



# 2018 S corporation income tax return checklist

## Form 1120S (short)

Client name and number \_\_\_\_\_

Prepared by \_\_\_\_\_ Date \_\_\_\_\_ Reviewed by \_\_\_\_\_ Date \_\_\_\_\_

<b>100) General</b>	Yes/ Done	No/ N/A
▶ 101) Identify the authorized officer who will sign the return.		
▶ 102) Obtain a signed engagement letter.		
▶ 103) Confirm the corporation's name, employer identification number, address, tax year and business code.		
▶ 104) Consider asking the appropriate corporate officer to execute a Form 2848, <i>Power of Attorney and Declaration of Representative</i> , and/or Form 8821, <i>Tax Information Authorization</i> .		
▶ 105) Ask the corporation to provide 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 shareholders have been notified and determine whether any additional adjustments or filings are necessary.		
▶ 107) Review the proforma or organizer for accuracy. Review any business financial statements and footnotes for relevant information, if applicable.		
▶ 108) Obtain and review a copy of the prior year's return, including all forms and supporting schedules. Note all carryover items.		
▶ 109) Reconcile income and expenses with book entries and review Schedule M-1 of the prior year's return.		
▶ 110) Was the corporation formerly taxed under Subchapter C? If so, determine the following: the extent of the unrealized built-in gain at the time of the election, the passive income of the corporation, and whether LIFO inventories were used in the last C corporation year.		
▶ 111) With respect to each person who was a shareholder at any time during the taxable year, obtain the following: full name, tax identification number, address, tax year and number or percentage of shares owned at any time during the year.		

Yes/ No/  
Done N/A

▶ 112) Verify that items of income, deductions, credits, etc., are allocated to the shareholders on a per-share, per-day basis.

▶ 113) Did the taxpayer engage in any transaction involving virtual currency? If so, consider the tax consequences.

Comments/explanations

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**200) Income**

Yes/ No/  
Done N/A

▶ 201) Request all Forms 1099 received by the corporation.

▶ 202) For each item of income received by the corporation, determine whether it is trade or business, portfolio or rental income.

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

▶ 204) Did the corporation dispose of any property, including through a distribution to shareholders? If so, determine the following: the total amount of the gain or loss on each transaction, character and the amount of depreciation recapture, if any.

▶ 205) Did the corporation 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.

***Financial transactions***

▶ 206) Were any securities, bonds or shares of stock sold during the year? Did any securities become worthless during the year? Were there any short sales of securities during the year? If so, obtain the necessary information.

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

▶ 208) Was the corporation relieved of any debt obligation during the year, other than by means of payment? If so, does the corporation qualify for any exclusion of cancellation of debt income in the taxable year?

***Interest/dividends***

▶ 209) Did the corporation receive any interest from U.S. Treasury bills, notes or other bonds?

Yes/ No/  
Done N/A

▶ 210) Was there any accrued interest received on bonds sold before maturity in the taxable year? For bonds purchased during the year, note the amount of accrued interest paid. \_\_\_\_\_

▶ 211) Did the corporation receive any interest on tax-exempt state or local obligations?

▶ 212) Determine whether any dividends received were paid by a domestic corporation on stock held by the corporation for the requisite holding period to be considered qualified dividends.

▶ 213) Compare the sources and amounts of interest/dividend income with prior year returns.

**Gain or loss on property**

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

▶ 215) 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).

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

**Rental income**

▶ 217) For each rental property, obtain a description of the type and location of the property, the total rental income, and expenses (such as 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 other expenses).

▶ 218) Report real estate rental activities on Form 8825, *Rental Real Estate Income and Expenses of a Partnership or an S Corporation*, including whether the passive activity self-rental rules apply.

Comments/explanations

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**300) Deductions and losses**

Yes/ No/  
Done N/A

**Depreciation**

▶ 301) Determine if the corporation should make a Sec. 179 election to immediately expense part or all of the cost of qualifying property. Note that the Sec. 179 deduction has been expanded permanently to \$1 million with the phase-out beginning at \$2.5 million. Note that lodging property, roofs, HVAC, fire systems and security systems are eligible.

▶ 302) Did the corporation 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.

▶ 303) Determine the following for each asset acquired during the taxable year: the MACRS life for each asset placed in service, the appropriate depreciation method and the applicable convention.

▶ 304) Did the corporation place in service in the taxable year any qualified improvement property? If so, determine if the special 15-year cost recovery period applies. Note: The statute would require a technical correction to include qualified improvement property as 15-year property.

▶ 305) Did the corporation acquire any software in the taxable year? If so, determine whether the 36-month depreciation rules can be applied.

▶ 306) Did the corporation incur any environmental remediation costs in the taxable year? If so, consider the Sec. 198 election to expense such costs.

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

**Shareholder transactions**

▶ 308) Were any shares of stock issued in the taxable year? If so, ensure that the 100-shareholder limit has not been exceeded.

▶ 309) Obtain current year contributions to retirement plans.

**Interest**

▶ 310) 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.

▶ 311) Does the corporation have average annual gross receipts in excess of \$25 million? If so, the interest deduction may be limited.

