



2018 Partnership/LLC income tax return checklist

Form 1065 (long)

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) Determine if this is a first-year return or a final return. If so, take additional steps as necessary. Consider reviewing the AICPA's Initial Business Return Filing Checklist and the IRS's Closing a Business Checklist.		
▶ 103) Consider if any conflict(s) of interest exists between the entity and its owners.		
▶ 104) Obtain a signed engagement letter.		
▶ 105) Confirm the partnership/LLC's name, employer identification number, address, tax year and business code.		
▶ 106) Consider asking the partnership/LLC to execute a Form 2848, <i>Power of Attorney and Declaration of Representative</i> , and/or Form 8821, <i>Tax Information Authorization</i> .		
▶ 107) Request any correspondence, to or from the IRS or state tax authority, including any adjustments made to prior returns that could affect later returns.		
▶ 108) 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.		
▶ 109) Determine whether the partnership/LLC has made any change in accounting method. Complete Form 3115, <i>Application for Change in Accounting Method</i> , as necessary.		
▶ 110) Review the proforma or organizer for accuracy.		
▶ 111) Review any business financial statements and footnotes for relevant information, if applicable.		

Yes/ No/
Done N/A

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

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

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

▶ 115) Confirm the required tax year and that the requirements of Sec. 444 have been complied with, if applicable.

1) If the partnership/LLC has selected an allowable fiscal year other than the "required year," confirm that Form 8716, *Election To Have a Tax Year Other Than a Required Tax Year*, has been timely filed and that "required payments" (Form 8752) have been made.

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

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

▶ 118) 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.

▶ 203) If the partnership/LLC is owned solely by two spouses, determine whether it would be advantageous for them to elect to be treated as a qualified joint venture instead of a partnership.

▶ 204) If the partnership/LLC has a C corporation as a partner or member, or if the partnership/LLC may be classified as a tax shelter, determine whether the accrual basis is required.

▶ 205) Does the partnership/LLC have any tax-exempt partners or members? If so, determine the reporting requirements regarding the unrelated business income of the partnership.

▶ 206) Were there any changes in any partner's or member's tax year? If so, determine whether this requires a change in the partnership/LLC tax year.

Yes/ No/
Done N/A

- ▶ 207) Are there any outstanding non-compensatory options? If so, determine whether income or loss should be recognized by the partnership/LLC or partners/members with respect to the options during the 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) Has the partnership/LLC made or received any below-market interest loans? If so, determine the amount of imputed interest.
- ▶ 305) 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.
- ▶ 306) Are there any Sec. 1231 net gains in the taxable year? If so, verify any net Sec. 1231 losses from the previous five years.
- ▶ 307) Were there any related-party transactions? If so, determine the effects of Sec. 267, Sec. 1239 and Sec. 707(b).
- ▶ 308) Did the partnership/LLC engage in any like-kind exchanges? If so, determine if there is any gain to be recognized and the basis of the replacement property. Note that like-kind exchange treatment is now only available with respect to real property.
- ▶ 309) Do the installment method rules apply to any sales made by the partnership/LLC during the taxable year? If so,
- 1) determine whether the partnership/LLC is a dealer with respect to the property sold,
 - 2) calculate installment method interest (where the face amount of tax-deferred obligations exceed \$5 million at the close of the tax year), and
 - 3) determine whether this is recapture to be immediately reported (such as by using the installment obligation as security for a loan).
- ▶ 310) Did the partnership/LLC lease any vehicles for business use in the taxable year? If so, calculate the appropriate income inclusion for leased vehicles and property under IRS tables.

▶ 311) Did the partnership/LLC barter for any goods or services in the taxable year? If so, obtain the details of the transaction, including the value of the goods and/or services exchanged.

▶ 312) Determine whether the partnership/LLC must include in income part or all of the proceeds received from employer-owned life insurance contracts.

Financial transactions

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

- 1) dates purchases and sold, cost basis and gain/loss
- 2) dealer status for Sec. 475 treatment (adjust assets to fair market value (FMV) and apply loss limitations to items not timely identified in the corporate books and records),
- 3) wash sale rules applicability (Sec. 1091)
- 4) straddle rules applicability (Sec. 1092)

▶ 314) Did the partnership/LLC realize any excludable gain from Sec. 1202 qualified small business stock? If so, determine if the holding period to exclude the gain was met or if the gain was deferred under Sec. 1045.

