain/loss(es) in excess of the accrued interest is Sch D capital gain/loss.

n. Disallowed Wash sale loss - added to basis in the repurchased securities and holding period is the date of the original stock or securities. IRS Revenue Ruling 2008-5 purchasing substantially identical securities in a tax-deferred or nontaxable account (IRA/Roth IRA), loss is permanently disallowed. Wash sales 8949 column (f) "W" and column (g) adjustment. Short sale when long (identical stock) treated as sold (date of short sale and repurchased) a "deemed sale under the constructive sale rules" gain from "sale" of the stock is recognized (even though the stock was not actually sold).

o. Option exercised: Long call basis is amount paid for both the security and option premium. Short call basis is option premium received and the sales price of security. Long put basis is sales price of security minus option premium received. Short put basis is the amount paid for both the security and option premium.

p. 4952 Investment Interest Expense Deduction to Sch A Ln 14 - Investment interest exceeding net investment income (excl. qualified dividends and capital gains) or treat all or part of qualified dividends and/or capital gain as investment income (then any qualified dividends or net capital gain included in investment income not eligible for capital gains treatment).

q. Foreign tax credit / deduction - Deduction Sch A Ln 8 when credits (eliminate/nearly all) of the federal income tax liability. 1116 FTC credit - foreign passive income taxed >39.6% (highest U.S. income tax rates) include in the general category income and any foreign interest income qualifying as passive income >5% include in the high withholding tax interest category.

r. 8938 and Sch B part III: Foreign financial assets $S > \$50k$, MFJ $> \$100k$. Tax home foreign country and presence abroad tests (bone-fide resident or > 330 full days) $> \$200k$ (12/31) or $> \$300k$ at any time during the tax year and MFJ $> \$400k$ (12/31) or $> \$600k$ at any time during the tax year.

IX. Adjustments.

- a. Eligible Educator, ($\$250/500$), > 900 hrs. Tuition & Fees, ($\$2/4k$, 2016) phaseout.
- b. IRA contributions 1040 Ln 32. Penalty for early Savings Withdrawal, W2 (box 2), 1040 Ln 30.
- c. Student Loan Interest (not loaned from related person), deductible $\$2,500$, eligible student, qualified college, $> 50\%$ student year, degree program, 1098-E, 1040 Ln 33, worksheet, phaseout.
- d. Moving Expense 3903, 50mi farther away, work-time 39 weeks 1yrs (self-employed 78 weeks of 2yrs), either spouse, 1yr from job start (temporary < 1 yr, not indefinite), travel, lodging, standard mileage rate ($\$0.24$), not meals. Employer's excess payments are W2 income.
- e. HSA deductible payments, 1st IRA funding transfers 8889, 1040 Ln 25. Qualified Medical expenses 1099-SA, excess contributions 6% penalty, taxable distributions 1040 Ln 21. 20% penalty Non-Medical before 65 distributions, 60 day rollover, annual limitations. Self-employed health insurance premium, 1040 Ln 29.
- f. Reservists, Government officials (fee), Performing artist (AGI $< \$16k$) deductible exp, 1040 Ln 24.
- g. Domestic Production Activities Deduction (DPAD, single line of business) $\$199$, lesser of 9% Qualified Production Activity Income (QPAI) or 50% of W2 wages paid, and lesser AGI or taxable income, 8903.
- h. Write-in Adjustments, 1040 Ln 36, deductible "MSA", "JURY PAY", Personal Property Rental "PPR", Repayment of supplemental unemployment benefits "Sub-pay TRA", deductible Pension plan contributions "501(c)918(D)", deductible Clergy contributions "403(b)", Unlawful Discrimination deductible court fees "UDC", Reforestation deduction "RFST", deductible court fees for IRS awards "WBF".

X. 4562 - Depreciation.

- a. Depreciation flows from: Sch A Investment/Business, Sch C Business, Sch E Rental, Sch F Farming. Amortize intangible $\$197$ property over 15yrs (180/mo).
- b. Jan 1, 2014 repair regulations: Betterment, Restoration, and Adaptation expenses are generally capitalized as improvements, 9 building "systems": 1) Heating, ventilation, and air conditioning (HVAC), Plumbing, Electrical, Escalators, Elevators, Fire-protection and alarm, Security, Gas distribution, and other structural components. Betterment compares the condition before and after the expenditures. Restoration of major component or substantial structural part of a unit of property is replaced. Adaptation denotes a change. Casualty loss (special rule) claimed or received an insurance reimbursement may deduct repair expenses only to the extent (that the portion of the restoration expenditures that are repair expenses) exceeds the adjusted basis of the property.
 - Deduct both non-incidentals and incidentals materials and supplies: $< \$200$, life < 1 yr. rotatable, temporary; Standby emergency deductible (when installed) and income (when removed); spare parts are considered materials and supplies. De minimis safe harbor $< \$500$ or $\$5,000$ per-item dollar limitation and routine maintenance safe harbor. Small building-small taxpayer election total amount paid for repairs, maintenance, and improvements for the building during the tax year does not exceed the lesser of $\$10,000$, or 2 percent of the unadjusted basis of the building $< \$1M$.
- c. 4562 for each business, $\$179 > 50\%$ only 1 Part I 4562. Not Held-for-Investment (rental property) depreciable improvements, annual limitations. 50% (bonus), 2014 none. $\$179 < \$500k$. $\$179$ deduction up to income, remainder (above limitation) carried forward and depreciated over useful life. Special $\$179$ Qualified Real Property: leasehold, restaurant, retail improvements.
- d. Bonus (Special depreciation (can elect out) in first year within CLADR table (after 2007), not subject to recapture. $\$179$ depreciation recapture if falling $< 50\%$ during its MACR recovery period.
- e. "Listed Property" easily accessible personal-use property: Autos, Large vehicles, Computers, certain Electronics (ex. Photo, Phono, Communication, Video). $> 50\%$ business-use $\$179$ depreciation limited by

\$280F, Cellular telephones NOT listed property. Limits \$11,160 car, \$11,360 truck, \$280F recapture.

f. 3115 accounting method changes (compliance starts in 2014, 2015-20 waiver <\$20M but no audit protection) and §481(a) adjustment for erroneously capitalized amounts: net negative §481(a) adjustment taken in year of change, and a positive §481(a) adjustment taken ratably over 4yrs beginning in the year of change. Adjustment may increase income (positive adjustment) or decrease income (negative adjustment). 3115 Sch E used to change from repair expense to capitalizing depreciation.

g. MACRS (1987) GDS: 200% (3,5,7,10yr property), 150% (15,20yr property) DB, and SL (27.5yr residential and 39/31.5yrs nonresidential); or ADS: SL (and 12,40,50yr property), 4562, worksheet. Property "catch-all" 7yr. ADS (SL) as long or longer than GDS. ADS must be used: Listed property/automobiles <50%, Foreign >50%, Tax-exempt financed, property subject to Trade restrictions, Farming property (not UNICAP). Mid-month, Mid-Quarter (>40% purchased in 4th quarter), Half-year convention. Depreciation deduction changes for basis reduction (ex. casualty loss). Application for Change in Accounting Method 3115, 1yr back. ACRS (1980-87) generally had shorter depreciation than MACRS.

XI. Sch A - Itemized Deductions.

a. Sch A, Married: one spouse itemizes, other spouse itemize. NR and Dual-Status Aliens must itemize.

- Residence (buyer HUD-1) most interest, fees, taxes and (seller HUD-1) pro-rated taxes deductible. Concessions (discounts) should reflect actual sale price.

b. Medical expenses and dependent's (divorced/separated), above 7.5%/10% AGI year paid, deductible Insurance premium (LTC up to \$360/680/1,360/3,640/4,550), medically necessary programs and procedures, capital expenditures (construction), standard mileage rate (\$0.24) transportation, meals and lodging (\$50 patient and companion), wages for nursing care, aid and equipment. Excluded: medical expenses paid with before-tax dollars (group plan coverage) and reimbursements, DI premium, AD&D premium, and P&C Auto Medical benefits premium. Employee FSA contribution up to \$2,550.

c. Tax State, Local (not benefit/assessment, except repairs/maintenance of existing public facilities). Personal Property (ex. VLF, dmv.ca.gov Fee Calculator) tax. Real (Estate) property tax, County tax assessor. General Sales tax table (CA Board of Equalization) plus additions for vehicles and home-building materials tax. Foreign Income tax credit 1116, paid during the tax year. Resided in >1 State prorate. Deductible Escrow taxes, Sch A Ln 8. VPDI (private) Federal not deductible (W2 box 14) CA deductible.

- Real Estate property taxes paid during the tax year >2 homes allowed. Paid by "equitable owners" (occupying and maintaining, not on title). Home-Equity debt up to \$100/50k MFS (acquire, construct or substantially improve a qualified residence, not to exceed FMV), Sch A Ln 8.

d. Mortgage Interest >\$600 1098: 2 homes, prepayment penalties, late fees, up to \$1M Acquisition cost. Points in year paid, or amortize life of loan. Interest paid by non-owner resident is rent unless "equitable owner" (occupying/maintaining, not on title). Qualified Mortgage Insurance Premiums (PMI, 2016) phaseout. Refinance points with different bank (deduct) or same bank amortize (deduct if improvements) over life of new loan. Multiple borrowers can split 1098 (with attachment of 1098 recipient's info).

e. Charitable Gifts, total deductible 50% AGI. Individual gifts individually limited: 50/30% and private 30%/20% (appreciated lower), 5yr carry forward, 15yrs conservation. Cash >\$250 receipt. Taxpayer receives >\$75 good/services partly deductible. Volunteer Work transportation (\$0.14) and parking/tolls deductible. FMV of property >\$500 8283 (non-cash), >\$5k appraisal, >\$20k art qualified appraisal, records. Auto donation \$500 or 1098-C. Exchange student deductible \$50/per school month. Foster parent deducts expenses that exceed social agencies payments (not if to adopt). College "right to buy athletic tickets", 80% allowed. Excluded: not-for-personal or individual benefit, games of chance (bingo/lotteries), Gifts >FMV, losses, political. 8453/1098-C donations, MUST Mail, Austin, TX.

f. Recovery of State Tax Refund 1099-G from prior year Sch A, 1040 Ln 10. Recovery of other itemized prior losses 1040 Ln 21.

g. Gambling, W-2G, losses (Sch A Misc) up to winnings (1040 Ln 21), diary. T.C. Summ. Op. 2012-78.

h. Business Loan interest. Investment interest expenses up to taxable Investment income (not tax-exempt), remainder carry-forward, 4952 Sch A Ln 14. Limited Personal Loan interest.

i. Casualties (or theft loss) 4684, above \$100 and 10% AGI, proof of loss, reduced by Insurance claim. Lower of adjusted basis or reduction in FMV, year loss occurred. Insurance deductible is a loss (claimed or unclaimed). Casualties (theft loss) personal-use 4684 section A to Sch A Ln 20: damage, destruction,

or loss of property resulting from an identifiable external event that is sudden, unexpected, or unusual. Theft losses (police report) not reimbursed are deductible. Deductible in year occurred/discovered to extent exceeds expected reimbursement. Non-business bad debt deductible if liability incurred, on Sch D (up to \$3k). Ordinary loss deduction limited to \$20k (\$10k MFS) Sch A Ln 23.

- Casualty reimbursement (recovery) less than expected difference is claimed. Recapture deducted casualty loss 1040 Ln 21. Personal-use gains Sch D, acquires / restores qualified replacement property (up to 2yrs after gain is realized) or deferred until disposition, request extension Pub 547. Gain on casualty (destruction) of principal residence excluded up to \$250k (\$500k MFJ). Cost of replacement (restoration) less than reimbursement received, gain in income. Disaster (federal assistance) includes main home for homeowners (renters), no gain for unscheduled property insurance proceeds, gain only exceeds cost of all replacement property, postpone gain 2,4,5yrs. Excluded grants, qualified disaster mitigation payments. Disaster loans reduce loss and disaster relief payments not included in income.