▶ 312) Determine if there is any unused amount of the business interest deduction limitation. If so, the excess is allocated to the shareholders.

▶ 313) Was any interest expense related to tax-exempt income?

**Travel, meals and entertainment**

▶ 314) Did the corporation have any expenses for travel, meals or business gifts in the taxable year? If so, advise the corporation 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 a documentary evidence of the time and place and business purpose.

▶ 315) Determine the disallowed portion of meals expenses, as well as club dues and verify the correct reporting on Schedule K-1. 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.

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**Charitable contributions**

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- ▶ 316) Did the corporation make any property contributions to charitable organizations in the taxable year? If so, obtain the necessary information for disclosure. Prepare Form 8283, *Noncash Charitable Contributions*, and provide a copy to each shareholder. Obtain the signature of a qualified appraiser, if applicable.
  - ▶ 317) Verify that contributions to a college for athletic tickets or seating rights are not deducted.
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**Uniform capitalization rules**

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- ▶ 318) Did the corporation 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 are now exempted from the uniform capitalization rules.
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**Long-term contracts**

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- ▶ 319) Did the corporation 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 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 corporation meets the \$25 million gross receipts test.
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**Other deductions**

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- ▶ 320) Did the corporation incur any lobbying expenses in the taxable year? If so, ensure that such expenses are not deducted.
  - ▶ 321) Did the corporation pay any trade association dues in the taxable year? If so, determine if such dues include nondeductible lobbying expenses.
  - ▶ 322) If the corporation has previously deducted expenses for employee parking and/or mass transit, note that these expenses are no longer deductible.
  - ▶ 323) Did the corporation pay any penalties in the taxable year? If so, ensure that such expenses are not deducted.
  - ▶ 324) Verify that the specific write-off method is used for bad debts.
  - ▶ 325) Review increases or decreases in reserve accounts for potential M-1 items.
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Comments/explanations

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**400) Credits**

Yes/  
Done      No/  
N/A

- ▶ 401) Determine whether the corporation qualifies for any tax credits.

Comments/explanations

**500) Elections**

Yes/  
Done      No/  
N/A

- ▶ 501) Determine if the corporation should make the safe harbor election to expense the acquisition costs of materials and supplies and other tangible property.
- ▶ 502) Consider making an election to expense repairs and maintenance under the safe harbor rules.
- ▶ 503) Consider an election to deduct up to \$5,000 of organizational expenses and up to \$5,000 of business start-up costs.
- ▶ 504) Consider whether any other elections are necessary.

Comments/explanations

**600) International issues**

Yes/  
Done      No/  
N/A

- ▶ 601) At any time during the tax year, did the corporation 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).
- ▶ 602) Does the corporation have specified foreign financial assets? If so, prepare Form 8938, *Statement of Specified Foreign Financial Assets*.
- ▶ 603) If the corporation has foreign business activity, consider reviewing other international filing obligations shown in the Form 1120S long checklist.

Comments/explanations

Yes/ No/  
Done N/A

**700) Other issues**

- ▶ 701) Verify that all items required to be separately stated are properly disclosed to the shareholder. Determine that proper reporting and detail have been provided for all items that affect the shareholder's tax liability.
- ▶ 702) Determine that proper reporting and detail have been provided for all items that affect a shareholder's potential Sec. 199A deduction.
- ▶ 703) Ensure that Schedules K-1 report results on an activity-by-activity basis.
- ▶ 704) Did the corporation have undistributed C corporation earnings and profits at the beginning of the taxable year? If so, determine the following: whether any distributions should be treated as taxable dividends (issue Forms 1099-DIV) and whether the passive investment income is greater than 25% of gross receipts.
- ▶ 705) Determine that equity increases and decreases (Schedule M-2) are properly segregated among the accumulated adjustment account, the other adjustments account and the shareholder's undistributed previously taxed income.
- ▶ 706) Did the corporation pay insurance premiums for a group health insurance plan for any more-than-2% shareholder/employee? If so, verify that the premiums paid are reported as taxable wages on the shareholder's Form W-2 (but not subject to Social Security and Medicare) and deducted by the corporation.
- ▶ 707) Did the corporation pay other fringe benefits for more-than-2% shareholders? If so, verify that the fringe benefits that are claimed as deductions by the corporation have been reported on the shareholders' Forms W-2 as wages.
- ▶ 708) Determine if health plan(s) and/or reimbursement arrangements are compliant with the Affordable Care Act ACA). If applicable, file Form 1094/1095-C.
- ▶ 709) Determine if the corporation has filed all required Forms 1098, 1099 and 1042.
- ▶ 710) Provide the corporation with complete federal and state returns, including copies of any disclosure consent form(s) and advise the corporation to retain copies for at least six years.
- ▶ 711) Consider checking the box to allow the IRS to contact the preparer.
- ▶ 712) Prepare filing instructions and a transmittal letter.

Comments/explanations

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**800) State and local filing requirements**

Yes/ No/  
Done N/A

▶ 801) Determine state and local filing requirements.

Comments/explanations

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