▶ 315) Were there any short sales of securities in the taxable year? 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.

▶ 316) Were any market discount bonds disposed of or did any such bonds become worthless in the taxable year? If so, calculate the accrued market discount.

▶ 317) 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.

▶ 318) 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

▶ 319) Request all Forms 1099-INT and 1099-OID received by the partnership/LLC.

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

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

▶ 322) Was any interest received from a related party? If so, determine whether the loan was at a below-market rate and recalculate the interest if necessary.

▶ 323) 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? _____

- ▶ 324) If a bond was purchased at a premium prior to the taxable year, did the partnership/LLC elect to amortize the bond premium?
- ▶ 325) Did the partnership/LLC receive any interest on tax-exempt state or local obligations? If so, address state tax reporting rules.
- ▶ 326) Compare the sources and amounts of interest income with prior year returns.

Dividends

- ▶ 327) Request all Forms 1099-DIV received by the partnership/LLC.
- ▶ 328) 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."
- ▶ 329) Compare the sources and amounts of dividends with prior year returns.

Gain or loss on property

- ▶ 330) Request all Forms 1099-B and/or 1099-S received by the partnership/LLC.
- ▶ 331) Obtain the Closing Disclosure document (formerly known as the HUD-1) for any purchases or sales of real property.
- ▶ 332) 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).
- ▶ 333) Were there any sales 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.
- ▶ 334) Were any assets other than securities disposed of during the taxable year? If so, obtain the following information: description; date acquired; date sold; whether personal use, rental or business use; selling price and basis.

Rental income

- ▶ 335) 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).
- ▶ 336) Are any of the properties low-income housing? Consider the low-income housing credit (Form 8611) and whether recapture is necessary for a credit previously taken.

Yes/ No/
Done N/A

- ▶ 337) 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) Determine whether there are any property classes to which alternative depreciation system (ADS) depreciation should be applied. Note that the ADS recovery period for residential rental property has been shortened from 40 to 30 years beginning in 2018.
- ▶ 403) 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.
- ▶ 404) Determine the following for each asset: the MACRS life for each asset placed in service, the appropriate depreciation method and the applicable conventions.
- ▶ 405) 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.
- ▶ 406) Will the return cover a short tax year? If so, verify compliance with Rev. Proc. 89-15.
- ▶ 407) Does the partnership/LLC have tax-exempt partners or members, or does the partnership/LLC lease property to a tax-exempt organization? If so, consider the need to use ADS.
- ▶ 408) Is any depreciable industrial development bond financed property or certified historic structures for which a tax credit was taken? If so, consider the limitations on depreciation.
- ▶ 409) Did the partnership/LLC acquire any software in the taxable year? If so, determine whether the 36-month depreciation rules can be applied.
- ▶ 410) Did the partnership/LLC incur any environmental remediation costs in the taxable year? If so, consider the Sec. 198 election to expense such costs.

▶ 411) Did the partnership/LLC use any vehicles or any phonographic, photographic, communication, video recording or other entertainment equipment (i.e., listed property) for business purposes in the taxable year? If so, does the partnership/LLC have written evidence supporting the business-use percentage? Note that computers are no longer listed property.

▶ 412) Have any assets been demolished or abandoned, become obsolete or been taken out of service in the taxable year? If so, consider whether a credit recapture is required.

▶ 413) Determine if real property and equipment leases are operating leases or capital leases.

▶ 414) Is any partner or member a corporation? If so, consider what adjusted current earnings (ACE) adjustments must be made.

Partner/member transactions

▶ 415) Are there any guaranteed payments to partners or members? If so, determine if such payments should be deducted or capitalized.

▶ 416) Were there any loss transactions or expense amounts accruing to a partner/member or related party? If so, determine whether the Sec. 267 rule limiting the deduction applies.

▶ 417) Did a partner or member receive any interest in the partnership in exchange for services in the taxable year? If so, determine whether the partnership has properly accounted for the exchange.

