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Checklist

Partnership/LLC (Long)

Tax Section

2023 Partnership/LLC Income Tax Return Checklist

Form 1065 (Long)

Business name _____

Prepared by _____ Date _____ Reviewed by _____ Date _____

100) General

Yes/ Done	No/ N/A
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NOTE: This checklist does not include steps to assist clients with their compliance with the Corporate Transparency Act ("CTA"), including beneficial ownership information ("BOI") reporting. If an engagement to assist with compliance with CTA is entered into, a separate engagement letter should be obtained. Consider consulting with your liability insurance provider and legal counsel for further information. Information regarding the BOI reporting requirements can be found at <https://www.fincen.gov/boi>.

- ▶ 101) Determine if this is a first-year return or a final return. If so, take additional steps as necessary. Consider reviewing the [AICPA Tax Section's Initial Business Return Filing Checklist](#) and the [IRS's Closing a Business Checklist](#).
- ▶ 102) Obtain a signed engagement letter (applicable for paid preparers).
- ▶ 103) Consider if any conflicts of interest exist between the entity and its owners.
- ▶ 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*. Also consider state or local authorizations.
- ▶ 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) Confirm the partnership's/LLC's name, employer identification number, address, tax year and business code.
- ▶ 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 federal and state(s) returns (including an amended return or administrative adjustment request, if applicable) that includes all forms and supporting schedules.
- ▶ 111) Identify the authorized partner or LLC member who will sign the return.

- ▶ 112) Determine whether the partnership/LLC has made any change in accounting method. Complete Form 3115, *Application for Change in Accounting Method*, as necessary.
- ▶ 113) Does the partnership/LLC have average annual gross receipts on an aggregate basis (combined with relevant related parties) in excess of \$29 million? If so, confirm that the accrual basis of accounting is being used unless an exception applies and other implications of exceeding this threshold.
- ▶ 114) Reconcile income and expenses with book entries and review Schedule M-1 or M-3 of last year's return.
- ▶ 115) Obtain a copy of the partnership agreement or operating agreement, including any amendments.
- ▶ 116) 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" shown on Form 8752, *Required Payment or Refund Under Section 7519*, have been made.
- ▶ 117) Obtain a copy of federal and state(s) Schedule K-1s from each entity in which the partnership/LLC is a partner, member or beneficiary.
- ▶ 118) Did the partnership/LLC receive (as a reward, award or payment for property or services) or sold, exchanged or otherwise disposed of a digital asset (or any financial interest in any digital asset) during the taxable year? Note that with the growing popularity of virtual currency transactions and the need to ensure accurate tax reporting, the IRS has made the topic one of their compliance priorities. See the [AICPA Tax Section's digital assets and virtual currency tax guidance and resources](#).
- ▶ 119) Check for carryover items such as prior year deferred income and deductions, installment sales, Sec. 481 adjustments and Sec. 179 amounts.
- ▶ 120) Consider ramifications related to the Bipartisan Budget Act of 2015 (BBA) audit rules. For example, consider adjustments to the partnership/operating agreement, an election out of the rules, partner indemnification, new partners, procedures to determine the partnership representative, etc. Also, consider filing an extension request so that, if necessary, the partnership can file a superseded return by its extended due date.
- ▶ 121) Consider the tax shelter syndicate rules and an annual election pursuant to Regs. Sec. 1.448-2(b)(2)(iii)(B)(2) to use allocations made in an immediately preceding tax year (instead of the current year) in determining whether the partnership is a syndicate.
- ▶ 122) Consider if any qualified disaster relief provisions apply to the partnership/LLC for 2023 (related to due dates of federal and state/local returns).
- ▶ 123) Did the partnership or LLC file a claim on Form 941X for an employee retention credit (ERC) for any quarter in 2020 or 2021 during the year? If so, was an administrative adjustment request (AAR) completed [for partnerships or LLC not electing out of the BBA partnership regime] or an amended return completed for the applicable period? Consider any discussion or documentation necessary with the client related to this ERC claim.