- Casualties (or theft loss): Business may generate NOL (without business activity); Investment-use asset a deduction 4684 section B, to Sch A Misc 2% Ln 28. Casualties separately stated/determined or can be taken against inventory by increasing CGS (or Sch C part III). Assets held <1yr ordinary income 4684 to 4797 part II (or 1040 Ln 14); assets held >1yr §1231 gain to 4797 Part I. Casualty loss deductions decrease a property's basis; costs incurred to restore the asset increases basis. Passive Activities casualty (rental) are business losses from sudden and unexpected natural disasters not subject to PALs rules. Part personal / business-use property casualty as 2 separate losses, personal portion of the loss 4684 section A, business portion 4684 section B. Disaster rules any tangible property is "similar or related in service". Business bad debt deductible if liability (not cash method). Employee-business-use expense deductions property 4684 Section B, to Sch A Misc 2% Ln 23.

j. NOT 2% AGI Miscellaneous deductions: Gambling losses, Casualties and theft losses, Amortized Bond premium. IRD taxed on Decedent's Estate, Pension and Annuities. K-1 losses, 1065B. Disabled Impairment-related Work expenses, Sch A Ln 28. Claim of Right, repayment of income <\$3k Misc 2% deduction; or >\$3k no 2% limit.

k. Misc 2%: Educational Employment, Job-Seeking, Home Office expenses, Sch A Ln 21. Tax Preparation, Sch A Ln 22. Investment Advice, Sch A Ln 23. Hobby losses, Sch A Ln 23 up to hobby income, income 1040 Ln 21. IRC §183 Activities not engaged in for profit.

- Misc 2% Un-Reimbursed Employee expenses. Travel (Tax Home determines expenses), Meals and Entertainment (50% /80% DOT, no meals \$5 incidental expenses), Lodging (\$251 high rate less \$65 meals and \$170 low rate less \$52 meals), Transportation between Work/Temporary locations 2106/EZ, standard (\$0.565) or actual. All: business Association fees, damages paid to employer for Breach of employment contract, depreciation of Computer, Bad business debt, work Education, Educator/research expenses, Home office expenses, Insurance premium business liability, Job legal fees, Job search expenses, Mail carrier vehicle expenses, Medical expenses required by employer, Property damage un-reimbursed, Licenses and Taxes, Publications and subscriptions, Regulatory fees and taxes, Repayment of income (Claim of Right, repayment of income <\$3k), Tools and Supplies, Travel fees, Gifts (\$25), Union dues, Work clothes. Convention cruise \$2k / 4k with spouse. Employees Un- Reimbursed expenses 3 tests (and Tax Home): 1) Paid or incurred during the tax year, 2) Incurred because of being an employee, 3) Determined to be ordinary and necessary, Sch A Ln 21.

XII. Sch C / F / SE - Self-Employed.

a. 1099-MISC, >\$600, 3rd party network payments (i.e. Paypal), Ln 1b. Statutory employees W-2 box 13, expenses on Sch C no SE tax, as employer pays FICA only. Profit test 3 of 5yrs (2 of 7yrs horse breeding, training, showing, racing), or Election To Postpone 5213 (hobby or business). 9 profit factors IRS and courts: businesslike manner, expertise, time and effort, expectation of appreciation, success in other activities, history of income and losses, occasional profits, dependency on income, element of personal pleasure. Payments to former insurance salespersons not self-employment income if certain conditions are met §1402.

b. Qualified Joint Venture QJV, jointly owned sole proprietorship 1040 MFJ dividing respective interests, each files separate Sch C and SE (cannot combine a Sch C loss with a separate Sch C gain). Sch C self-created property (copyright, artistic composition) ordinary income not property.

c. Sch C net Profit or Loss (up to amount at risk) flows to 1040. Separate Sch Cs or Multiple businesses (profits/losses of activities combined) by economic unit. 1st year Start-up/ Organization costs deductions up to \$5k and amortize 180/mos. Sch C other income: Recovered bad debt, Interest received on notes and accounts receivable, Federal or State fuel tax credits or refunds, Income from scrap sales, Prizes or

Awards, Recapture of excess depreciation or §179 deductions. SE tax >\$400, Sch SE Ln 4. Payroll FICA taxes 6.2%/12.40%, Medicare 1.45%/2.90%, FUTA 0.8-6.2%. Recover 50% SE tax as 1040 Ln 27 adjustment. SE Estimated Payments to avoid balance due, penalties.

- Business loss (not-at-risk) 6198, At-Risk Limitations, to determine allowable loss. NOL options 2,3,5,10yrs back (eligible farm or disaster), 20yrs forward. At-Risk Activities, Sch C Ln 32.

d. Inventory accounting: Cost, Lower-of-Cost or Market, FIFO, LIFO (requires Cost method). Cash method <\$1M (qualifying small taxpayer <\$10M) constructive receipt. Cost of Goods Sold (CGS, Purchases less cost of personal items). Hybrid method: sales and inventory (Accrual method) income and expenses (Cash method, average annual gross receipts <\$1M). Accrual method (timing): income (payment received, income is due, income earned, title passed) in the year earned; and expenses (all events fix liability determined with reasonable accuracy, economic performance has occurred) are deducted or capitalized in the year incurred. Accounting change Application to Adopt, Change, Part year, or Retain a Tax Year, 1128.

e. Sch C Business Expenses (Ln 8-27) Lodging Ln 24a (actual expenses), other Expenses (Part V 5). Business miles (\$0.575) actual Vehicle depreciation §280F limited. Other costs: Containers and packaging, production Supplies, Merchandise purchased for sale, Overhead expenses (equipment depreciation, heat, insurance, light, labor, power, rent, supervision, and taxes that are direct and necessary manufacturing expenses). Deduct costs of donated property (as CGS). Self-Employed auto loan interest to Sch C interest deduction.

f. Sch C Health Insurance deduct premiums, spouse, dependents, disallowed if eligible to participate in any employer-sponsored plan, self/spouse. 1040 adjustment Ln 29, remainder on Sch A.

- Credit for Small Employer Health Insurance premiums 8941, maximum 35/50% (25% small tax-exempt, charities), pay 50% employees premium, 25 full-time employees, average wages <\$50k.

g. Travel expenses determined by "tax home" (general area business/work located). Commuting expenses are costs from home to work. Standard mileage rate plus deduct business related parking fees and tolls. Actual expenses: Depreciation and Lease expenses, Repairs, Maintenance, Oil and lubrication, Tires, Gas, Parking and tolls, Vehicle License Fee, Insurance, Registration fees, Garage rent, Auto club.

h. Home-Office expenses 8829, footage of home used (daycare hours used), principal place of business, exclusively and regularly, no other place of business. Expenses Directly or Indirectly related to the business space. Simplified \$5/sqft up to \$1,500 up to 300/sqft (then no home depreciation deductions).

i. Retirement plans: SEP employer contributes, employees: 21 years, worked 3 of 5yrs, \$500 in compensation. SIMPLE, up to 100 employees with \$5k compensation, sole plan except union, 3% matching or mandatory 2%, 2yr rule early distributions 25%. Qualified Keogh plans, 401(k), 403(b), 457, Profit-sharing plan (PSP) employer contribution not fixed, Money purchase plan (MPP) employer contribution fixed. Max DB benefit \$205k or 100% average compensation highest 3 consecutive years, deductions actuarial. Max DC contributions \$51k or 100% compensation, deductions 25% compensation.

j. Hobby income, for-profit non-business activity 1040 Ln 21, expenses are deducted on Sch A. For-profit activities (occasionally), Patents, Copyrights, Royalties from creative for-profit non-business activities, related deductions, Sch E no SE tax, expenses capitalized and depreciated using the income-forecast method. Business of inventing, writing, or creating, for copyright or royalties, Sch C. Sale of patent (generally) capital gain or loss, Sch D. Sale of copyright (generally) ordinary income, 4797 Part III, Sale of Business Property. Advance Royalties, income in year received, if repaying royalties (deducted as business expense Sch C) in year repaid. IRC §183 Activities not engaged for profit.

- Hobby expenses deducted Sch A Misc 2% Ln 22, cannot exceed hobby income 1040 Ln 21. Hobby expenses 3 categories: 1) deductions claimed as personal deductions (qualified mortgage interest, real estate taxes, casualty losses, etc. on Sch A). Or, (not 1, personal Sch A) but 2) deductions without basis (advertising, interest, insurance premiums, and materials and supplies) and 3) deductions that decrease the basis (depreciation) limited to Ln 21 income. If >1 depreciable asset (and only part of depreciation due to the hobby loss rules) allowed depreciation must be allocated among the assets.

k. Farming (not pet breeding), Raised (born/grown, sale minus expenses) or Bought for retail (sale minus basis), Sch F and Sch SE. Cash (inventories allowed), Accrual, Crop Method (Farm price or Unit livestock) deduct expenses in year of income. Crop Insurance and Government Payments are Income, (may postpone to next year). Materially participates >100hrs over 5 weeks or more. Farm Rental Income 4835, rent with material participation. Farm expenses: chemicals, fertilizers, lime; seed, plants, feed. Soil & water conservation expenses limited to 25% of gross farming income. Part I cash (Ln 4,5,6 Agricultural

programs; Machines for hire Ln 7; Pasturing Ln 8 or Sch E rental), Part II expenses, Part III accrual. Sale of farm assets 4797 Part II (most less than 1yr), Part I & III (most more than 1yr). 1231 raised livestock (draft, breeding, dairy, sporting). 1245 equipment used in raising and growing. 1250 farm structures before 1981. 1255 recapture of cost-sharing conservation programs. NOL losses 5yrs back. Cancellation of debt 1040 Ln 21, 982. Cooperatives 1099-PATR (box 7,8,10). Irrigation/drainage systems capitalized, depreciate; land clearing expenses depreciable; Assets and Machinery depreciate 4562. Federal Gasoline Tax credit 4136, income in following year. Conservation Reserve Program payments (CRP), Wetlands Reserve Program payments (WRPP), Wildlife Restoration Program (WRP), Commodity Credit Corporation (CCC) loans. Farm labor: Custom hire, Labor hired, Family labor, 943. FICA taxes, 940 FICA and FUTA taxes. Taxes deductible on Sch F and Sch A. "Weather-related" excess gain 1 year disaster deferral (cash basis), postponed gain formula up to \$100k. Farm income averaging shifted to prior 3yrs Sch J. Hobby farmers 1040 Ln 21. Estimated tax payable if 2/3 of gross income from farming/fishing: 1) One Est. tax pay by 1/15 file 4/15, 2) no Est. tax pay and file by 3/1. Farm optional method and other self-employed individuals may use the non-farm optional method if their net earnings from non-farm self-employment are less than \$5,198, and also less than 72% of your gross non-farm income for 5yrs (non-consecutive ok).

I. Converting from a Sole Proprietorship to a Partnership (or LLC, pass-through entities to personal tax returns) is generally a non-taxable event, while converting from a Sole Proprietorship to a C or S-Corp is a taxable event (unless the taxpayer converts to a Controlled corporation). Partnerships / LLCs can dissolve tax-free as long as the partner (or member's) basis in the Partnership (or LLC) is not exceeded by any money he/she receives. Corporation dissolution is a taxable event. Discontinuing one business and starting another (during a tax year) may have to consider short-year depreciation. Business conversion from one entity to another requires final return for one entity and initial return for the other.

XIII. Sch E - Non/Passive Income.

a. Sch E, Non/Passive Income, Portfolio management, Personal service, Royalties, Partnership and S-Corp income, REMICs (MBSs, CMOs, Gov't agencies) income, Estate and Trust income. Co-ownership of rental property not a partnership. Safe Harbor rental expensing items <5k; no qualifying financial statements <\$500, or lesser of \$10k or 2% of basis of asset (<\$1M).

- Material participation: regular, continuous, substantial basis 100 hours (not less than another), or 5 of 10yrs participation, or 3yrs personal service activity. Personal-type Property rental (i.e. cars), Sch C and SE. Royalties, 1099-MISC. Depletion (cost or percentage), up to basis. Timber Form T, percentages.

b. Professional Real Estate >50% time and 750hrs (15/hrs/wk). Real Estate Dealer rent (personal services) is business earned income Sch C; if "only occasionally" 1040, Ln 21. Materially participate (not passive) no limit to losses against other income.

c. Rent (business investment income) deduct expenses from rental income Sch E. All Gross rent (year received) deduct expenses (in year used, prorate) when "available for rent".

- De Minimus Rent residential property <15 days, rental income is not taxable (excluded from gross income) and rental expenses are not deductible.

- Rental Income includes: advanced Rent, Security deposits (not returned), early Cancellation fees, insurance Payments for lost income, direct Payment of property expenses by tenants, prepaid Rents received as part of a property sale, tenant Services or Property provided as a rent payments. HUD 1099 Section 8 housing, up to 85%.