▶ 418) Obtain the current year contributions to retirement plans. Verify that contributions were made using the eligible contribution limit according to the plan.

Interest

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

▶ 420) 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.

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

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

▶ 423) Was any interest incurred to purchase or carry market discount bonds or short-term obligations? Consider any deduction limitation.

▶ 424) Were any post-1987 bonds purchased at a premium? If so, determine the amount of amortizable bond premium that offsets interest income.

▶ 425) Was there any interest expense allocable to unborrowed policy cash values with respect to life insurance policies and/or endowment or annuity contracts covering beneficial owners and key employees?

Travel, meals and entertainment

▶ 426) Did the partnership/LLC have any expenses for travel, meals or business gifts in the taxable year? If so, advise the partnership/LLC that 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.

▶ 427) 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

▶ 428) 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 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.

▶ 429) 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.

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

▶ 431) Consider an enhanced contribution deduction for any contributions of food inventories to a charity?

Uniform capitalization rules

▶ 432) 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.

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

▶ 434) Was the partnership/LLC's beginning inventory revalued? If so, ascertain the Sec. 481 adjustment and whether a simplified method should be elected.

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- ▶ 435) Is the partnership/LLC in the business of farming or ranching? If so, consider a one-time election out of uniform capitalization rules and the exemption for expenses incurred in the production of animals.
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Long-term contracts

- ▶ 436) 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).
 - ▶ 437) Did the partnership/LLC complete any long-term contracts in the taxable year? If so, consider whether an election not to apply the look-back method is available or apply the look-back rule to compare the actual contract price and costs to previously used estimates.
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Other deductions

- ▶ 438) Did the partnership/LLC incur any lobbying expenses in the taxable year? If so, ensure that such expenses are not deducted.
 - ▶ 439) Did the partnership/LLC pay any trade association dues in the taxable year? If so, determine if such dues include nondeductible lobbying expenses.
 - ▶ 440) If the partnership/LLC has previously deducted expenses for employee parking and/or mass transit, note that these expenses are no longer deductible.
 - ▶ 441) Verify that no amounts have been deducted for expenses related to sexual harassment cases which are subject to a confidentiality or nondisclosure agreement.
 - ▶ 442) 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).
 - ▶ 443) Verify that the specific write-off method is used for bad debts.
 - ▶ 444) Did any debts become partially worthless in the taxable year? If so, determine if a deduction is permissible under Reg. Sec. 1.166-3.
 - ▶ 445) Was there any inventory write-down for book purposes? If so, determine if there should be an adjustment for tax purposes.
 - ▶ 446) 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.
 - ▶ 447) Review increases or decreases in reserve accounts for potential M-1 or M-3 items.
 - ▶ 448) 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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Yes/ No/
Done N/A

▶ 449) Did the partnership/LLC realize any losses with respect to the sale or other disposition of Sec. 1244 stock?

▶ 450) Did the partnership/LLC incur a disaster loss or have any property involuntarily converted during the tax year? If so, determine if the special rules pertaining to federally declared disasters apply. Consider involuntary conversion rules and elections and the option to deduct current year qualifying disaster losses on a preceding tax return by filing an amended return.

▶ 451) Were any losses passed through from a lower-tier partnership? If so, consider the application of the at-risk or basis limitations.

Comments/explanations

500) Credits

Yes/ No/
Done N/A

▶ 501) Consider the following tax credits:

1. Foreign tax credit (Sec. 27 and Sec. 901)
2. Rehabilitation credit (Form 3468) (Sec. 47)
3. Energy credit (Form 3468) (Sec. 38, Sec. 46 and Sec. 48)
4. Qualifying advanced coal project credit (Form 3468) (Sec. 38, Sec. 46 and Sec. 48A)
5. Qualifying gasification project credit (Form 3468) (Sec. 38, Sec. 46 and Sec. 48B)
6. Qualifying advanced energy project credit (Form 3468) (Sec. 38, Sec. 46 and Sec. 48C)
7. Qualified fuel cell motor vehicle credit (Form 8910) (Sec. 30B)
8. Alternative fuel vehicle refueling property credit (Form 8911) (Sec. 30C)
9. Credit for qualified plug-in electric drive motor vehicles (Form 3468) (Sec. 30D)
10. Credit for federal tax paid on fuels (Form 4136) (Sec. 34, Sec. 6420, Sec. 6421, Sec. 6426 and Sec. 6427). Note that there is increased IRS scrutiny in this area.
11. Cellulosic biofuels credit (Form 6478) (Sec. 40)
12. Biodiesel and renewable diesel fuels credit (Form 8864) (Sec. 40A)
13. Credit for small agri-biodiesel producers (Form 8864) (Sec. 40A)