Comments/explanations

	Yes/ Done	No/ N/A
200) Partners and members		
▶ 201) Indicate the designated partnership representative on the current year's tax return (if the partnership/LLC will not elect out of the BBA audit rules). If an entity is designated as the partnership representative, the partnership must also appoint a designated individual to act on the entity's behalf.		
▶ 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. If the partner or member is a disregarded entity, complete the additional information required on Schedule K-1, Part II.		
▶ 203) If the business is owned jointly by two spouses and there are no other owners, determine whether it is beneficial (and applicable) for it to elect to be treated as a qualified joint venture. Note: LLCs do not qualify for the joint venture election and additional special rules may apply in community property states.		
▶ 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.		
▶ 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.		
▶ 208) 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.		
Comments/explanations		

	Yes/ Done	No/ N/A
300) Income		
▶ 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, rental or foreign-source 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 or engaged in any transactions as to which Sec. 483 or Sec. 1274 apply? If so, determine the amount of imputed interest.		
▶ 305) Were there any related-party transactions? If so, determine the effects of Sec. 267, Sec. 1239 and Sec. 707(b).		

► 306) 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 on the deferred tax liability (where the face amount of tax-deferred obligations exceed \$5 million at the close of the tax year).
3. Determine whether there is recapture to be immediately reported (such as by using the installment obligation as security for a loan).
4. Confirm that adequate interest is being paid or accrued on the installment obligation (or if the imputed interest rules must be applied).
5. Confirm the proper calculation of capital gain, interest and ordinary income on installments received during the year.

► 307) 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.

► 308) 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. This includes transactions involving virtual currency (see Notice 2014-21).

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

► 310) Determine if the notice and consent requirements of Sec. 101(j) are applicable to any employer-owned life insurance policies and, if so, whether they have been complied with.

► 311) 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.

► 312) Consider the proper reporting of virtual currency/cryptocurrency/digital asset capital gain/loss transactions.

► 313) 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.

► 314) Does the partnership/LLC have capital gain allocations with respect to an applicable partnership interest? If so, consider Sec. 1061 reporting that governs the treatment of carried interests.

Financial transactions

► 315) 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. Dealer status for Sec. 475 treatment (adjust assets to fair market value (FMV) and apply loss limitations to items not timely identified in the books and records)
3. Wash sale rules applicability (Sec. 1091)
4. Straddle rules applicability and applicable election consequences (Sec. 1092)

▶ 316) 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. Report relevant information to partners/members on Schedule K-1.

▶ 317) Did the partnership/LLC reinvest any capital gain proceeds, within 180 days of the sale of such property, into a qualified opportunity fund? If yes, consider reporting requirements.

▶ 318) 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.

▶ 319) Did any security become worthless during the taxable year? If so, obtain the facts and documentation demonstrating worthlessness.

▶ 320) 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.

Interest

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

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

▶ 323) 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.

▶ 324) 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? _____

▶ 325) If a bond was purchased at a premium prior to the taxable year, did the partnership/LLC elect to amortize the bond premium?

▶ 326) Did the partnership/LLC receive any interest on tax-exempt state or local obligations? If so, address state tax reporting rules.

▶ 327) Compare the sources and amounts of interest income with prior year returns.

Dividends

▶ 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) Were there any sales of tangible property or other assets other than inventory in the taxable year? In order to complete Schedule D (Form 1120) and/or Form 4797, *Sales of Business Property*, obtain all the following:

1. Forms 1099-B and/or 1099-S
2. Closing Disclosures for any purchases or sales of real property

3. The selling price, original cost basis, accumulated depreciation (if applicable), date purchased and date sold, nature (i.e., method) of accumulated depreciation taken in prior years and proper reporting based on the use of the property (personal, rental or business)

► 331) Did the partnership/LLC engage in any like-kind exchanges (applicable only to real property)? If so, determine if there is any gain to be recognized and the basis of the replacement property.