- Rental Expense deductions: 1) IRS method (profits) rental/use or, 2) Tax court (losses shifted to Sch A, limited <\$25k and AGI <\$100-150K) rental/owned. Auto and Travel (rental activity), outside of area 50% meal expenses (or standard meal allowance). Insurance prorate premium. Legal and other professional fees. Mortgage interest, points amortized (refinance interest allocable to rental activity purposes). Repairs deductible. Taxes, (special assessments added to the basis of the property). Other (contract labor, etc.). Depreciation expenses includes improvement projects (betterment, restoration, adaptation) reduces basis.

d. Part Rented and Part Personal (vacation homes, donated time, no PAL of \$25kyr), treated as 2 separate properties (personal use >15 days or >10%, business). Direct Expenses allocated to rental, Indirect Expenses prorated (IRS or Tax Court method) between business and personal expenses, worksheet. Excess Personal-use property expenses: mortgage interest, real estate taxes, casualty losses, etc. are deductible on Sch A.

e. Rental (expenses without income), expenses are either 1) added to basis of property (property not in service), mortgage interest, investment interest expense, real estate taxes, on Sch A, or 2) deducted (in service) on Sch E.

f. Rental <FRV not-for-profit activity (Hobby) 1040, Ln 21 PPR, expenses Sch A Misc 2%. Expenses are limited to rental income with depreciation last deduction (ordering rules, if not taken basis not reduced).

g. Basis of property (HUD-1 buy, refinance, sell) is purchase price plus certain costs of acquisition (points amortized). Residential rental (structural components, improvements) 27½yrs depreciation, SL method and mid-month conventions. Rental depreciation, FMV or basis whichever is lower. Personal use property converted to Rental use basis: whichever is lower 1) appraised FMV (land and improvements, date of conversion) or 2) Adjusted basis. Special §179 Qualified Real Property: leasehold, restaurant, retail improvements.

h. Acquisition costs, allocated between land and depreciable improvements (buildings, pavements, fencing, etc.) based on ratio of land (costs) to total purchase price. 1) Acquisition costs paid by buyer added to basis: assessment paid by seller (reimbursed), real estate taxes owed by seller (paid), assessment owed by seller (paid), utilities owed by seller (paid), sales commissions, title, transfer, and recording fees (paid). 2) Acquisition costs paid by buyer Deductible in year of purchase: real estate taxes paid in advance by seller (reimbursed), interest for the period from settlement date to first mortgage payment, insurance premiums for the current year (paid). 3) Acquisition costs Amortized over life of loan: charges to obtain a mortgage loan (paid).

i. Passive Losses (deductions and credits) only offset passive income (unless materially participated or exemption), 8582. Active Participation Activities (rental) deduct up to \$25kyr (MFS \$12.5k) loss against income, carry-forward until sale, phaseout from \$100-150k. Disallowed deductions and credits may be carried forward indefinitely and deducted against non-passive income when disposed. Grouping Passive activities may not be changed unless a "material change in the facts and circumstances". Multiple-use allocation exemption <\$10k or 10% FMV before disposition. For substantially appreciated property and held-for-investment (both passive and non-passive purposes, 12mo preceding disposition) apportion gain.

j. Portfolio income (interest, dividends, royalties, and annuities), Personal service income, Income from §481 adjustments, Income or gain from investments of working capital, Income from an oil/gas property, Income from intangible property, Cancellation of debt income.

k. Rental interview: Is real estate your main business? When did you purchase the property? How much did you pay for the property? How much of that cost was for the lot? Did the purchase price include any personal property, such as furniture or appliances? What was the FMV of the property when placed in service as rental property and How much value was allocable to the land at that time? Did you use any part of the property for personal purposes, for what period? Was the property occupied or available for rent the entire year? What operating expenses did you pay? Did you drive or take public transportation to collect rent or maintain the property? Did you prepay any expenses that apply for a period longer than the current tax year? Mortgage to buy this property? Have you ever refinanced the original mortgage?

XIV. Credits.

a. Child and Dependent Care credit 2441, qualified expenses at work/seeking employment, up to \$3k (or \$6k 2 or more), caregiver cannot be taxpayer's dependent. QC u13yrs or disabled, >50% household maintenance, >\$3k earned income (or 3 or more kids). 1 taxpayer (student/disabled) includes \$250/mo (\$500/mo, 2 or more kids) income on 2441, to maximize credit. MFS, spouse must be absent last 6mo, excluding transportation. Employer Dependent Care Assistance up to \$5k (MFS \$2.5k). Provider EIN.

b. Adoption credit 8839, \$13,400, qualified expenses in year finalized (or following year). Eligible child u18yrs, disabled, includes never finalized adoptions, phaseout. Special-needs (state agency qualified) full credit. Employer Adoption assistance \$13,400 W2 box 12 T, payment above credit/cost is income.

c. Foreign Tax credit 1116 (>\$300 / 600 MFJ), 1040 Ln 47 or deductible on Sch A taxes.

d. Credit for the Elderly or Disabled, Sch R, AGI<\$12.5-25k, Social Security benefits <\$3.75-7.5k.

e. General Business credit 3800 (ex. Work Opportunity tax credit, thru 2014 \$3-12k 8850), 1040 Ln 53.

f. Small Employer Health Insurance credit, up to 35/50% of employee's premium, 8941, phaseout.

g. Minimum Tax credit (MTC, 2015) 8801 in current year if regular tax > AMT tax for deferral items in

earlier years: ISO options, PALs 8582, and depreciation.

h. Residential Energy-Efficient Property credit, Solar, (\$1k per 1 KW, 2014), 5695. Non-business Energy Property credit, 10% improvements, (\$500, 2014), www.dsireusa.org 5695.

i. Health Coverage Tax credit, PBGC beneficiary / trade adjustment allowance, up to 80% premium, 8885.

j. Mortgage Interest credit, MCC certificate, 8396 refundable (remainder of interest expense on Sch A). First-Time Home-buyers credit repayment due to sale, purchased in 2008 15yrs, 2009-2013 3yrs, 5405.

XV. Education Credits.

a. AOC / HOPE Credit 8863, \$2,500, dependent, qualified expense, when loan payments disbursed, and up to 40% refundable, phaseout. MFS cannot claim. Refunded expenses recaptured.

b. Lifetime Learning Credit 8863, 20% of \$10k, \$2k/per return (no drug felony restriction), phaseout.

c. 1098-T School's Tuition payment/expenses (less non-gift assistance). Scholarships, Fellowships, Grants taxable portion: payment of room, board, travel, etc.

d. Tuition and Fees deductions (2016) 8917, \$2/4k, 1040 Ln 34, phaseout.

e. Qualified Tuition Program (QTP, 529), 1099-Q, 709. Coverdell Education Savings Account (ESA) \$2k/child, distributions K-12, room & board (and QTP), phaseout, 5498-ESA. Distributions 1099-Q, rollovers.

f. Employee work-related Sch A 2% Misc 2106 or Sch C, E or F. To be deductible, expenses must be for education that "maintains or improves the taxpayer's skills or that meets legal or employer requirements for the taxpayer to maintain his or her employment, status or pay level" Treas Reg §1.162-5(a).

g. Non-education distributions 10% penalty, 5329. Recaptured education tax credit (prior year) 1040 Ln 44 "ECR".

h. Savings Bond Interest (partial) exclusion to pay qualified education expenses, not MFS, 8815 worksheet, phaseout. Distributions from IRA/ROTH IRAs to pay education expenses.

XVI. 4797 - Sale of Business Assets.

a. Sales of Business property 4797, gains and losses. Sale of depreciable and amortizable property (oil, gas, geothermal, other mineral properties and §126 property). Involuntary conversion of business or investment property, recapture amounts under §179 and §280F.

b. "§1231 tax treatment" gain (>1yr,) capital gains rate, or ordinary rate if §1231 losses from past 5yrs: Nondepreciable real property (business), Depreciable business property including §197 (business), Leaseholds, Condemnation, Casualty or theft, Sale or exchange of Timber, coal, or iron ore, cattle and horses, livestock, unharvested crops. §1231 exchange within CLADR table: 1) gain realized, 2) gain recognized/taxed, 3) basis in new property, 4) depreciation in new property.

- "§1245 property" depreciable personal property: Tangible/intangible personal property, Nonresidential real property (ACRS), Single-purpose agricultural/horticultural structures, Petroleum storage facilities, and Certain other special-purpose structures. §1245 recapture at ordinary rate.

- "§1250 property" depreciable real estate (business) that is not §1245 §1250 recapture (real property) calculation: 1) Gain above SL depreciation, §1250 gain at ordinary rate up to 25%, 2) Unrecaptured §1250 SL depreciation, gain at 25% capital gains rate, 3) Excess Gain from sale at LT capital gains rate.

- 4797 to Sch D LT capital gains and/or losses. Net ordinary gain/loss to 1040 Ln 14.

c. "§1252, §1254, §1255 property" gain is ordinary income up to certain deductions claimed or nontaxable government funds received (farmland, working/operating Interests in gas, oil, geothermal wells, mines) amounts recaptured are ordinary income.

d. Depreciation of business-use property under MACRS, specific recovery period, method, and convention. Expensing part or all of cost of eligible property. §179 deduction >50% business use in year placed in service. Recapture §179 if business use <50%. Bonus/Special depreciation all in/out by CLADR class.

Sale or disposition of property §179 recapture and §280F recapture triggered by business use <50%.

e. Uniform Capitalization (IRC § 263A(a), UNICAP) requires the capitalization of all direct costs and certain indirect costs properly allocable to real property and tangible personal property produced (construct, build, install, manufacture, develop, improve, create, raise or grow). Capitalization of interest expense when producing certain property, all real property and certain tangible personal property. Capitalizes costs of inventory used for production and resale: some expenses included in basis of assets and some deducted as current expenses. Costs recovered through depreciation, amortization, or CGS at the time of use, sale, or disposal. Application for Change in Accounting Method 3115, 1yr back.

f. Asset Acquisition Statement (UNICAP, group of assets sold) 8594, buyer (basis for depreciation) and seller (gain/loss), classes: I): Cash, demand deposits, II): Securities, accounts receivable, debt instruments, III) Assets, IV): Property held for sale, V): Tangible and Intangible assets, VI): all Amortizable §197 intangibles, VII) Goodwill or Going concern value, total paid exceeds value of assets and agreement exists between the buyer and seller (negotiated: licenses, lease agreements, a covenant not to compete, or a management or employment contract).

g. Installment Sale Income, 3 parts: 1) Return of capital, 2) Gain on sale, 3) Interest income; subsequent payments must include some interest payment. 6252: 1) Adjusted basis, selling expenses, depreciation recapture, 2) Contract price, selling price plus mortgages, debts, and other liabilities, 3) Depreciation recapture (ordinary income), increases adjusted basis, 4) Gross profit, 5) Gross Profit Percentage GPP of each payment (gross profit divided by sale price), 6) Business-use losses deducted year of sale. §1245 gain and/or §1231 gain for installment sale gain purposes.

h. Condemnation: by government or public utility takes private property for public use, for a condemnation award. Severance damages: value of retained property is decreased. Involuntary conversions: gain realized is difference between adjusted basis and sales price (total cost of replacement/restoration property or condemnation award) or postponed to purchase qualifying replacement property that equals or exceeds net condemnation award (postponed gain reduces basis of replacement property).

XVII. 8582 - Passive Activities Losses.

a. Loss limitations: 1) Basis, 2) At-Risk rules limit, 3) Passive Activities Losses limits. Passive Activities Losses (PALs) deductible up to passive income: 1) rental activities, 2) trade or business activities with no materially participation. Partner's loss: adjusted basis of partner's interest in partnership, S-Corp shareholder; adjusted basis in stock loss and investments that are not-at-risk, 6198.

b. At-Risk rules limit losses to investment, unallowed loss carried forward. At-Risk rules: Partners, S-Corp shareholders, Estates / Trusts, Closely-held Corp, Individuals filing Sch C,E,F, or 4835.