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14. Credit for increasing research activities (Form 6765) (Sec. 41)
 15. Low-income housing credit (Form 8586) (CCA 200812023, Nov. 9, 2007) (Sec. 42)
 16. Disabled access credit (Form 8826) (Sec. 44)
 17. Renewable electricity, refined coal and Indian coal production credit (Form 8835) (Sec. 45)
 18. Indian employment credit (Form 8845) (Sec. 45A)
 19. Credit for employer Social Security and Medicare taxes paid (FICA tip credit) on certain employee tips (Form 8846) (Sec. 45B)
 20. Credit for qualified clinical testing expenses (orphan drug credit) and associated carrybacks and carryovers (Form 8820) (Sec. 45C)
 21. New markets tax credit for qualifying investments in a "community development" entity (Form 8874) (Sec. 45D)
 22. Credit for pension plan start-up costs (Form 8881) (Sec. 45E)
 23. Credit for employer-provided child care expenses (Form 8882) (Sec. 45F)
 24. Credit for maintenance of railroad tracks (Form 8900) (Sec. 45G)
 25. Credit for production from advanced nuclear power facilities (Sec. 45J)
 26. Energy-efficient home credits for eligible contractors (Form 8908) (Sec. 45L)
 27. Mine rescue team training credit (Sec. 45N)
 28. Differential wage payment credit for amounts paid to employees on active military duty (Form 8932) (Sec. 45P)
 29. Carbon dioxide sequestration credit (Form 8933) (Sec. 45Q)
 30. Work opportunity tax credit for certified eligible employees (Form 5884) (Sec. 51)
 31. Credit for qualified forestry conservation bonds (Form 8912) (Sec. 54B)
 32. Credit for holders of new clean renewable energy bonds (Form 8912) (Sec. 54C)
 33. Credit for qualified energy conservation bonds (Form 8912) (Sec. 54D)
 34. Credit for qualified zone academy bonds (Form 8912) (Sec. 1397E for bonds issued on or before Oct. 3, 2008; Sec. 54E for bonds issued after Oct. 3, 2008)
 35. Empowerment zone and renewal community employment credit for qualifying wages (Form 8844) (Sec. 1396 and Sec. 1400H)

Yes/ No/
Done N/A

- 36. Credit for Midwestern tax credit bonds (Form 8912) (Sec. 1400N)
- 37. Credit for qualified school construction bonds (Form 8912) (Sec. 54F)
- 38. Credit for Build America Bonds (Form 8912) (Sec. 54AA)
- 39. Distilled spirits credit (Form 8906) (Sec. 5011)
- 40. Credit for employee health insurance expenses of small businesses (Form 8941) (Sec. 45R)
- 41. General business credit for wages paid to qualifying employees during the period such employees are on family and material leave.

Comments/explanations

600) Elections

Yes/ No/
Done 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 whether to adopt the ratable accrual method for real estate property taxes.
- ▶ 607) Consider electing to deduct certain costs of qualified film or television productions.
- ▶ 608) Consider electing to deduct up to \$10,000 of reforestation expenses.
- ▶ 609) Consider an election to expense intangible drilling costs, mining costs and circulation expenditures.
- ▶ 610) Determine if a research and experimental cost election has been made or if one should be made.

Yes/ No/
Done N/A

- ▶ 611) Consider other elections necessary for the partnership/LLC.