1. Was any personal property involved in the exchange considered incidental to the real property acquired (i.e., the personal property is customarily transferred together with the acquired real property, and its FMV does not exceed 15% of the FMV of the real property)? If so, the personal property transfer does not invalidate the like-kind exchange, but gain will need to be recognized equal to the lesser of the realized gain on the relinquished personal property or the FMV of the acquired personal property. Were purchase price allocations between personal and real property considered?

► 332) Are there any Sec. 1231 net gains in the taxable year? If so, verify any net Sec. 1231 losses from the previous five years.

Rental income

► 333) 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 co-op fees and any other expenses).

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

1. Consider grouping of rental activities for passive activity limitation purposes.

2. Determine type of rental property, including whether the passive activity self-rental rules apply.

3. Request the number of rental days and personal-use days (if any) during 2023. Determine if the short-term rental/vacation home rules apply.

► 335) 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.

Comments/explanations

400) Deductions and losses

Depreciation/amortization

► 401) Consider whether the partnership/LLC should make a Sec. 179 election (on Form 4562) to immediately expense part or all the cost of qualifying property. Note that the Sec. 179 deduction limit is \$1.16 million for 2023 with the phase out beginning at \$2.89 million of property placed in service. New or used tangible property, including lodging property, roofs, HVAC, fire systems and security systems, purchased and placed in service during the tax year, 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.
- ▶ 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 bonus depreciation will be 80% for 2023 tax year.
- ▶ 404) Determine the following for each asset placed in service in the taxable year: the modified accelerated cost recovery system (MACRS) life, the appropriate depreciation method and the applicable convention.
- ▶ 405) Did the partnership/LLC make any improvements that are classified as qualified improvement property (QIP) during the taxable year? Note that such property is considered 15-year property and is eligible for bonus depreciation under MACRS and is considered 20-year property under ADS.
- ▶ 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) Does the partnership/LLC have a farm or real property business that elects out of the Sec. 163(j) interest deduction limitation? If so, apply ADS depreciation.
- ▶ 409) 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.
- ▶ 410) Did the partnership/LLC acquire any software in the taxable year? If so, determine whether the 36-month depreciation rules can be applied.
- ▶ 411) Did the partnership/LLC incur any environmental remediation costs in the taxable year? If so, consider the Sec. 198 election to expense such costs.
- ▶ 412) 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 not listed property.
- ▶ 413) Did the partnership/LLC incur any research and development expenses (Sec. 174)? Note that software development costs are treated as Sec. 174 costs that absent any additional legislation these costs must be capitalized and amortized over five years beginning in 2022.
- ▶ 414) 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.
- ▶ 415) Determine if real property and equipment leases are operating leases or capital leases. Consider any Schedule M-1 adjustments as necessary. Consider whether the partnership adopted the new lease standard under ASC 842 and whether any tax adjustment is necessary.
- ▶ 416) Is any partner or member a corporation? If so, consider what adjusted current earnings (ACE) adjustments must be made.

Partner/member transactions

- ▶ 417) Are there any guaranteed payments to partners or members? If so, determine if such payments are for services or capital. Note the requirement on Schedule K-1 to report these figures separately.
- ▶ 418) 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.
- ▶ 419) 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.
- ▶ 420) Obtain the current year contributions to retirement plans. Verify that contributions were made using the eligible contribution limit according to the plan.
- ▶ 421) Are any partners/members classified as employees? If so, note that partners/members may not be treated as employees and should not receive Forms W-2, *Wage and Tax Statement* (all income from the partnership should be reflected on the Schedule K-1).

Interest

- ▶ 422) Was any interest paid in the taxable year? If so, determine that interest is properly allocated among passive, business and investment income activities.
- ▶ 423) For a partnership/LLC that has average annual gross receipts in excess of \$29 million (an aggregate test), determine interest expense deduction limitations under Sec. 163(j) (generally limiting the deduction to 30% of adjusted taxable income (ATI) plus business interest income for 2023 excluding investment interest income).