- Partner or S-Corp shareholder at-risk rules: 1) Holding, producing, or distributing motion picture films or videotapes. 2) Farming. 3) Leasing §1245 property, including depreciable or amortizable personal property and certain other tangible property. 4) Exploring/exploiting, oil and gas. 5) Exploring/exploiting geothermal deposits. 6) Any other trade or business Activity for the production of income.

c. Each activity is a separate activity or aggregated to 1 activity (rules), a trade, business, or for the production of income. Loss reduces At-Risk amount at close of tax year. At-Risk amount decreased by expenses related to the tax-exempt income of activity.

d. Actively participate in Rental real estate activities, \$25k allowance for passive losses and non-passive income. Commercial revitalization deduction special allowance \$25k. Income and losses from multiple Publicly Traded Partnerships PTPs cannot be combined. Material participant 500hrs. Unallowed losses from PALs carried forward. Taxable sale of entire interest in passive activity, all prior year unallowed losses deductible in year of sale. Allowed PALs and prior year unallowed PALs losses, 8582.

e. 6198 deductible loss At-Risk activities: 1) listed Aggregation of Activities, 2) Separation of Activities for each Sch K-1; a partnership with >1 At-Risk activities file separate 6198 for each activity.

f. Publicly Traded Partnership PTP or significant participation activity, hybrid set of rules for income or loss: income is treated as non-passive, and losses subject to PALs rules. If PTP is a tax shelter, Investor Reporting of Tax Shelter Registration Number, 8271, 8264, 8918 (material advisor).

g. 1) Nontaxable exchanges (unallowed losses) deductible in year property received is sold. 2) Related

Party transfers (unallowed losses) deductible in year entire interest is sold. 3) Owner's Death (unallowed losses) reduced by excess of estate tax value above adjusted basis of activity, remaining loss deductible on decedent's final 1040. 4) Gifts (unallowed losses) are added to donee's basis; if less than entire interest, proportionate share of losses added to basis and remaining carryover losses remain with donor. 5) Partnership Interests: a) General partnership fully taxable disposition by the partnership, and b) Limited partner must sell partnership interest to deduct prior year unallowed losses.

XVIII. 1099-C/A - Cancellation of Debt.

a. 1099-C Canceled debt, >\$600 1040 Ln 21 (personal use or investment income producing assets) income except if insolvent. Foreclosure or repossession is treated as a sale/exchange of property, gain if borrower's basis < FMV. 1099-C flows to Sch C,E,F. 1099-A Acquisition or Abandonment of Secured Property, no loss for property held for-personal-use. 1099-A gain on Sch D.

- 1099-C. No income recognized: Bankruptcy/Insolvency (basis of property limited), Gifts, Deductible debt, Purchase price reduction (relieves buyer of indebtedness), Non-recourse debt (except loan workout), Student loans (student works in profession), Qualified Farm Indebtedness, Qualified Real Property Business Debt (limited, reduces buyer's total depreciable basis in real property). Payments under HAMP (Home Affordable Modification Program, 2013) and QPRI (Qualified Principal Residence Indebtedness) (MFDR, 2016) up to \$2M (\$1M MFS) of mortgage acquisition indebtedness forgiveness on principal residence, 982. Farm debt canceled is not taxable.

b. Insolvency (liabilities exceed assets), exempt retirement funds, worksheet (Pub 4681, Canceled Debts, Foreclosures, Repossessions, and Abandonments). Separately owned assets not included in insolvency of other spouse. Insolvency 982 (1082 basis adjustment), reduce Basis of depreciable property, reduce tax attributes (not below adjusted basis), preserves a NOL or credit carryovers. Bankruptcy/Insolvency, the basis limited to the lesser: 1) basis of property 1st of year, following year of cancellation of indebtedness, or 2) total net basis of property immediately after cancellation of debt. Allocate a) amount of debt payment or b) cancellation to delinquent interest first, then to principal second, unless otherwise.

c. Statement of Income from Discharge of Indebtedness. Cancellation of debt income CODI is taxable unless an exclusion applies, 982 Part II (income tax liability reduced by tax attributes). Tax attributes are deduction and credit carryovers that reduce either taxable income or tax liability (not <0). Order: 1) Net Operating Loss (NOL) and NOL carryovers, 2) General Business credit carryovers, 3) Minimum tax credit, 4) Reduce any capital loss carryovers from the year of cancellation, 5) Basis of all property, other than money, 6) Passive Activity Loss or Credit carryovers, 7) Foreign tax credit carryovers.

d. Repossession Personal Property and Non-qualified Real Property: (FMV of repossessed property + other property received from buyer) – (Basis of installment obligation + cost of repossession) = Gain or loss. Recognized gain on Repossession: Gross profit original sale – (Total gain reported prior to repossession + Costs of repossession) = Limitation. Real property repossessed no bad debt deduction, any bad debt deducted in prior years is considered recovered as ordinary income in repossession year and added to adjusted basis of repossessed property.

- Repossession Main home, Qualified Real Property worksheet: Total principal payments received prior to repossession – Total gain reported prior to repossession = Gain. Principal Residence repossession gain/loss = FMV of the property on the date of repossession – (seller's basis + any repossession expenses). Main home General rule: 1) no gain was deferred or excluded on original sale, 2) repossessed residence is not resold within 1yr of date of repossession. Special rule: a) some gain was realized on original sale, and all/part of gain was excluded/deferred under prior law, b) residence is resold within 1yr of date of repossession; then no gain is recognized, instead, resale is treated as single original transaction, gain deferred or excluded is recomputed, difference between original and recomputed gain on Sch D in year resold.

e. Foreclosure sale, Repossession, Voluntary Surrender to satisfy buyer debt, disposition of property rules: 1) Personal-use losses are never deductible, 2) Investment-use gains and losses on Sch D: ST gains ordinary rates and net LT gains capital gains rates, 3) Business-use assets and Involuntary conversions, Sales of Business Property 4797 ordinary rates and/or Sch D capital gain rates (incl. unrecaptured §1250 gains), 4) Foreclosures net capital gains and losses. Foreclosure sale price (recourse debt), sale may not satisfy outstanding debt, gain or loss determined: 1) Amount of outstanding mortgage, 2) FMV foreclosed property, 3) Adjusted basis of property, 4) Type of debt, recourse or non-recourse. Home equity lines of credit (HELOCs) paying off unsecured personal debt transforms to secured debt (borrower's home) and lender's right to foreclose.

- Judicial Foreclosure, property is sold and debt paid (or deficiency): 1) preliminary title search of all parties with an interest, 2) complaint and lis pendens notice, filed requesting foreclosure, 3) served

with copies of complaint and lis pendens notice, 4) court hearing that buyer has defaulted, 5) court issues a finding and a decree of judgment, 6) permission to foreclose, a notice of sale is published in newspaper, 7) sale is held, and certificate of sale is issued to new buyer by county sheriff, 8) sale is reported to court, 9) if gain on sale, then proceedings for right to the surplus, 10) buyer may exercise their right of redemption, 11) court a deficiency judgment if sale proceeds were less than mortgage if recourse debt, lesser of: A) Debt immediately before transfer less amount personally liable immediately after transfer, B) FMV property plus any proceeds received by buyer from foreclosure sale. Borrower's Right of Redemption: I) Equity of redemption borrower pays debt (and costs) after default and terminates when property is sold, II) Statutory right of redemption borrower and/or related parties pay debt (and costs) after foreclosure sale and runs for a statutory period of time.

f. 1) Forbearance: miss installment payments and either pay interest as it accrues or capitalize interest. 2) Mortgage Modification: total debt is refinanced or repay a small percentage of delinquent amount each month, along with normal payment. 3) Re-amortization: delinquency is added to loan balance in order to bring payments current. 4) Short Sale: borrower sells at greater selling price for less than amount owed and lender agrees and forgives debt 1099-C; CODI (or exclusion) not reported in year of short sale unless debt was discharged that year. 5) Deed in Lieu of Foreclosure: borrower conveys all interest in real property to seller to satisfy loan that is in default and avoids foreclosure proceedings, gain or loss and CODI. 6) Home Loan Modification: a "workout agreement" where principal balance of loan is reduced, owner receives 1099-C balance reduction.

XIX. 6251 - AMT.

a. Alternative Minimum Tax individuals 6251, tax 26/28%, annual inflation indexing. AMT Adjustments and Preference added back to create greater tax liability. AMT exemptions: S or HOH \$53,600, MFJ \$83,400, phaseout. AMTI exemption phaseout begins: S, HOH \$117,300, MFJ \$156,500. AMTI in excess of threshold phaseout (exemption 25% for each excess dollar).

b. Taxable income, add Preference items, add/subtract Adjustment items, subtract AMT NOL, is AMTI. AMTI subtract exemption amount: S, HOH, MFJ, Widow/ers, MFS. "AMT base" taxed 26% <\$182,500 (\$91,250 MFS) > taxed 28%. AMT tax reduced by AMT Foreign Tax credit (unused carried back/forward). Regular (lower) tax rates for net LT Capital gain and Qualified dividends. AMT liability excess over regular tax.

- Standard deduction and Personal and dependent exemptions, not deductible.
- Medical expenses, >10% AGI deductible for all taxpayers.
- Taxes: State and Local income, General Sales, Real property, Personal property, not deductible.
- State Tax refund (not added) reduces AMT Income, because not deductible.
- Misc 2% Itemized deductions, not deductible.
- Investment and Private Activity bond interest, Interest/expenses tax-exempt Indebtedness, not deductible.
- Home Equity interest (unless to acquire, construct, or substantially improve residence), not deductible.
- Excess FMV stock, on ISO exercise date (over exercise price) is income added to AMTI.
- Home mortgage expense for a Motor home or Boat, not deductible.
- Passive Activities deductions and losses, not deductible.
- Dispositions of assets, not deductible.
- Depreciation AMT ADS (generally longer), not MACRS.
- Add-back certain deductions / tax preferences.

c. Allowed deductions: Charitable contributions, Casualty or Theft losses, qualified Motor Vehicle tax, Misc deductions NOT 2% (Gambling losses up to winnings, Federal Estate tax paid on IRD items, Amortization of Bond interest), foreign tax credit.

- Partially Allowed deductions: AMT investment interest to the extent of net AMT investment income.
- Misc Trade or Business expenses (ex. Legal fees recover business income) on Sch C.
- Credit for Prior Year Minimum Tax (2015) 8801, regular taxes pre-2008 (deferral items) >AMT tax, timing.

d. Strategy: Itemize (because) can't use Standard deduction (can effect their State return conforming with Federal filing), make IRA contribution to lower AGI, reduce State Tax refunds, adopt HD Health insurance with deductible Contributions to pay un-reimbursed medical costs, household members claim own Exemption (high number of exemptions trigger AMT), employers adopt Accountable plans (replacing unreimbursed Employee business expenses), no AMT ISO exercised and sold in same year (part of wages).

XX. W-7 - ITIN SS# "applied".

- a. ITIN for 5yrs, or before 1/1/13 indefinite. ITIN (begins with #9..) file paper request W-7 with 1040 and supporting documentation. Can efile with ITIN. Foreign passport is only accepted stand-alone document. Dependent's birth certificate required if no passport.
- b. Substantial Presence Test: 183 days physically present in the U.S. during the current year. Or 183 days within 3yrs: at least 31 days during the current year (or total, qualifies), plus 1/3 days in preceding year, plus 1/6 in second preceding year. The year non-resident satisfies substantial presence test, they can elect retroactive treatment as a dual-status resident for previous year.
- c. Dependent (OR exemption) includes Canada and Mexico (S. Korea, and India for 1040NR). NR Alien visas B1, B2, F2, H4, J2, O3, WB, WT (H1 work visa eligible for SS#).
- U.S. citizen (or Resident) married to a NR Alien may elect NR Alien spouse to be considered Resident spouse status, if signed by both spouse take NR spouse exemption.
- d. 5 exceptions NR Aliens with no 1040 filing but need ITIN and W-7: 1) Third-party withholding on passive income, 2) Wages, salary, compensation, honoraria payments with tax treaty benefits claimed, 3) Third-party reporting of mortgage interest, 4) Third-party withholding, disposition by a foreign person of U.S. real property interest, 5) Treasury Decision TD 9363 (requirement for corporations to efile)
- e. FOREIGN: Pub 901, U.S. Tax Treaties. Separate 8833 filed for each treaty based return position claimed, which flows to 1040NR Ln 22; and income subject to a reduced rate of tax flows to 1040 Ln 61 and write "Tax from attached statement" and the amount of tax. No 8833 for (receipt of payments or income items) <\$10k. Income categories: Dependent Personal Services (Income from Employment, for Employees) and Independent Personal Services (Business Profits, for the Self-Employed).
- U.S. Model Treaty: resident may be taxed by reason of: their domicile, residence, citizenship, place of management, place of incorporation. Pension payments taxed in country of residence (under domestic laws). Foreign pension contribution exemptions established prior to the taxpayer starting employment in the host country. Pension contributions deductible in country of employment, when taxpayer is a beneficiary of a pension plan in another country. Social security (or similar national pension) will be taxable only in the country making the payment.
- Nonresident alien with F1, J1, M1, or Q1 visas are generally exempt from social security taxes, file a claim for a refund 843. Nonresident that meet the closer connection exception to another country 8840; residency tiebreaker rule for foreign nationals who are dual residents 1040NR
- 1042-S reports income payments to nonresidents / foreign nationals who: Received a fellowship, scholarship, or grant in excess of tuition charges and/or Received compensation exempt from income tax withholding due to a U.S. bilateral treaty article agreement.