Comments/explanations

700) Allocations

Yes/ No/
Done N/A

- ▶ 701) Is the partnership a family partnership? If so, consider whether the family members are properly treated as partners or members and whether amounts allocated to all partners or members are proper.
- ▶ 702) 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.
- ▶ 703) Verify the correct analysis of net income by partner/member type at the bottom of Schedule K.
- ▶ 704) 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.
- ▶ 705) Apply the at-risk rules to partnership/LLC activities.
- ▶ 706) Segregate all tax preference and alternative minimum tax (AMT) items to be listed on the appropriate lines of Schedules K and K-1.
- ▶ 707) Determine information to allow each partner or member to compute a credit recapture.

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.

Yes/ No/
Done N/A

▶ 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) Is the partnership/LLC a partner in a lower-tier partnership? If so, determine the appropriate allocation of the lower-tier partnership's liabilities.

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

▶ 805) Does the partnership/LLC have any foreign partners/members? If so, determine that the proper withholding was made, the withheld amounts were paid over to the IRS and that all relevant forms were properly filed.

▶ 806) 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.

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

▶ 808) Does the partnership/LLC have any corporate partners/members? If so, determine what adjustments must be made for AMT purposes and what ACE adjustments must be made.

Comments/explanations

900) Distributions and basis adjustments

Yes/ No/
Done N/A

▶ 901) Determine whether there was a Sec. 734(d) substantial basis reduction.

▶ 902) 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.

▶ 903) 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.

▶ 904) 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.

▶ 905) 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.

Yes/ No/
Done N/A

- ▶ 906) 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.
- ▶ 907) Were there any distributions of marketable securities by the partnership? If so, determine whether there was any gain or loss on the distribution.
- ▶ 908) Did the partnership/LLC have interest expense on debt-financed distributions to partners/members? If so, determine whether disclosure has been provided as required by IRS Notice 89-35.
- ▶ 909) 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) Determine the applicability of filing the following forms:
 - 1) Form 5471 (partnership/LLC has ownership in a controlled foreign corporation (CFC))
 - 2) Form 8865 (partnership/LLC has ownership of an interest in foreign partnerships)
 - 3) Form 8858 (partnership/LLC has ownership in foreign disregarded entities)
 - 4) Form 8621 (partnership/LLC has ownership in a passive foreign investment company (PFIC))*
 - 5) Form 8938 (partnership/LLC has ownership in specified foreign financial assets)

* Consider whether the mark-to-market election under Sec. 1296 or the election to be treated as a qualified electing fund (QEF) under Sec. 1295 should be made.

- ▶ 1003) Did the partnership/LLC have any operations in or transactions with a boycotting country? If so, file Form 5713, *International Boycott Report*.
- ▶ 1004) Were there any transfers of property to a foreign corporation? If so, consider providing information to partners for filing Form 926, *Return by a U.S. Transferor of Property to a Foreign Corporation*.
- ▶ 1005) Were there any transfers to or from a foreign trust, including direct and indirect distributions and the receipt of loans (unless with arm's-length terms)? If so, file Form 3520, *Annual Return to Report Transactions With Foreign Trusts and Receipt of Certain Foreign Gifts*.

Yes/ No/
Done N/A

▶ 1006) Was there a transfer of stock or securities to a foreign corporation (or successive transfers of assets that are considered indirect stock transfers under Regs. Sec. 1.367(a)-3(d)) during the taxable year? If so, determine if a gain recognition agreement (GRA) and related forms are required, or if an annual certification is required with respect to a GRA filed with a prior year return.

▶ 1007) Is the taxpayer a shareholder which owns 10% or more of the vote or value of a CFC? If so, has the inclusion of global intangible low-taxed income (GILTI) been considered (Sec. 951A)?

▶ 1008) Did the taxpayer make a valid installment payment election on their 2017 return to pay the repatriation tax (Sec. 965) over eight installments? If so, the second installment (8% of the total repatriation tax) is due with the 2018 return.