ATI is defined as taxable income:

Plus (Note depreciation/amortization/depletion is NOT an addback for tax years starting Jan. 1, 2022):

- business interest expense
- NOLs and capital loss carrybacks or carryovers
- non-business deductions or losses

Less:

- business interest income
 - floor plan financing interest expense
 - lesser of gain realized on sale/disposition of property OR deductions for depreciation/amortization/depletion taken for such property during a tax year after 2017
1. If the partnership/LLC is a farming business or a real property trade or business, consider electing out of the Sec. 163(j) limitation. Note ADS depreciation will need to be calculated.
 2. Consider the safe harbor under Notice 2020-59 that allows a partnership/LLC operating a qualified residential living facility to elect out of the business interest expense limits.

- ▶ 424) Determine if there is any unused amount of the business interest deduction limitation under Sec. 163(j). If so, the excess is allocated to the partners/members.

► 425) Was any interest expense related to tax-exempt income? Determine any disallowed interest expense.

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

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

► 428) 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?

Business gifts, travel, meals and entertainment

► 429) Note that business gift deductions are limited to \$25 per recipient.

► 430) For any separate travel expense exceeding \$75, note that business should maintain a receipt and a documentary item of evidence of the time and place, business purpose and business relationship with the person being entertained.

► 431) 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.

► 432) Confirm that entertainment expenses are not deducted unless an exception in Sec. 274(e) applies. Consider meals provided in conjunction with entertainment activities that are separately invoiced.

Charitable contributions

► 433) Did the partnership/LLC make qualified contributions? If so, report contributions with the appropriate contribution code and allocate them pro rata to shareholders.

1. Confirm that contributions to a college for athletic tickets or seating rights are not deducted.

► 434) 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's/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 for a charitable contribution of property with a FMV exceeding its 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.

► 435) 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.

► 436) Did the partnership/LLC make any contributions of food inventories to a charity? Consider an enhanced contribution deduction for any contributions of food inventories to a charity.

Uniform capitalization rules

- ▶ 437) 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 \$29 million gross receipts test (an aggregate test) are now exempt from the uniform capitalization rules.
- ▶ 438) Determine if the partnership/LLC qualifies for any of the simplified methods of capitalizing indirect costs and consider electing to use the avoided cost method.
- ▶ 439) Was the partnership's/LLC's beginning inventory revalued? If so, ascertain the Sec. 481 adjustment and whether a simplified method should be elected.
- ▶ 440) 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.

Long-term contracts

- ▶ 441) Did the partnership/LLC enter 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. 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 \$29 million gross receipts test (an aggregate test).
- ▶ 442) 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.

Other deductions

- ▶ 443) Did the partnership/LLC incur any lobbying expenses in the taxable year? If so, confirm that such expenses are not deducted.
- ▶ 444) Did the partnership/LLC pay any trade association dues in the taxable year? If so, determine if such dues include nondeductible lobbying expenses.
- ▶ 445) If the partnership/LLC has previously deducted expenses for employee parking and/or mass transit, note that these expenses are no longer deductible unless an exemption applies (see Sec. 274(e)), or the amount is treated as wages because it exceeds the Sec. 132(f) exclusion amount.
- ▶ 446) Confirm that no amounts have been deducted for expenses related to sexual harassment cases which are subject to a confidentiality or nondisclosure agreement.
- ▶ 447) Confirm 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). See Sec. 162(f).
- ▶ 448) Confirm that the specific write-off method is used for bad debts.

Yes/
Done No/
N/A

▶ 449) Did any debts become partially or wholly worthless in the taxable year? If so, determine if a deduction is permissible under Regs. Sec. 1.166-3 and verify the identifiable event.

▶ 450) Was there any inventory write-down for book purposes? If so, determine if there should be an adjustment for tax purposes.

▶ 451) 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.