A. Estate returns - transfer taxes

- a. Decedent 1040 Income tax in final year. 1310 deceased taxpayer's refund, mailing address.
- b. 1041 Simple or Complex Domestic Trusts: Gross income >\$600, any Taxable income, or a NR Alien beneficiary. Due 15th day of the 4th month (or end of fiscal year) after the close of the Estate's tax year. Bankruptcy Estates gross income >\$9,750 when an individual files a Chapter 7 or 11.
- c. 709 Gift Tax return, April 15th or with 1040/1041, extension 8892. Gift >\$14k (split gift, excess can use unified credit), future interest, or partial interest in a property to a charity. Married split-gift reported even if no tax. If donor fails to pay tax, IRS can collect from donee. Exempt: unlimited marital deduction. Gift to a non-citizen spouse <\$147k. Direct payments for Medical expenses and/or Tuition (529 plans, 5yrs) and Political contributions (no deductions or credits). Unlimited Charitable contribution deductions (i.e. CLT/CRT), recapture and 10% penalty if gift is not distributed, possessed, or used within 10yrs by charity. Disclaimer within 9mos by beneficiary; Crummey letter gift of present interest rights 30 days. GST tax to skip person (not child of deceased parent) 40% of \$5.43M and exemption choice to opt-in or opt-out.

- Penalty 20/40% for undervaluation (ex. FLP) <FMV on transfer; §2701 valuing intra-family interest (qualified payment rights). Unified credit \$2,172,000 (40% of \$5.43M) for Estate, Gift or GST. If deceased spouse elects portability (file 706 return) then surviving spouse's exclusion is increased by Deceased Spousal Unused Exclusion DSUE. Credit for Foreign Gift tax. Qualified Personal Resident Trust QPRT is irrevocable, remainder taxed as present gift, residence sold/exchanged for >FMV converted to GRAT, or residence exchanged for <FMV excess distributed to donor, if donor dies before transfer then gift reverts to Estate. GRIT (nephew, niece or unrelated) donor receives income stream as a GRAT or GRUT. Gifts to Expatriates (or Foreign Trust) taxed. Connecticut and Minnesota are states with state gift tax; No Federal credit for state gift taxes. Foreign gift taxes paid offset U.S. gift tax: Australia, Austria, Denmark, France, Germany, Japan, United Kingdom. 709 Mail Cincinnati, Ohio.

d. 706 Estate (and GST) tax return, gross >\$5.43M 40%, due 9mo after death or with 6mo extension by executor, administrator, personal representative, beneficiary or heir. Installment payments 4768 §6166 in a closely held business (up to 14yrs). States may impose a tax apportionate rule on liability of each asset to pay tax. Gifts <3yrs from death include Life insurance (other property transfers). Alternative valuation (all) 6mo after death (or date of sale) and decreases basis and tax. Special-use valuation for farms and property used in a trade or business. Deductions: Funeral expenses, Decedent's Medical expenses (1yr of death, or 1040), Estate administration expenses (or 1041, or split), Casualty or Theft losses (or 1041, or split), Trade or Business expenses (or 1041), Interest (or 1041), Taxes and expenses (or 1041), Expenses for the production or collection of income including property (or 1041), Debts of decedent, Losses to estate, Gifts to charity, Transfers to/for benefit of surviving spouse, State Death taxes. Credits: Unified credit (\$2,172,000, 40% of \$5.43M), Gift taxes paid, §2012 Federal Estate tax paid on pre-1977 gifts, Foreign death taxes, Remainder/reversion election to postpone tax. Net Estate tax, gross minus credits. Power of Attorney 2848. Portability of Deceased Spousal Unused Exclusion (DSUE) elected on filing. Executor attaches copy of the will to decedent's 706. 706 Mail Cincinnati, Ohio.

B. 1041 - Trusts / Estates

a. 1041 Trusts and Estates created during one's life (inter vivos trusts) or by will (testamentary trusts): Gross income >\$600, any Taxable income, or a NR Alien beneficiary. Due 15th day of the 4th month (or after end of fiscal year). Trusts required to use calendar year. Extension 7004 5mo, certain special trusts 6mo extension. Bankruptcy Estates gross income >\$10,150, Transfer taxes. Foreign Trusts and NR Alien Estates 1040NR.

-Net Investment Income Tax >\$12,300 (floor for highest tax bracket 39.6%) tax is 3.8%, deductions allowed against NIIT is lesser of amount allocable to NII or total deduction >2%.

- Trust/Estate income taxed to entity, income distributed in year received. 1041 Sch A, B, G (tax & credits), Sch D, I (AMT Part 1, Ln 29 >\$23,500), J, K-1, 1041 Ln 3 (1040 Sch C), 1041 Ln 5 (1040 Sch E), 1041 Ln 6 (1040 Sch F), 1041 Ln 7 (4797 Ln 17), 1041 Ln 8 (1040 Ln 21). Income distributed to a beneficiary K-1 is taxed to beneficiary. 1041 Sch D (8949) recognize gains/losses. Decedent's residence receives step up to FMV (date of death), the expenses of sale generally create a loss.

- Decedent's Estate assets subject to Probate administration. Income in Respect of a Decedent (IRD) is Decedent's income with a contingent claim at the time of death, but is not included on decedent's final 1040: Deferred salary payments, Uncollected interest, Proceeds from the completed sale, Traditional IRAs and Qualified retirement plan benefits, income from K-1s.

- Multiple trusts can be treated as 1 trust for tax purposes (income/expenses of trusts are aggregated) if same Grantor, Beneficiary, principal Purpose, as well as, created for tax avoidance purposes.

b. Simple trust 1) requires current distribution of all income, 2) prohibits charitable distributions, and 3) does not distribute amounts from corpus. Simple trust becomes a Complex trust in any year it distributes principal. Complex trusts allow trustee to accumulate income, excess DNI (>1 beneficiary) is proportionately distributed to each beneficiary. Complex trusts, an election can be made to treat income distributed in the first 65 days of a tax year in the preceding tax year (indefinite, unless revoked), distribution on Sch B ("other amounts paid" and check box 6 "other information").

c. Foreign Trusts and NR Alien Estates 1040NR with U.S. source income, TD F 90-22.1 Report of Foreign Bank and Foreign Financial Accounts, foreign account(s) >\$10k, or if the entity owns >50% stock of any corporation that owns a Foreign Bank account. Foreign Trusts file an annual information return, 3520-A. Foreign Trust transfers to/from an Estate or Domestic trust (as grantor) note on 1041 "Other Information" section, file 3520.

d. Form 56, Notice Concerning Fiduciary Relationship, fiduciary filing on behalf of entity that conform to grantor/decedent's wishes. Fiduciaries: trustee, executor, administrator, personal representative, or corporation like a bank trust dept. have personal liability. Liability also follows assets distributed to beneficiaries: heir, legatee, devisee, or beneficiary of a trust or estate. Remainderman is beneficiary receiving remaining property after income beneficiary. Request for Discharge from Personal Liability 5495, personal representative relieved of personal liability for decedent's income, estate, and gift taxes. §6905 filed with 706 or decedent's 1040.

e. Revocable Grantor Trust (§645 incidents of ownership, living trusts after 1980) and Irrevocable Grantor Trust does not have to file 1041 (not recognized as separate taxable entities). 1041 final return, write "Pursuant to §1.671-4(g), this is the final Form 1041 for the grantor trust". Trustee provides: recipient of income/proceeds name of grantor/trust, or provides K-1s for income/gross proceeds.

- Election to Treat a Qualified Revocable Trust as Part of an Estate 8855, filed by due date of 1041 (irrevocable election, 6mo after 706 due; or 2yrs after date of death): active participation rules §469 are waived for 2 years, can claim charitable contribution deductions for amounts permanently set aside for charity, can hold S-Corp stock, and ES payments waived for 2yrs.

f. Uniform Principal and Income Act (UPAIA) reasonable income apportionment (>3% to <5% of Trust's principal), "fair share" to income beneficiary and principal/corpus. 1041 1099/Sch K-1s for each beneficiary and Employer Identification Numbers (EINs) required. Trustee may have discretion to convert a Trust to a Non-Charitable Unitrust with beneficiary's approval. Allocations of income and expenses, based on governing instrument (trust) and local law with special rules for allocating depreciation, depletion, and amortization. Allocate between tax-exempt and other income, deductions proportionately.

g. 1041 Deductions: 1) Interest paid/incurred, deducted. Not deductible: Interest to purchase or hold tax-exempt investments. 2) Taxes deductible: State and local income, general sales, foreign income, real property taxes, GST. Not deductible: Estate, inheritance taxes, federal excise and income taxes. 3) Fiduciary Fees. 4) Charitable Deduction. 5) Professional Fees. 6) Misc Not 2%: Accounting Fees, Attorney's fees, Casualty and theft losses 4684, NOLs, depreciation, depletion, amortization, appraisal fees, fiduciary bonds, and probate costs. 7) Misc Subject to 2%: Accounting expenses for 709, Investment advice and management fees, Estate taxes attributable to IRD and expenses. 8) Estate exemption \$600; except final year \$300 exemption. 3800 General Business credit.

h. Trust's gross income less deductions and expenses is Fiduciary Accounting Income (FAI). Simple Trusts can distribute up to FAI, expenses incurred to corpus not deducted. "Corpus and res" is the principal (property) of the entity from which the income flows. Separate share rule protects beneficiaries from being taxed on income that is accumulated for the benefit of other beneficiaries. NOL carryover or a capital loss carryover generally passes through to the beneficiaries.

i. Fiduciary Accounting Income (FAI) less distributions to beneficiaries (taxable and tax-exempt) is Distributable Net Income (DNI) taxable income to beneficiary. DNI is calculated on 1041, Sch B. DNI does not include gains to the corpus, but all expenses can be deducted from DNI. Distribution deduction is the lesser of the taxable portion of DNI or the taxable portion of the amount distributed. Trust then deducts exemption (required to distribute all of its income currently \$300, Complex \$100, Estate \$600).

- 1041 Schedule B, DNI: Ln 1 Adjusted total income (1041 Ln 17) if negative (enter \$0). Ln 2 Adjusted tax-exempt interest: tax-exempt interest received (incl. exempt-interest dividends) subtract tax-exempt interest income (charitable deduction Sch A Ln 2) and tax-exempt §212 expenses allowed and any interest expense allocable to the tax-exempt interest. Ln 3 Net Sch D gain only attributable to income. Ln 4 Charitable purposes Sch A Ln 4 (capital gains allocated to corpus). Ln 5 Capital gains Sch A Ln 1, in certain cases multiplying Sch A Ln 1 by a fraction (Numerator: capital gains included in accounting income distributed to charities. Denominator: all items of DNI income); reduced by any allocable §1202 exclusion. Ln 6 1041 Ln 4 entered as a negative number, loss as a positive number. Ln 7 is DNI, negative enter 0. Ln 8 for Complex trust enter accounting income. Ln 9 Income required to be distributed currently to beneficiaries (actual amount paid out up to DNI). Ln 10 Other amounts paid, credited, or required distributed usually discretionary.

- State court awards for support allowance to a surviving spouse are taken into account in calculating the income distribution deduction.

j. Personal representative reports to each beneficiary their share of: income, deductions, credits, AMT income and preferences, and estimated tax payments on Sch K-1 (even if not distributed). Beneficiary's share of every item allocated must be apportioned. Trustee may most advantageous specifically allocate different classes of income to different beneficiaries.

- Estates/Trusts that make §645 election can qualify for \$25k Sch E loss allowance. Like-kind exchanges 8824 on Sch D or 4797. Sch D Capital losses carried forward indefinitely, \$3k/yr loss. Interest on deferred estate tax under Section §6166 not deductible.