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, such as the following:

1. Ordinary trade or business activities
2. Rental activities
3. The depreciation of built-in gain or loss property (Sec. 704(c))
4. Portfolio income by type (for example, U.S. government interest income or state or municipal interest income) and the related deductions. Consider the need to attach the required statement under Regs. Sec. 1.265-1(d)(1).
5. Gains and losses, dates of dispositions, respective holding periods and types of assets sold

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6. Passive activity data
 7. At-risk activity data
 8. Partners' medical insurance and other fringe benefits (Rev. Rul. 91-26)
 9. Discharge of indebtedness income
 10. All items that affect partner basis calculations (for example, nondeductible items, property distributions, etc.)
 11. Guaranteed payments (matching of the deduction by the partnership with the income for the partner is required). Note that group benefits provided to a partner/member and contributions to a partner's/ member's health savings account must be treated as guaranteed payments (Rev. Rul. 91-26 and Notice 2005-8).
 12. Tax credit information
 13. Interest incurred in the production of property, which may have to be capitalized at the partner level
 14. Casualty loss information
 15. Charitable contributions, including a copy of Form 8283, when required
 16. Other pass-through items (for example, intangible drilling costs, depletion, etc.)
 17. Income or deductions arising from a Sec. 734 or Sec. 743 basis adjustment (see Regs. Sec. 1.734-1 and 1.743-1). Note the mandatory basis adjustment requirements for partnership distributions or transfers of partnership/LLC interests that involve a substantial built-in loss.
 18. Unrelated business taxable income
 19. Note reporting requirements for different types of ordinary dividends.
 20. Each corporate partner's distributive share of the partnership's interest expense so that the corporation can determine whether its interest expense deduction is limited under Sec. 163(j) (Form 8926)
 21. Tax-exempt income (federal or state)
 22. Other items required to be reported (see the list of codes included with the current year's Schedule K-1 to ensure that all items have been addressed)

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- 1105) Determine that proper reporting and detail have been provided for all items that affect a partner's/ member's potential Sec. 199A deduction, including 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

▶ 1106) Did the partnership/LLC purchase life insurance on employees or partners/members after Aug. 17, 2006? If so, ensure that the partnership/LLC has satisfied the notification and information reporting requirements. See Form 8925, *Report of Employer-Owned Life Insurance Contracts*.

▶ 1107) 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*.

▶ 1108) Was there a merger or division of the partnership/LLC in the taxable year? If so, attach the statement required under Regs. Sec. 1.708-1.

▶ 1109) Determine if health plan(s) and/or reimbursement arrangements are compliant with the Affordable Care Act (ACA). If applicable, file Form 1094/1095-C.

▶ 1110) Determine if the partnership/LLC has filed all required Forms 1095, 1098, 1099 and 1042.

▶ 1111) 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.

▶ 1112) Determine if requirements for avoiding penalties for improper disclosure or use of partnership/LLC information by tax return preparers imposed under Sec. 6713 and Sec. 7216 have been met, including any Sec. 7216 requirements under ACA.

▶ 1113) Consider checking the box allowing the IRS to contact the preparer.

▶ 1114) Determine if all tax positions meet the "substantial authority" standard or if any positions disclosed on Form 8275, *Disclosure Statement*, meet the "reasonable basis" standard.

▶ 1115) Are there any tax shelters and reportable transactions? If so, prepare Form 8886, *Reportable Transaction Disclosure Statement*, and determine if the "more likely than not" standard has been met.

▶ 1116) Prepare filing instructions and a transmittal letter.

▶ 1117) If filing an extended paper-filed return, attach the extension request.

Yes/ No/
Done N/A

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- ▶ 1118) Consider changes necessary to the partnership/operating agreement to comply with the new partnership audit rules. For example, consider an election out of the rules, partner indemnification, new partners, procedures to determine the partnership representative, etc.
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Comments/explanations

1200) State and local filing requirements

Yes/ No/
Done N/A

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- ▶ 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.
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- ▶ 1202) Consider the following:

1. Nexus issues
 2. State returns filed in a previous year (still have nexus, final return required, etc.)
 3. If the partnership/LLC is doing business in new states
 4. Apportionment (considering each state's rules)
 5. Each state's modifications requirements (due date, attachment requirements, etc.)
 6. State tax adjustments/credits:
 - a. Review state specifics regarding items that may not conform to federal law.
 - b. Note any specific state tax credits allowable.
 7. Estimated tax payments. Note any paid during 2018. Determine whether they are required for 2019.
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Comments/explanations