▶ 452) Review increases or decreases in reserve accounts for potential M-1 or M-3 items.

▶ 453) 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).

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

▶ 455) Is the partnership/LLC participating in a trade or business related to the production or distribution of cannabis? If so, determine the applicability of Sec. 280E related to any expenses and tax credits.

▶ 456) 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.

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

▶ 458) Did the partnership/LLC place in service any energy efficient commercial building property (EECPB) during the taxable year? If so, determine deduction available under Sec. 179D by completing Form 7205.

Comments/explanations

500) Credits

Yes/
Done No/
N/A

▶ 501) Determine the amount of income taxes paid to a foreign country or U.S. possession and consider whether the holding period is met for taxes paid on dividends. Consider credits for foreign taxes (including an election of the simplified computation of the credit limitation). Note that this information is reported on Schedules K-2/K-3 unless the taxes paid or accrued are not more than \$300 and the partnership/LLC meets the domestic filing exception or Form 1116 filing exception.

▶ 502) Did the partnership/LLC pay any employees who took leave under the Family Medical Leave Act (FMLA) in 2023? If so, consider whether the corporation is eligible for a credit under Sec. 45S.

► 503) Consider whether any of the following credits apply:

1. Gasoline and special fuels credit (Form 4136)
2. Investment tax credit (rehabilitation, solar or geothermal energy tax credits, advanced project credit and gasification project credit) (Form 3468)
3. Work opportunity tax credit (Form 5884)
4. Increased research activities credit (Form 6765)
5. Clean hydrogen production credit (Form 7210)
6. Orphan drug credit (Form 8820)
7. Disabled access credit (Form 8826)
8. Enhanced oil recovery credit (Form 8830)
9. Renewable electricity production credit (Form 8835)
10. Low-income housing credit (Form 8586)
11. Credit for employer Social Security and Medicare taxes paid on certain employee tips (Form 8846)
12. Credit for contributions to selected community development corporations (Form 8847)
13. Biodiesel, renewable diesel or sustainable aviation fuels credit (Form 8864)
14. New markets credit (Form 8874)
15. Credit for small employer pension plan startup costs (Form 8881)
16. Credit for employer-provided childcare facilities and services (Form 8882)
17. Low sulfur diesel fuel production credit (Form 8896)
18. Energy efficient home credit (Form 8908)
19. Alternative motor vehicle credit (Form 8911)
20. Clean renewable energy bond credit (Form 8912)
21. Credit for employer differential wage payments (Form 8932)
22. Credit for carbon dioxide sequestration (Form 8933)
23. Clean vehicle credit and qualified commercial clean vehicle credit (Form 8936)
24. Credit for small employer health insurance premiums (Form 8941)

Yes/
Done No/
N/A

25. General business credit for wages paid to qualifying employees while they are on family and medical leave (Form 8994)

26. Consider whether the corporation is eligible for any other credits.

Comments/explanations

600) Elections

Yes/
Done No/
N/A

- ▶ 601) Determine if the partnership/LLC is eligible to elect out of the Bipartisan Budget Act of 2015 (BBA) audit rules. If so, determine whether the partnership/LLC should make the election.
- ▶ 602) Determine if a Sec. 754 election is in place. If yes, confirm the effective date of the election. If not, consider the appropriateness of making one.
- ▶ 603) Is the partnership/LLC requesting a revocation of a Sec. 754 election? If so, complete Form 15254, *Request for Section 754 Revocation*.
- ▶ 604) Determine if the partnership/LLC should make the safe harbor election to expense the acquisition costs of materials and supplies and other tangible property.
- ▶ 605) Consider making an election to expense repairs and maintenance under the safe harbor rules.
- ▶ 606) Consider an election to deduct up to \$5,000 of organizational expenses and up to \$5,000 of business start-up costs.
- ▶ 607) Consider whether to adopt the recurring items exception and 8½-month rule with respect to the economic performance rules.
- ▶ 608) Consider whether to adopt the ratable accrual method for real estate property taxes.
- ▶ 609) Consider electing to deduct certain costs of qualified film or television productions.
- ▶ 610) Consider electing to deduct up to \$10,000 of reforestation expenses.
- ▶ 611) Consider an election to expense intangible drilling costs, mining costs and circulation expenditures.
- ▶ 612) Consider other elections necessary for the partnership/LLC.