- Direct expense deductions attributable to a class of income (not <0), excess expenses allocated to/deducted from any other class. Direct expenses of trade or business income (<0), loss is allocable to income or principal. Indirect expense deductions not directly attributable to a specific class of income may be allocated to any item of income. DNI: 1) Net Income Method: first reduces Fiduciary Accounting Income FAI by direct then indirect expenses. 2) Gross Income Method: allocates indirect expenses before allocating direct expenses (depreciation, depletion, amortization). NR Alien beneficiaries 30% Withholding tax, resident of a U.S. treaty country W-8BEN.

- §643(e)(3) a trust or estate can irrevocably elect to recognize gain on the distribution of appreciated property to a beneficiary.

k. Complex trusts (not Grantor trusts or Simple trusts): CRT and Discretionary Trusts that do not mandate current distribution of income.

- CRT (CRUT/CRAT) with income for life, or a term of years (<20yrs). Charitable Remainder Unitrust (fixed percentage >5% payment) or Charitable Remainder Annuity Trust (fixed annual payment). Income beneficiaries are not exempt from taxation of income, determined by using the ordering rules. CRT with unrelated business taxable income (UBTI) is subject to 100% excise tax on its UBTI 4720, Return of Certain Excise Taxes. Charitable Lead Trust (CLT), charity has an income interest for a term of years, with the reversion to the grantor, property then passes to beneficiary.

- Qualified Revocable Trust (QRT) when grantor dies, election to treat trust as part of the decedent's Estate for income tax purposes, no 1041 filed. Qualified Terminable Interest Property Trust (QTIP, simple trust) current distributions of all income go to surviving spouse.

- Qualified Disability, Supplemental Needs, or Special Needs Trusts <65 beneficiaries, for disabled (SS Admin), \$3,950 exemption. Grantor a parent, grandparent, legal guardian, or court for the benefit of the disabled person using the funds of the disabled person (disabled person cannot be grantor).

- Grantor Retained Income Trusts (GRITs) for fixed terms. Grantor Retained Annuity Trust (GRAT) and Grantor Retained Unitrust (GRUT) for members of the family. Grantor Retained Income Trust (GRIT) for person not family members.

- Qualified Personal Residence Trust (QPRT) with personal residence (or qualified vacation home) designed to pass the residence to beneficiaries at a reduced transfer tax cost. Grantor trusts do not have to file a separate income tax return.

- Family Limited Partnerships (FLP) and Family Limited Liability Companies (FLLCs) have replaced Family Estate trusts (disallowed by IRS as an assignment of income / tax avoidance schemes).

l. Qualified Sub-chapter S Trust (QSST, simple trust) holds S-Corp stock, only 1 income beneficiary and corpus (if distributed) to beneficiary. Electing Small Business Trusts (ESBTs) provides more flexibility than QSSTs, holds S-Corp stock, but >1 current income beneficiary, trustee can have discretion of distribution, or accumulation of income. No item relating to S-Corp stock is allocated to the beneficiary, the ESBT cannot use the \$600 exemption, and taxed at the highest marginal rate.

m. Alaska Native Settlement Trusts established under the Alaska Native Settlement Claims Act of 1971. §646 election, trust pays a flat tax rate on ordinary income (lowest Federal tax rate for unmarried individual taxpayers), currently 10%.

n. Abusive Trusts lack economic substance or otherwise attempt to evade tax rules, disallowed.

o. Strategy: 1. Select a Fiscal Year-End for the Estate, 2. Elect to include Income Earned in the Decedent's Trust on the Estate's Income Tax return, 3. Manage Distributions to Minimize Overall tax, 4. Prepare 1041 on the Accrual Basis, 5. Prepare a "First and Final" Return when possible, 6. Update Basis of Assets, 7. Claim an Estate Tax Deduction for IRD, 8. Claim DRD on Estate Tax returns, 9. Set aside Income from Charitable Assets, 10. Allocate Estimated Taxes from the Final return.

C. 1065 - Partnerships

a. Partnership files 1065 April 15 (4 months and 15 days). Entity classification election 8832 tax treatment, limited partnership, syndicate, group, pool, joint venture, or other unincorporated organization. Extension 5mos 7004. Income separately stated on K-1 to Sch A,B,D,E. Partnership terminates with >50% ownership decision (except electing large Partnership). CA LLC 568 and/or 565 (no income).

- Family Limited Partnership (FLP) capital is 1) material income producing factor, or 2) not material income producing factor. Limited Liability Corporation (LLC) can elect as "disregarded entity", partnership, S-Corp.

- Partnership elects: tax year, accounting method, depreciation method, §179, inventory method, amortization of start-up costs, not to use installment sale method of reporting gain, expense intangible drilling costs, sale or exchange treatment for timber, basis adjustments to partnership property under §754. Start-up/organization costs §195 \$5k and amortization over 180/mos, 4562.

- Tax year same as >50% of owners, or least aggregate deferral. §444 change of fiscal year 8716.

b. §351 non-taxable contribution of Capital, if combined ownership >80% after transaction; if not purchase and sale. Capital asset with basis returned as distribution <2yrs is a sale. Service to Partnership is an interest in Income and/or Capital. Related-party transactions rules, no losses allowed.

- Partnerships admitting a new partner makes both §734 election to facilitate and §743 treatment.

- §1221(a) not a capital asset: Stock in trade, Trade notes, Accounts receivable, Foreign investment company stock is taxed as ordinary income (>5yrs losses are capital).

c. Guaranteed payments for performance of services is self-employment income (self-employment tax) or health insurance premiums paid (regardless of income in current year). Minimum guarantee arrangement received (is guaranteed payment) by amount they exceed partner's distributive share of the partnership's income. Constructive/ disguised distributions are unreasonable compensation benefiting a shareholder. Distributions on 1099-DIV, Partnership files 1096. Non-Dividend distributions, Partnership files 5452.

- Property received for Services, Bargain purchase, and Gift, valued at FMV. §751 Unrealized receivable or an Inventory item is taxed as ordinary income (>5yrs losses are capital). Net liabilities acquired increases basis; transferred liabilities decreases basis. Inherited receives step-up in basis.

d. 1065 Deductions: Ln 9 Salaries and Wages, Ln 10 Guaranteed Payments, Ln 11 Repairs and Maintenance, Ln 12 Bad Debts, Ln 13 Rent, Ln 14 Taxes and Licenses, Ln 15 Interest, Ln 16 Depreciation, Ln 17 Depletion, Ln 18 Retirement Plans, Ln 19 Employee Benefit Programs, Ln 20 any Other allowable trade or business deductions Deductions.

- Deductions Ln 20 amortization of organization expenditures §709, expenditures relating to research and experimentation §174, business start-up costs §195, intangibles (goodwill, covenants not to compete, etc.) §197, certified pollution control facilities §169, and lease acquisition expenditures §178; deductions for amortization 4562.

- Sch K Separately stated items Ln 2: 8825, Ln 3: 4797, Ln 10: §1231, Ln 11: (6781, 4684, §1252, §1254, §1256, §1202, §1045), Ln 12: 4562, Ln 13: 8283, Ln 15f: (5884, 8861, 6478, 6765, 8820, 8826, 8830, 8834, 8835, 8844, 8845, 8846, 8847), Ln 16: 1116, Ln 20: (2439, 4136, §179 recapture, §6111, §6662, §453[1][3], §453A[c], 8697, 3468, 4255, unrecaptured §1250) listed on K-1: Total partnership ordinary income (or loss), Net income (or loss) from Rental real estate activities, Net income or loss from Other rental activities, Gains (and losses) from sales or exchanges of Capital assets, Gains (and losses) from sales or exchanges of §1241 property, Charitable contributions (up to 10%, carry forward 5yrs), Dividends (qualifying for Dividend-Received Deduction DRD <20% 70%; 20-80% 80%; >80% 100%), Taxes (paid or accrued) to foreign countries and U.S. Possessions, Other items of income, gain, loss, deduction, credit, nondeductible expenses (50% of meals and entertainment).

e. Partners basis in Partnership is "outside basis" §722. Partners basis in Assets is "inside basis" §723. Partner's partnership interest basis: money contributed, plus adjusted basis of property contributed, increased by non/recourse liability assumed or decreased by non/recourse liability relieved.

f. Partnership distributions: Nonliquidating "current" §731 distributions; "excess" distributions of outside basis §752; or complete "liquidation" distributions. Distributive share provides substantial economic benefit received or bears economic burden: the basic test (capital account: book accounts and

tax accounts; liquidation; and deficit makeup requirements), the alternate test, and the economic effect equivalence test.

- Distributions above basis, capital gains. Distributions (gain/loss) on sale/exchange of unrealized receivables/inventory, is ordinary income. Losses subject to the at-risk rules §465. limited by basis, ST losses carried back 3yrs then forward. NOLs 2yrs back and 20yrs forward.

- Property other than cash distributed to a partner §732: <"basis is less" are reduced by proportionate unrealized depreciation then the proportionate adjusted bases of the properties; >"basis is more" are increased by unrealized appreciation then the proportionate FMV of the properties.

- §267 prevents partners from deducting a loss from the sale or exchange of property to a family member, a controlled corporation, or other "related person" owns more than 50% of the partnership, sold <2yrs 8275.

- Sale of Partnership interest, is capital gain; unless §754 where a partnership does not adjust the basis for a contribution of property (including money). Partnership stock redemption and liquidations losses are capital gains distribution.

g. Accumulated E&P account (AE&P). Reconciliation of books and taxable income M-1 (difference in GAAP and tax law): two categories of adjustments: temporary and permanent adjustments. M-2 report transactions affecting the partner's capital account. Sch L Balance Sheet unless "Yes" Sch B box 6d.

h. Estimated taxes >\$1k. Failure of File \$195/mo/partner up to 25%; Failure furnish K-1 \$100/partner.

D. 1120S - S-Corp

a. S-Corp files 1120S March 15 (3 months and 15 days). S-Corp election 2553 within 2 months and 15 days to be effective for tax year, cannot change for 5yrs. If S-Corp terminated inadvertently (in error) IRS may reinstate. 7004 6 month extension. Change tax year 1128, or with §444 election file 8716. Income separately stated on K-1 to Sch E(A,B,D). Personal Service Corporations PCS: accounting, actuarial science, architecture, consulting, engineering, health (including veterinary services), law, and the performing arts. PSCs >10% owners, or Qualified PSCs >95% owners, flat rate 35%. Qualified Subchapter S Subsidiary (QSub) is 100% owned by an S-Corp. CA 100S.

b. S-Corp taxes: 1) Excess Net Passive Income (ENPI) E&P (from prior C-Corp) >25% of gross receipts (if for 3yrs, S-Corp terminated). 2) Built-in Gains (BIG), selling C-Corp assets. 3) Investment Credit Recapture, 4255. 4) LIFO recapture. S-Corp elects §444 change of fiscal year required payment 40.6%.

c. Accumulated Adjustment Account (AAA), undistributed income. Accumulated Earnings & Profits Account (AE&P), accumulated prior years undistributed (E&P) income. Other Adjustment Account (OAA), tax-exempt income which increases basis (non-taxable distributions decrease basis).

d. Termination S-Corp interest, Capital gain. Health Insurance premiums employer deductible 1) expense <2% non-taxable to employee, 2) 2% owner-employees W2 wages subject to income tax not FICA taxes.

e. Estimated taxes >\$1k. Failure of File \$195/mo/partner up to 25%; Failure furnish K-1 \$100/partner.

E. 1120 - C-Corp

a. C-Corp files 1120, 1120-A <\$500k (gross receipts and total income/assets), 1120-F Foreign, March 15 (3 months and 15 days). 7004 6 month extension. ES owed if liability >\$500. Request refund between 1/1-3/15 on 4466, or 1020x or 1139. Publicly Traded Partnerships (PTP) corporations. Closely-held corporation >50% ownership by 5 or more owners, with limitations for at-risk rules on losses. Parent-subsidiary controlled group 80%. Brother-sister 5 or fewer 80%. Affiliated group 80% ownership. Regulated Investment Corporation (RIC) loss carry back 8yrs. CA 100.

b. Sch L reports balance sheet from year to year. Sch M-1 <\$10M assets, reconciles book's financials to tax reporting. Sch M-2 Partners Capital Accounts from Sch L balance sheets. Sch M-3 >\$10M assets, reconciles book's financials to tax reporting.

c. Corporate AMT 20% 4626, not if gross receipts <\$5M. Personal Holding Company tax 15% on undistributed income. Accumulated Earnings tax 15%, E&P not distributed.

d. Capital gains if distribution exceeds basis. Capital losses 3yrs back 5yrs forward, all ST Gains. Non-

dividend distributions reduce basis.

e. Charitable contributions up to 10% carry forward 5yrs.

f. Estimated taxes owe >\$500. Failure of File 5%/mo up to 25%; Failure of Pay 0.5%/mo up to 25%. Quick refund for overpayments, 4466.

g. IRS Notice 2014-52 corporate inversions: limiting a foreign parent's ability to access the controlled foreign corporation's cash and operations in a tax-efficient manner and by treating more inverted corporations as domestic corporations, transactions completed on or after September 22, 2014.

