



2018 Partnership/LLC income tax return checklist

Form 1065 (short)

Client name and number _____

Prepared by _____ Date _____ Reviewed by _____ Date _____

100) General

Yes/
Done No/
N/A

- ▶ 101) Note the original due date and extended due date for the 2018 Form 1065. The original return is due on the 15th day of the third month after the close of the year; the extended due date is six months from the original due date.

- ▶ 102) Obtain a signed engagement letter.

- ▶ 103) Confirm the partnership/LLC's name, employer identification number, address, tax year and business code.

- ▶ 104) Consider asking the partnership/LLC to execute a Form 2848, *Power of Attorney and Declaration of Representative*, and/or Form 8821, *Tax Information Authorization*.

- ▶ 105) Request any correspondence, to or from the IRS or state tax authority, including any adjustments made to prior returns that could affect later returns.

- ▶ 106) If any adjustments were made to previous returns, verify that the partnership representative has notified all partners/members and determine whether any additional adjustments or filings are necessary.

- ▶ 107) Determine whether the partnership/LLC has made any change in accounting method. Complete Form 3115, *Application for Change in Accounting Method*, as necessary.

- ▶ 108) Review the proforma or organizer for accuracy.

- ▶ 109) Review any business financial statements and footnotes for relevant information, if applicable.

- ▶ 110) Obtain and review a copy of last year's return that includes all forms and supporting schedules.

- ▶ 111) Reconcile income and expenses with book entries and review Schedule M-1 or M-3 of last year's return.

- ▶ 112) Obtain a copy of the partnership agreement or operating agreement, including any amendments.

Yes/ No/
Done N/A

▶ 113) Obtain a copy of Schedule K-1 from each entity in which the partnership/LLC is a partner, member or beneficiary.

▶ 114) Did the partnership/LLC engage in any transaction involving virtual currency? If so, consider the tax consequences.

▶ 115) Check for carryover items such as prior year deferred income and deductions, installment sales, Sec. 481 adjustments and Sec. 179 amounts.

Comments/explanations

200) Partners and members

Yes/ No/
Done N/A

▶ 201) Identify the partnership representative.

▶ 202) With respect to each person who was a partner or member at any time during the taxable year, obtain the full name, partnership/LLC identification number, address, Social Security Number and the tax year.

Comments/explanations

300) Income

Yes/ No/
Done N/A

▶ 301) Request all Forms 1099 received by the partnership/LLC.

▶ 302) As to each item of income received by the partnership/LLC, determine whether it constitutes trade or business, portfolio or rental income.

▶ 303) Does the partnership/LLC engage in any passive activities? If so, determine if the grouping of passive activities is adequate and consistent with prior years.

▶ 304) Did the partnership/LLC dispose of any property other than through a distribution to partners or members? If so, determine the total amount of the gain or loss on each transaction, the character and the amount of recapture, if any.

Financial transactions

▶ 305) Were any shares of stock or other securities sold during the year? If so, determine:

1) Dates purchased and sold, cost basis and gain/loss

2) Any short sales? If so, obtain the date of the sale, the date the short sale was closed, and whether the partnership/LLC also held a long position in the security that was the subject of the short sale.

3) Wash sale rules applicability (Sec. 1091)

▶ 306) Was any income deferred for book purposes in the taxable year or in the previous year? If so, determine whether such income must be included in the current year.

▶ 307) Was the partnership/LLC relieved of any debt obligation in the taxable year, other than by means of payment? Determine if there is an exclusion of cancellation of debt income and file Form 982, *Reduction of Tax Attributes due to Discharge of Indebtedness*, if applicable.

Interest/dividends

▶ 308) Did the partnership/LLC receive any interest from U.S. Treasury bills, notes or other bonds? Did the partnership/LLC receive any interest on tax-exempt state or local obligations? If so, address state tax reporting rules.

▶ 309) For cash basis partnerships/LLC, address accrued interest received on bonds sold in the taxable year before maturity.