Comments/explanations

700) Allocations

Yes/
Done No/
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 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 on Schedules K-1 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 for specified agricultural or horticultural cooperatives, partners' medical insurance and other fringe benefits, cancellation of indebtedness income, PPP loan forgiveness timing, all items that affect partners'/members' 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. Note the requirement to indicate if activities have been aggregated for the purpose of the Sec. 465 at-risk rules; see page one of Form 1065, item K(1).
- ▶ 706) Have activities been grouped for the purpose of the Sec. 469 passive-activity rules? If so, note the requirement to indicate whether the activities have been grouped; see page one of Form 1065, item K(2).
- ▶ 707) Segregate all tax preference and alternative minimum tax (AMT) items to be listed on the appropriate lines of Schedules K and K-1.
- ▶ 708) Determine information to allow each partner or member to compute a credit recapture.
- ▶ 709) Consider other Schedule K-1 footnotes, as necessary.

Comments/explanations

800) Partnership liabilities and capital accounts

Yes/
Done No/
N/A

- ▶ 801) Is there any nonrecourse debt? If so, determine whether a minimum gain calculation is necessary to confirm the proper allocation of deductions attributable to the nonrecourse debt.
- ▶ 802) Determine the allocation of recourse, qualified nonrecourse and nonrecourse liabilities to be entered separately on each partners'/members' Schedule K-1. Identify any qualified nonrecourse debt allocated to the partners/members.
 - 1. Note if any of the liabilities is subject to guarantees or other payment obligations by the partner/member (Schedule K-1, Part II, item K3).

Yes/ No/
Done N/A

► 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 and check the applicable box on Schedule K-1, Part II, item K2.

► 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) If the partnership's balance sheet (Schedule L) is reported on the tax basis, 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. No reconciliation is required if Schedule L is not reported on the tax basis.

► 807) Confirm that each partner's/member's capital account has been calculated using the transactional approach for the tax basis method. Note that Sec. 743(b) basis adjustments are not considered under the tax basis method and should be removed if previously included.

► 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 an optional basis adjustment under Sec. 743(b) or Sec. 734(b). If so, determine the total aggregate net positive amount and total aggregate net negative amount of the adjustment(s). Prepare a statement showing the computation and allocation of each basis adjustment to be attached to the return.

► 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. Prepare a statement showing the computation and allocation of the basis adjustment.

Note that "substantial built-in loss" 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 the 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 yes, this should be noted on applicable Schedule K-1 in Item J. Also, 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. Updates made to Form 8308 for 2023 require substantial additional information, including the amount of ordinary gain, unrecaptured Sec. 1250 gain, or collectibles gain attributable to a selling partner's interest.

Yes/ No/
Done N/A

- ▶ 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.
- ▶ 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) Foreign transactions and reporting

Yes/ No/
Done N/A

Schedule K-2 is used to report items of international tax relevance from the operation of a partnership. Schedule K-3 is an extension of Schedule K-1 and is generally used to report to partners their share of items reported on Schedule K-2.