F. 990 - Non-profit

a. 501(c) Private Foundation files 990-PF, and Tax-exempt election 1024; 501(c)3 Public Charity (>1/3 public/gov't support) files 990, 990-EZ, 990-N, and Tax-exempt election 1023, election within 15/mos. Not required to file if gross receipts <\$5k (\$7.5k first year, \$12k first 2yrs). 8868 3 month extension, can request additional 3 month extension

b. Church/religious not required to file 990, file employee payroll taxes, unless FICA exemption 8274.

c. 990-T, file unrelated business income (UBIT) above >\$1k.

d. Failure of File \$20/day up to \$10k or 5% gross receipts. Gross receipts >\$1M, \$100/day up to \$50k.

G. Federal Military returns CA. Military - MSRRA, Spouse

a1. Nontaxable Military income (not FICA exempt), Combat pay (180 day extension). Living, Moving, Travel, Death allowances. Family allowances: dependents Educational expenses, Emergencies, Separation pay, Evacuations. Basic Allowance: Housing, Subsistence, Overseas Housing, COLAs abroad; Medical/dental care, Dependent-care, Legal assistance, Commissary discounts, Government aircraft travel. Group-term life, Disability, Education, ROTC, Survivor/Retirement protection plans, Uniform allowances.

b1. Heroes Act: Combat pay earned income for EIC and Additional Child Tax credit. Reservists to Active duty: retirement/HSA distributions and disability/death pay benefits are penalty-free.

- Basic pay: Active-duty, Reserves and National Guard pay, Training duty, Back wages, COLAs allowance, Military service school.

- Special pay: Career sea, Diving, Hardship and Foreign duties. Aviation career incentives and Foreign language proficiency. Hostile fire or imminent danger. Medical, Dental, Nuclear-qualified, Optometry, Pharmacy, Veterinarian officers. Special duty assignment pay, Special compensation for assistance with activities of daily living SCAADL, Voluntary Separation Incentive.

- Bonuses: Career status, Officer, Enlistment, Reenlistment, Extension of service overseas, subject to income tax withholding but not FICA withholding. Incentive pay: Submarine, Flight, High altitude/low opening HALO, other Hazardous duties.

- Other payments: Do-it-yourself DITY Moving expense reimbursements, Student loan repayments. Cash in lieu of accrued leave, High deployment per diem, Reimbursement for certain entertainment/hosting expenses of high-ranking officers.

b1. Leave and Earnings Statements LES (mypay.dfas.mil/mypay.aspx), Active and Reserves military receive LES for each pay period.

c1. Military deductions directly on Sch A (not 2106): Employee Business expenses: Uniforms (not deductible, except: Battle dress, Insignias of rank, Reserves members'), professional Societies (not Officers' club), work-related Educational expenses. Reserves travel >100mi deduct travel expenses 1040 Ln 24 adjustment. Military Thrift Savings plan (TSP) retirement plan.

d1. Spouse MFJ mail return, or sign as Power of Attorney POA 2848. Military (not combat) 2/mo 4868.

CA1. Service-members have a "home of record", place one was living when entering the military (or re-enlisting). Home of record used to determine travel entitlements when one separates from the military.

- Domicile, place you voluntarily establish yourself and family. Service-member's domicile (generally)

is the state you entered the military. Change domicile, take actions: intend to change domicile, intend to acquire a new domicile, physically present in new domicile establish his/her home there.

I) CA PDS (permanent duty station), NOT CA domicile. Military pay not included in CA Taxable income, CA Gross income, or CA AGI. Intangible income not included in CA Taxable income; included in CA Gross income and CA AGI.

II a) PDS NOT in CA, CA domicile (service-members leave CA under PCS orders become NR of CA for income tax purposes). Military pay not included in CA Taxable income; included in CA Gross income and CA AGI. Intangible income not included in CA Taxable income; included in CA Gross income and CA AGI.

II b) PDS NOT in CA, NOT CA domicile (service-members leave CA under PCS orders become NR of CA for income tax purposes). Military pay not included in CA Taxable income, CA Gross income, or CA AGI. Intangible income not included in CA Taxable income; included in CA Gross income and CA AGI.

III) CA PDS (temporary station/working outside of CA), NOT CA domicile. Military pay not included in CA Taxable income, CA Gross income, or CA AGI. Intangible income not included in CA Taxable income; included in CA Gross income and CA AGI.

CA2. CA Spouse of service-member may be able to exclude CA income, MSRRA 2009. Spouse files DE-4 exemption from California withholding. Spouse of a service-member neither loses nor acquires a state of domicile or residence for taxation purposes if: 1) Spouse accompanies the service-member to a duty station state outside the home state to comply with military orders, 2) Spouse in duty station state solely to be with the service-member, 3) Spouse is domiciled in the same state as the service-member.

- Spouse's (nonmilitary) income earned is not subject to taxation in the duty station state, although it may be subject to taxation in the Spouse's home state. Spouse's other income may not be subject to taxation in the duty station state. If service-member's Spouse has not lived in the service-member's state of domicile, neither has the same domicile.

I) Spouse CA resident (service-member CA PDS), neither CA domicile. CA/non-CA personal service income and intangible income both subject to MSRRA. Excluded from CA income (not taxed); but Spouse may have state tax in domicile.

II a) Spouse NOT CA resident (service-member NOT CA PDS), both CA domicile. Non-CA personal service and intangible income both included in CA Taxable income; but not CA Gross income, or CA AGI.

II b) Spouse NOT CA resident (service-member NOT CA PDS), neither CA domicile. Non-CA personal service and intangible income both included in CA Taxable income; but not CA Gross income, or CA AGI.

III) Spouse CA resident (service-member NOT CA PDS), neither CA domicile. Military pay "may be" included in CA Taxable income, CA Gross income, and CA AGI if spouse is domiciled in community property state report 1/2 service-members pay.

CA3. CA MFS exception, allows Active-duty service-member and Spouse who file federal MFJ to file in CA MFS. Active-duty military wages subtracted from CA income. MFS spouses will not lower tax rates on CA separate returns, and will not be eligible certain deductions/credits.

- CA MFS full-year resident Spouse 540/540A and NR Active-duty service-member 540NR. MFJ use 540NR, if one spouse is a NR. CA MFJ amend return after the original due date to MFS, permitted if either spouse: 1) Active member of the armed forces or any auxiliary branch, or 2) NR entire taxable year who had no income from a CA source.

CA4. Service-members who purchase homes in CA and convert them to Rentals when they are transferred to another state, need to file a CA return. 540NR, Income from CA Rental property profit/loss, gross receipts are used to compute CA gross income.

- Exclusion on Sale of Residence. Service-members on Extended Duty may suspend the 5yr Ownership and Use tests, for up to 10yrs.

CA5. Renter's Credit, for the Spouses of NR service-members that pay rent in California. NR military Service-member does not qualify for credit, however Spouse (resident) may claim up to \$60.

- Child and Dependent Care Expenses credit, Service-member domiciled in another state is NR for tax, he/she can use his/her Active duty military wages as Earned income for the purposes of credit.

- Credit for Taxes Paid to other States, only against CA Net tax, less other credits, 540NR Ln 58 or 59.

Preparing multiple-state returns, that tax the same income, credit not against AMT, or other taxes entered on 540NR Ln 72 or 73. Credit is normally recognized by the State of residence. 4 states claim the credit on a NR CA: Arizona, Indiana, Oregon, and Virginia (Guam only on a NR return).

CA6. Military retirement pay (pensions) is taxable if it is received by a CA resident, regardless of where the retiree was stationed while on active duty.

CA7. Native American Service-member whose legal residence or domicile is a Federal Indian Reservation is taxed by the laws applicable to Federal Indian Reservations and not the State where the reservation is located, California conforms and does not tax.

CA8. Extension to File, Combat zone / Qualified Hazardous Duty Area (QHDA), for CA 540/A/NR and pay tax, without interest or penalties: 1) serves outside the US, but not a Combat zone or QHDA, up to 180 days after returning from overseas, 2) Combat zone or QHDA, anytime during the tax year or filing period, up to 180 days after leaving the Combat zone or QHDA, 3) both Federal and CA additional extension of up to 106 days to file and pay for each day one is in a Combat zone during a filing period. Write "MILITARY OVERSEAS" or "COMBAT ZONE", for a Combat zone, enter location or the area served, write date the taxpayer deployed overseas or entered a designated Combat zone, or QHDA, and the date returned.

CA I. 540 Filing

California Resident, Part-year Resident 1040NR Alien. CA tax based on Gross income (all world-wide sources) and CA AGI. Nonresidents 540NR (if either/any taxpayer is a NR) recover CA withholding. Community property if not separate.

California Resident >9mo (<6mo a NR), taxpayer's domicile, and taxpayer's physical presence. CA NR taxed on income from CA sources. Excluding Military on permanent change of station (PCS) orders.

CA exemption credit reduces tax liability. Parent can take CA exemption (dependent) even if not taken on [1040] with dependent taking Federal Education credits. CA RDP exemption (dependent) allowed.

CA dependent files if CA Gross income or AGI >standard deduction. Standard deduction is greater of \$1k or earned income + \$350, not >standard deduction for filing status.

CA EIC 3514: \$6,580 (0, \$214) , \$9,880 (1, \$1,428) , \$13,870 (2, \$2,358/>2, \$2,653).

HOH CA Questionnaire, separate finances create separate households, families living under same roof. RDP (opposite sex >62), FTB Pub 737 must file MFJ/MFS. SSMCs (CA 2008 and 2013-) legally married (in States) for Federal and CA tax purposes must file MFJ/MFS. IRS RR 2013-17, Notice 2013-61.

CA 6mo Extension, if tax liability paid 3519. Military overseas and Combat zone extension 180/106 days.

CA II. 540 Credits

3506 Child and Dependent Care Expenses credit [2441] for care provided in CA, custody >50%, no MFS or S, allowed for PR/NR (pro-rate) with CA income, RDP with CA income, NR Military with CA income.

Renter's Credit, >6mo, not government, church, college, military housing, partial 6-12mo. If both homeowner and renter, then cannot claim if Sch A Property tax deduction taken (except if married and lived apart/ residences and only spouse claimed credit).

Senior Head of Household credit, 65yrs HOH (or widow/er 2yrs), 2% of CA income, up to \$66,391.

Joint Custody Head of Household credit, up to \$416 – S, HOH or MFS (also RDP), support >50% (and 146-219 days), taxpayer must take dependent exemption on married dependent.

Dependent Parent credit, filing MFS but can't use HOH.

Adoption credit \$2500, CA limited qualifying costs and adoptions, with excess carried forward, worksheet.

3540 (Childcare credit/ recapture), 3503 (Natural heritage), 3549A (new Home), 3805Z (Enterprise zone), 3806 (L.A. revitalization), 3807 (Military base), 3808 (Manufacturing), 3809 (Economic Development area).

Sch S & P for CA AMT and other Credits.

CA III. Sch CA part A Income - subtractions decrease income <tax

Not taxed: Social Security, Unemployment, Disability, Paid Family Leave benefits 1099G. CA State refunds.

Foreign Earned Income and Foreign Housing exclusion deductions.

Subtractions: CA Lottery winnings. Treasuries interest. SEP, SIMPLE, & Qualified plan contributions. Bank Early Withdrawal penalty. Jury duty pay. Crime hotline payments. Moving expenses (moving out of CA). NR Alien Alimony paid. 3805V disaster loss carry-back (2yrs) and NOL carryover. other Federal NOLs.

- IRA distributions if higher CA basis (different CA limitations). RDP health insurance & medical expense reimbursements (employer-provided or self-employed). Expenses for Personal Property rental. FICA or Railroad Retirement sick pay. Ride sharing benefits. Certain Legal and Whistle-blower fees. CA election for Federal write-in adjustments (not "Sub-Pay TRA").

- Military NR not domiciled in CA (not reserve pay). Military NR IRA deduction (stationed and income in CA) federal phaseout limitations, recalculate federal AGI excluding military pay for CA deduction.