▶ 310) Did the partnership/LLC purchase any bonds in the taxable year? If so, was the bond purchased at a premium? What amount of accrued interest was paid in the taxable year? _____

▶ 311) Determine whether any dividends received were paid by a domestic corporation on stock held by the partnership/LLC for the requisite holding period to be "qualified dividends."

▶ 312) Compare the sources and amounts of interest and dividends with prior year returns.

Gain or loss on property

▶ 313) Obtain the Closing Disclosure document (formerly known as the HUD-1) for any purchases or sales of real property.

▶ 314) Obtain the transaction documents related to any property sales in the taxable year or earlier with respect to which a payment was made or will be made in a subsequent year (installment sales).

▶ 315) Were there any sales or disposals of tangible property other than inventory in the taxable year? If so, determine the sales price, the original cost basis, the amount of accumulated depreciation taken in prior years and the holding period.

Rental income

▶ 316) For each rental property, obtain a description of the type and location of the property, the total rent income and expenses (advertising, auto and travel, cleaning and maintenance, commissions, insurance, legal and professional fees, management fees, repairs, supplies, taxes, utilities, wages and salaries, condo or coop fees and any other expenses).

Yes/ No/
Done N/A

- ▶ 317) Report the real estate rental activities on Form 8825, *Rental Real Estate Income and Expenses of a Partnership or an S Corporation*.

Comments/explanations

400) Deductions and losses

Yes/ No/
Done N/A

Depreciation

- ▶ 401) Consider making a Sec. 179 election (on Form 4562) to immediately expense part or all of the cost of qualifying property. Note that the Sec. 179 deduction limit is \$1 million with the phase-out beginning at \$2.5 million of property placed in service. Lodging property, roofs, HVAC, fire systems and security systems are eligible.
- ▶ 402) Did the partnership/LLC acquire any property in the taxable year that qualifies for bonus depreciation? If so, determine if electing out of bonus depreciation is appropriate. Note that 100% bonus depreciation applies to acquisitions made after Sept. 27, 2017.
- ▶ 403) Determine the following for each asset: the MACRS life for each asset placed in service, the appropriate depreciation method and the applicable conventions.
- ▶ 404) For qualified improvement property placed in service in the taxable year, determine if the special 15-year cost recovery period applies. Note that the statute would require a technical correction to include qualified improvement property as 15-year property.
- ▶ 405) Did the partnership/LLC acquire any software in the taxable year? If so, determine whether the 36-month depreciation rules can be applied.
- ▶ 406) Determine if real property and equipment leases are operating leases or capital leases.

Partner/member transactions

- ▶ 407) Are there any guaranteed payments to partners or members? If so, determine if such payments should be deducted or capitalized.
- ▶ 408) Obtain the current year contributions to retirement plans. Verify that contributions were made using the eligible contribution limit according to the plan.

Interest

- ▶ 409) Was any interest paid in the taxable year? If so, determine that interest is properly allocated among passive activities, business activities and investment income activities.

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- ▶ 410) For a partnership/LLC that has average annual gross receipts in excess of \$25 million (an aggregate test), determine interest expense deduction limitations under Sec 163(j) (generally limiting the deduction to 30% of adjusted taxable income plus business interest income; exclude investment interest income). Adjusted taxable income is taxable income before business interest expense, depreciation, NOLs and non-business income.

Note that floor plan financing interest expense and the interest expense of an electing farming business or a real property trade or business that agrees to use ADS depreciation is not subject to this limitation.

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- ▶ 411) Determine if there is any unused amount of the business interest deduction limitation. If so, the excess is allocated to the partners/members.

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- ▶ 412) Was any interest expense related to tax-exempt income? Determine any disallowed interest expense.

Travel, meals and entertainment

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- ▶ 413) Did the partnership/LLC have any expenses for travel, meals or business gifts in the taxable year? If so, advise the partnership/LLC that business gift deductions are limited to \$25 per recipient and for any separate travel expenses exceeding \$75, they must maintain both a receipt and documentary evidence of the time and place, business purpose and business relationship with the person being entertained, etc.

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- ▶ 414) Determine the disallowed portion of meals expenses, as well as club dues and verify the correct reporting on Schedule K-1 as the disallowed portion reduces the outside basis of partners/members. Note that the 50% limit now applies to on-premises meals provided for the convenience of the employer and that entertainment expenses are no longer deductible.

Charitable contributions

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- ▶ 415) Did the partnership/LLC make any property contributions to charitable organizations in the taxable year? If so, obtain the following: the name and address of the donee organization, information about whether the donee is a public charity or private foundation, a description of the property contributed, the date of the contribution, the value of the property on the date of the contribution, the method used to determine value, the date the property was acquired, how the property was acquired, the partnership/LLC's basis in the property and information about whether the charity used the property in a manner unrelated to its charitable purpose. Note that in the case of a charitable contribution of property with a fair market value (FMV) exceeding adjusted basis, the partner's/member's outside basis is adjusted only to the extent of the partnership's/LLC's basis in the contributed property.

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- ▶ 416) Prepare the applicable section of Form 8283, *Noncash Charitable Contributions*, for property contributions to charitable contributions, including a copy of a qualified appraisal, if applicable. Provide a copy to each partner/member.

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- ▶ 417) Verify that contributions to a college for athletic tickets or seating rights are not deducted.

Uniform capitalization rules

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- ▶ 418) Did the partnership/LLC produce or acquire property for inventory in the taxable year? If so, verify the correct application of the uniform capitalization rules under Sec. 263A. Note that most producers or re-sellers meeting the \$25 million gross receipts test (an aggregate test) are now exempt from the uniform capitalization rules beginning in 2018.

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- ▶ 419) Determine if the taxpayer qualifies for any of the simplified methods of capitalizing indirect costs and consider electing to use the avoided cost method.
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Long-term contracts

- ▶ 420) Did the partnership/LLC enter into any contracts for the manufacture, building, installation or construction of property in the taxable year that were not completed at the end of the year? If so, consider electing the simplified method of allocating costs or the modified percentage-of-completion method. Determine the percentage of completion based on costs incurred and verify that all required costs have been allocated to the contracts. Note that beginning in 2018, the completed contract method has been expanded to apply to contracts for the construction of real property that is expected to be completed within two years or less if the taxpayer meets the \$25 million gross receipts test (an aggregate test).
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Other deductions

- ▶ 421) Did the partnership/LLC incur any lobbying expenses (including any lobbying portion of trade association dues) in the taxable year? If so, ensure that such expenses are not deducted.
 - ▶ 422) If the partnership/LLC has previously deducted expenses for employee parking and/or mass transit, note that these expenses are no longer deductible.
 - ▶ 423) Verify that no amounts have been deducted for expenses related to sexual harassment cases which are subject to a confidentiality or nondisclosure agreement.
 - ▶ 424) Verify that no amount was deducted for fines paid to, or at the direction of, a government or governmental entity in relation to the violation of any law or the investigation or inquiry by such government or entity into the potential violation of any law (except for amounts paid or incurred under any binding order or agreement where the approval was obtained before Dec. 22, 2017).
 - ▶ 425) Verify that the specific write-off method is used for bad debts.
 - ▶ 426) Did any debts become partially worthless in the taxable year? If so, determine if a deduction is permissible under Reg. Sec. 1.166-3.
 - ▶ 427) Was there any inventory write-down for book purposes? If so, determine if there should be an adjustment for tax purposes.
 - ▶ 428) Did the partnership/LLC have any long-term lease agreements where the lease provides for deferred payments or increased payments? If so, verify the proper treatment under Sec. 467.
 - ▶ 429) Review increases or decreases in reserve accounts for potential M-1 or M-3 items.
 - ▶ 430) Review any vacation pay policy to determine if an accrual-based deduction is available (vested at year end and taken or actually paid within 2½ months after year end).
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Comments/explanations

500) Credits

Yes/
Done No/
N/A

- ▶ 501) Consider whether the partnership is eligible for any tax credits.