- 3801 Passive Activity Loss (PAL) limits [8582]. 3805E Installment sales with different depreciation. Alien Alimony 1040NR deductible in CA (PR prorated) not federal deductible. CA Qualified Principal Residence Indebtedness [982] limited (2009-14).

Taxed: LT Disability insurance 1099-R. Alimony received. Foreign Alimony received 1040NR taxed in CA, federal deductible.

Additions: 1) Munis out-of-State <50% CA taxed, MUNI Funds >50% CA <100% CA tax prorated, 2) Health Savings Account (HSA) contributions W2 box 12 W, addition to Wages, 3) HSA interest, addition to Taxable interest income.

- Rental expenses disallowed (increase CA income) for each month in violation for substandard housing.

- Business income increases, due to CA differences with lower §179 and depreciation.

- Sale of Qualified Small Business Stock (QSBS), taxed in CA.

- \$3k Sch D loss and carryover limited to CA income, RDP limited to \$3k (2 Federal S filings \$6k).

Subtractions or Additions:

Sch D Capital gain or loss differences: Business depreciation, Capital loss carryovers, certain Business expensing or Credit differences.

CA IV. Sch CA part B Adjustments Income - subtractions decrease adjustments >tax

Subtractions: Educator Expenses deduction. Health Savings Account (HSA) contributions (not on W2). Tuition & Fees deduction. Student Loan Interest deduction. Domestic Production Activities deduction. SE tax. SE health insurance. Certain Business Expenses due to differences.

Additions: CA lottery winnings. Alimony paid. Self-Employed HSA (RDP contributions). Certain Business Expenses due to differences.

CA V. Sch CA Adjustments Itemized deductions - subtractions decrease income <tax

Sch CA itemized deductions AGI limited: S/MFS/RDP, HOH, MFJ RDPJ/QW.

Federal, State, State DI, Local, Foreign taxes, not deductible. Excess SDI & VPDI withheld, CA deductible.

CA lottery winnings not taxed, losses not itemized deductions.

Private Mortgage Insurance added back, not deductible. No CA Mortgage Interest Credit so mortgage interest expenses are increased by adding back on Sch CA Ln 41.

HSA distributions itemized (contributions not deductible) are Medical expense, CA deductible. HSA Non-medical distributions, no CA penalty.

Education Misc work-related >2%, CA deductible. No CA Education credits.

3526 Investment Expense, deductible. Public utility company interest to buy energy-efficient equipment or products, CA deductible. 1yr of deductions for Expenses in support of prosecuting a federal crime.

Employee Business expenses (incl. Education expenses, 2106). CA differences with lower §179 and depreciation (ex. Hobby income). Business expenses of Reservists, Artists, Government officials 2106 with differences in depreciation.

Claim of Right, where taxpayer returns income (previous year) and excess tax payments were made.

CA VI. 540 Taxes and Payment

DE-4 withholding. Estimated Taxes 540-ES: >\$500 and <90% (or 100% of prior year tax); AMT <100%; >\$150k and <110% (30/40/0/30% per qrt). Sch S State Taxes paid on income in >1 State.

593B CA Real Estate sale >\$100k, capital gain withholding 3.3-12.3%, CA tax 1040 Sch A deductible. CA backup withholding 7%. 592B NR CA withholding >\$1500.

1% SDI (and VPDI) >\$ 1,016.36 are tax payments 540 Ln 74. >1 employer (including Voluntary Plan Disability Insurance) excess SDI/VPDI a CA tax deduction, but VPDI not 1040 Sch A tax deduction.

Sale and Use tax on out-of-State purchases, 7.25% plus local taxes.

3805P Qualified Plan Early Distribution penalty 2.5%, not taxed if not a CA resident when distributed. Taxable non-qualified distributions from QTPs (529), Coverdell ESAs, and MSAs.

Other Taxes from credits and different depreciation on 3503, 3540, 3549A, 3805Z, 3806, 3807, 3808, 3809, NQ Deferred Compensation (20% tax back-dated stock options, W2 box 12 Z), credit recapture.

MFS couple making tax payments, should be split except otherwise.

Deferred tax on Installment sales (i.e. dealers of timeshares and residential lots) if elected to pay special interest charge.

Sch P for CA AMT, other Credits 3540. SCH G-1 [4972] distributions, born before 1/2/1936.

5870A Foreign (Domestic before 3/1/1984) Trust [4970] distributions.

5805 Underpayment of Estimated Tax and Penalty >\$500 and <90%, AMT <100%, >\$150k and <110%. Waiver for casualty/disaster, retired>62/disabled, tax law changes, unusual circumstances. 2/3 Farming or Fishing income, no penalty filed/payed by 3/3/yr. Penalty tax not paid 5%, plus 0.5%/mo.

3519 CA Extension (6mo extension) if tax liability paid.

CA VII. 540 other Forms and Amended

3526 Investment Income, not taxable in CA.

3800 Child Kiddie tax [8815] child <19 or student <24, >\$1900 investment income, different election allowed than 1040.

3803 Parent Kiddie tax [8814], parent completes 1040 first, different election allowed than 1040.

3885A Depreciation adjustments if different than [4562]. Lower §179, no Special Depreciation Allowance (SDA). Less depreciation means more CA Income (addition). Lower [4797] Sale of Business Property gain, with lower CA depreciation and §179 means more CA Income (subtraction).

3805V NOL, only Disasters carried back (2yrs) and 10yrs forward.

705 Innocent Spouse Relief.

3510 Credit for Prior-Year Minimum tax for AMT.

3520 Power of Attorney.

540X four(4) years to claim refund Attachments required 540NR (540 optional), Sch CA, changed CA forms and schedules, 1040X and changed Fed forms and schedules.

3567 Installment Agreement Request.

CA VIII. 540 Spouses MFJ/MFS

a. Community Property States: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Puerto Rico, Texas, Washington, Wisconsin, Alaska (allows election). Louisiana, Texas, and Wisconsin apply "Spanish" rule characterizes income from separate property (during marriage) as community property.

- Community property is all property acquired during marriage that is not separate property. Creditors can reach into community property to satisfy debt incurred by either spouse. Marriage legal? Couple's domicile a community property state? Were spouses subject to community property rules? Domicile is where an individual has their true, fixed, permanent home/principal establishment, and returns to whenever absent.

- Home and Rental property are characterized as community property if "community funds" were used to pay the mortgage, etc (even if owned, bought and titled separately before marriage). Community right to reimbursement (asset) follows appreciation, interest, and profits that attach to "community funds".

- Community business or Investment income (generally) divided equally between spouses. Each deducts 1/2 of expenses on separate returns. Separate business or Investment expenses are deductible by spouse who earns the income. Expenses paid from "community funds" deductions are divided equally.
- 8958 Allocation of Tax in Community Property States. MFS spouses, California or Washington RDP (opposite sex >62) and SSMC with community property rights.
- California Court of Appeal: date of separation occurs when either of the parties does not intend to resume the marriage and his or her actions bespeak the finality of the marital relationship. CFC §771 "The earnings and accumulations of a spouse...while living separate and apart...are the separate property the spouse." Community property rights stop accruing once the parties have separated.
- b. Spouse dies, step-up FMV of the community property is basis. Common law (separate property), each spouse is a separate individual with separate legal and property rights, joint assets may be split equally or divide as deemed best. Joint tenancy (separate property) deceased spouse's share of basis changed to FMV on death (surviving spouse's basis not changed).
- c. MFS if one spouse itemizes, both must itemize. MFS, combine incomes and report 1/2 of income on each separate return. Child and Dependent Care, Earned Income, Credit for Adoption expense credits, disallowed. U.S. Savings Bonds interest income used for higher education, cannot be excluded. More SS benefits (incl. RR benefits) received may be taxable than MFJ. Education credits (AOC/Hope and Lifetime Learning) and Qualified Student Loan interest paid, cannot be deducted.
- MFS spouses may share dependent exemptions if "community funds" provides >50% support and >1 dependents; otherwise the spouse who provides >50% support.
- Annulment, amended returns should be filed for all MFJ/MFS open years to Single/HOH.
- d. EIC not characterized as community property, the injured spouse's share of EIC is separate property.
- e. Annuities payable under the Civil Service Retirement Act (CSRA) or Federal Employee Retirement System (FERS) are community property.
- f. 705 Relief from Separate Tax Return Liability [8379/8857] for community income: MFS return is filed, Community income not included in gross income. Taxpayer did not have knowledge of community income. Unfair to include the item/s of community income in the taxpayer's gross income.

CA IX. 540/1040 RDP Spouses

- a. RDP or >62yrs, IRS Pub 555 & 737, Allocation community property 8958. Write "Prepared according to CCA 201021050" on 1040 and note "This return was prepared using community property rules for RDPs in CA; Registered domestic partner is: partner's name & SSN." Each partner files a separately prepared 8958 with a calculated community income adjustment, on Ln 21 1040. Wages earned in a separate property state and property inherited after RDP registration are both separate property. EIC eligibility determined by each partner's individual earned income and community AGI. One partner may itemize deductions while the other takes the standard deduction on 1040. When a partner itemized (year prior to RDP) they must report their State refund on their 1040.
- b. RDPs file separate 1040s can each claim up to \$25k passive Sch E loss; one partner prepares a Sch E including all items of income and expenses; each partner then makes an additional entry of other additional property on their own Sch E reporting 1/2 of net rental income/loss. Social security income is distributed equally to each partner; each partner reports one half of the benefits received on Ln 20a and/or 20b. IRA distributions are always treated as separate property income to the recipient. Pension and/or annuity benefits accrued after RDP registration is community property if partner domiciled in a community property state. Adjustments to income (some are community and some are separate): Educator expense Ln 23, Certain business expenses of reservists Ln 24, Moving Expenses Ln 26, Student loan interest deduction Ln 33, Tuition and fees deduction Ln 34. HSAs are separate property, each partner claims his or her own deduction Ln 25.

CA IX. Brokerage Accounting

a. Employee Stock Purchase Plan (ESPP, >85% of FMV):

- NQ ESPP (NOT §423): Report Compensation income [FMV purchase date – discounted stock price] taxed on purchase date (W2 box 1); 8949 gain/loss 1099-b basis (discounted stock price) may include 8949 adjustment (W2 box 1 discounted compensation).

- Q ESPP (§423) disqualifying disposition (NOT >2yrs and >1yr), W2 box 1 Compensation income [FMV sale date – discounted stock price]. Report [generally transaction fees] 8949 gain/loss 1099-b basis (FMV sale date) may include 8949 adjustment (W2 box 1 discounted compensation).

- Q ESPP (§423) qualifying disposition (>2yrs and >1yr), W2 box 1 lessor of 1) Grant date discount [FMV grant date – discounted stock price] or 2) Actual gain/loss [FMV sale date – discounted stock price]. Report 8949 gain/loss: 1099-b basis (discounted stock price) may include 8949 adjustment (W2 box 1 discounted compensation).

b. Restricted Stock Awards:

- RSA §83(b) Compensation income, elect to pay ordinary income tax on grant date, basis (grant price, less any purchase price) within 30days. Report 8949 gain/loss 1099-b basis (FMV grant date) may include 8949 adjustment (discounted compensation income).

- RSA (NOT §83(b)) Compensation income (FMV vested, less any purchase price), W2 box 1 and taxes w/h. Report 8949 gain/loss 1099-b basis (FMV vesting date) may include 8949 adjustment (W2 box 1 discounted compensation).

c. NQ Stock Options:

- Compensation income (FMV exercise date, less any purchase price), W2 box 1 (box 12, code V) and taxes w/h, Cashless exercise program [FMV sale date – grant stock price]. Report [generally transaction fees] 8949 gain/loss 1099-b basis (FMV exercise date) may include 8949 adjustment (W2 box box 12, code V). 1099-B Taxes withheld (sales proceeds column) included on W-2 (do not double count).

d. Incentive Stock Options:

- ISO disqualifying disposition (NOT >2yrs and >1yr), Compensation income W2 box 1 (box 12 or 14) and taxes w/h, Cashless exercise program [FMV exercise date – exercise stock price]. Report [generally transaction fees] 8949 gain/loss 1099-b basis (FMV exercise date) may include 8949 adjustment (W2 box 12 or 14).

- ISO qualifying disposition (>2yrs and >1yr). Report 8949 gain/loss 1099-b basis (FMV exercise date) and Alternative Minimum Tax (AMT) preference item (compensation income if treated as NQ stock options, FMV sale date – exercise stock price).