Comments/explanations

600) Elections

Yes/
Done No/
N/A

- ▶ 601) Determine if a Sec. 754 election is in place. If not, consider the appropriateness of making one.
- ▶ 602) Determine if the partnership/LLC should make the safe harbor election to expense the acquisition costs of materials and supplies and other tangible property.
- ▶ 603) Consider making an election to expense repairs and maintenance under the safe harbor rules.
- ▶ 604) Consider an election to deduct up to \$5,000 of organizational expenses and up to \$5,000 of business start-up costs.
- ▶ 605) Consider whether to adopt the recurring items exception and 3 ½ month rule with respect to the economic performance rules.
- ▶ 606) Consider other elections necessary for the partnership/LLC.

Comments/explanations

700) Allocations

Yes/
Done No/
N/A

- ▶ 701) Determine that each item on Schedule K is distributed to the partners/members on the Schedules K-1 in accordance with the provisions of the partnership agreement and the regulations.
- ▶ 702) Verify the correct analysis of net income by partner/member type at the bottom of Schedule K.
- ▶ 703) Verify that proper reporting and detail have been provided for all items that affect the partners'/ members' tax liability, including the following: ordinary trade or business income or loss, passive activity income or loss, self-charged interest relating to passive activities, rental activity income or loss, portfolio income and deductions, domestic production activities deduction, partners' medical insurance and other fringe benefits, cancellation of indebtedness income, all items that affect partner/member basis calculations, guaranteed payments, tax credits and any basis adjustments resulting from taking tax credits, information concerning the potential Sec. 199A deduction, and interest incurred in the production of property that may have to be capitalized at the partner level.

Yes/ No/
Done N/A

▶ 704) Apply the at-risk rules to partnership/LLC activities.

▶ 705) Segregate all tax preference and alternative minimum tax (AMT) items to be listed on the appropriate lines of Schedules K and K-1.

Comments/explanations

800) Partnership liabilities and capital accounts

Yes/ No/
Done N/A

▶ 801) Is there any nonrecourse debt? If so, determine whether a minimum gain calculation is necessary to ensure the proper allocation of deductions attributable to the nonrecourse debt.

▶ 802) Determine the allocation of recourse and nonrecourse liabilities to be entered separately on each partners'/members' Schedule K-1. Identify any qualified nonrecourse debt allocated to the partners/members.

▶ 803) Compute earnings from self-employment for the partners/members and enter the amount on Schedules K and K-1.

▶ 804) Verify that the beginning and ending total capital accounts on Schedule L agree with the reconciliation of the capital accounts on Schedule M-2. Attach a reconciliation, if different.

▶ 805) Confirm that the correct method for determining each partner's/member's capital account has been checked on Schedule K-1.

Comments/explanations

900) Distributions and basis adjustments

Yes/ No/
Done N/A

▶ 901) Were there any sales or exchanges of partnership/LLC interests, partner or member deaths, liquidating distributions, or distributions of property? If so, verify any Sec. 754 basis adjustments and determine whether there was a Sec. 743(d) substantial built-in loss that causes a basis reduction. Note that "substantial built-in loss" now exists if either the partnership's/LLC's inside basis exceeds the FMV of its property by \$250,000 or more or if the seller of partnership/LLC interest would be allocated a net loss in excess of \$250,000 upon a hypothetical transfer of all the partnership's assets for FMV.

▶ 902) Were there any sales or exchanges of partnership/LLC interests in the taxable year? If so, determine the amount of Sec. 751 assets that are deemed exchanged and whether a Form 8308, *Report of a Sale or Exchange of Certain Partnership Interests*, is necessary.

Yes/ No/
Done N/A

- ▶ 903) Were there any distributions of appreciated partnership/LLC property in the taxable year? If so, determine whether a Sec. 732(d) mandatory basis adjustment is necessary.
- ▶ 904) Were there any distributions of partnership/LLC property to a partner or member who contributed appreciated property to the partnership? If so, determine whether the gain is recognized by the partner under Sec. 737 resulting in a step up in the inside basis of assets.
- ▶ 905) Were there any transfers of partnership property to a partner/member that were deemed to be a guaranteed payment? If so, report the transaction as a sale on Schedule D.
- ▶ 906) Were there any distributions in excess of a partner's/member's basis? If so, determine whether there was any gain or loss on the distribution.

Comments/explanations

1000) International transactions and reporting

Yes/ No/
Done N/A

- ▶ 1001) At any time during the tax year, did the partnership/LLC have an interest in, or a signature or other authority over, a financial account in a foreign country (such as a bank account or securities account) with an aggregate balance of at least \$10,000? If so, prepare FinCEN Forms 114 and 114a (due by April 15, with an automatic extension to Oct. 15 for the preceding calendar year).
- ▶ 1002) If the partnership/LLC has foreign business activity, consider reviewing other international filing obligations shown in the Form 1065 long checklist.

Comments/explanations

1100) Other issues

Yes/ No/
Done N/A

- ▶ 1101) Verify that the following items are separately stated: taxable income or loss from passive activities; taxable income or loss from other activities (for example, portfolio income or loss); net capital gain or loss allocable to passive loss limitation activities; net capital gain or loss allocable to other partnership activities; tax-exempt interest; net AMT adjustments separately computed for passive loss limitation activities and other activities; general credits; low-income housing tax credit; rehabilitation credit; foreign income taxes and discharge of indebtedness income. Note that each partner's/member's outside basis is reduced by such partner's/member's distributive share of foreign taxes paid by the partnership/LLC.

▶ 1102) Ensure that the partnership return and Schedules K-1 report results on an activity-by-activity basis.

▶ 1103) Ensure that required disclosures regarding property contributions made during the year have been made (for example, checking boxes on Schedule K-1, providing detail supporting the schedules, etc.).

▶ 1104) Determine that proper reporting and detail have been provided for all items that affect the partners'/ members' tax liability. Regarding Sec. 199A, determine whether any trade or business of the partnership/LLC is a specified service trade or business and each partner's/member's:

1. Allocable share of qualified business income for each trade or business of the partnership/LLC
 2. Allocable share of W-2 wages paid with respect to each trade or business of the partnership/LLC
 3. Allocable share of the unadjusted basis of qualified property immediately after acquisition for each trade or business of the partnership/LLC
 4. Allocable share of qualified real estate investment trust (REIT) dividends received by the partnership/LLC
 5. Allocable share of publicly traded partnership income or loss received by the partnership/LLC
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▶ 1105) Did the partnership/LLC engage in any applicable asset acquisitions? If so, determine the allocation of the purchase price to be reflected on Form 8594, *Asset Acquisition Statement*.

▶ 1106) Determine if health plan(s) and/or reimbursement arrangements are compliant with the Affordable Care Act (ACA). If applicable, file Form 1094/1095-C.

▶ 1107) Determine if the partnership/LLC has filed all required Forms 1095, 1098, 1099 and 1042.

▶ 1108) Provide the partnership/LLC with complete federal and state returns, including copies of any disclosure consent form(s), and advise the partnership/LLC to retain copies for at least six years.

▶ 1109) Consider checking the box allowing the IRS to contact the preparer.

▶ 1110) Prepare filing instructions and a transmittal letter.

▶ 1111) Consider changes necessary to the partnership/operating agreement to comply with the partnership audit rules. For example, consider an election out of the rules, partner indemnification, new partners, procedures to determine the partnership representative, etc.

Comments/explanations

1200) State and local filing requirements

Yes/ No/
Done N/A

- ▶ 1201) Determine what state and local returns must be filed by the partnership/LLC and by the partners/ members. Determine whether nonresident partners/members will have to file returns individually or whether a composite return may be filed.

Comments/explanations