Domestic filing exception for Schedules K-2 and K-3:

A domestic partnership does not need to complete and file, or furnish to a partner (except when requested by a partner after the one-month date) if ALL of the following are met for the tax year:

1. No or limited foreign activity. Limited foreign activity is defined as passive category foreign income with less than \$300 of foreign income taxes allowable as a credit and this information is shown on a payee statement that is provided to the partnership.
2. All of the direct partners in the domestic partnership are (a) individuals that are U.S. citizens; (b) individuals that are resident aliens; (c) domestic decedent's estates with solely U.S. citizen and/or resident alien individual beneficiaries; (d) domestic grantor trusts with solely U.S. citizen and/or resident alien beneficiaries; (e) domestic non-grantor trusts with solely U.S. citizen and/or resident alien beneficiaries; (f) S corporations with a sole shareholder; or (g) single member LLCs where the sole member is described in (a)–(f).
3. If a partnership has satisfied #1 and #2, partner receives a notification from the partnership at the latest when the partnership furnishes the Schedule K-1 to the partner (can be an attachment to the Schedule K-1) stating that the partners will not receive Schedule K-3 unless requested.
4. The partnership does not receive a request from any partner for Schedule K-3 information on or before one month before the due date (including extension) of Form 1065 (August 15 for calendar year partnerships).

Form 1116 exemption exception for Schedules K-2 and K-3:

A domestic partnership is not required to complete Schedules K-2 and K-3 if all partners are eligible for the Form 1116 exemption and the partnership receives notification of the partners' eligibility for the exemption on or before one month before the due date (including extension) of Form 1065 (August 15 for calendar year partnerships).

- 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 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 October 15 for the preceding calendar year). Note that FinCEN has announced its intention to amend the regulations to include virtual currency accounts, but no such regulations have been adopted.

- 1002) Determine the applicability of filing the following forms:

1. Form 5471, *Information Return of U.S. Persons With Respect to Certain Foreign Corporations* (partnership/LLC has ownership in a controlled foreign corporation (CFC))
2. Form 8865, *Return of U.S. Persons With Respect to Certain Foreign Partnerships* (partnership/LLC has ownership of an interest in a foreign partnership)
3. Form 8858, *Information Return of U.S. Persons With Respect to Foreign Disregarded Entities* (partnership/LLC has ownership in a foreign disregarded entity)
4. Form 8621, *Information Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund* (partnership/LLC has ownership in a passive foreign investment company (PFIC))*
5. Form 8938, *Statement of Specified Foreign Financial Assets* (partnership/LLC has ownership in specified foreign financial assets)
6. Form 7208, *Excise Tax on Repurchase of Corporate Stock* (partnership/LLC is a specified affiliate of an applicable foreign corporation or is an expatriated entity with respect to a covered surrogate foreign corporation)

* 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*.

- 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.

Yes/ No/
Done N/A

► 1007) Is the partnership/LLC 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 partnership/LLC make a valid installment payment election on their 2017 return to pay the repatriation tax (Sec. 965) over eight installments? If so, the seventh installment (20% of the total repatriation tax) is due with the 2023 return.

Comments/explanations

1100) Other federal 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) Confirm that the return and Schedules K-1 report results on an activity-by-activity basis. Note the requirement to indicate on Schedules K-1 whether more than one activity exists for at-risk and/or passive activity purposes and provide additional information as necessary.

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

► 1104) Has the partnership/LLC elected into the pass-through entity tax (PTET) regime? (Note that the PTET is required for CT.) If so, confirm that the tax was properly paid and elected. See Notice 2020-75 for federal reporting rules. Determine that the entity tax is calculated and determined based on each states' rules and the information for the partners is provided as necessary.

► 1105) 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))

a) Note the requirement to report net unrecognized Sec. 704(c) gain or loss on Schedule K-1, Section N.

4. Portfolio income by type (e.g., 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).

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5. Gains and losses, dates of dispositions, respective holding periods and types of assets sold
 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 (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 (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. 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). Note that regulations issued in 2020 provided an 11-step process for allocating excess items for purposes of the Sec. 163(j) limitations (Regs. Sec. 1.163(j)-6(f)).
 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 confirm that all items have been addressed)
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► 1106) Determine that proper reporting and detail have been provided on Schedules K-1 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 Form W-2 wages paid with respect to each trade or business of the partnership/LLC

Yes/ No/
Done N/A

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

► 1107) Did the partnership/LLC purchase life insurance on employees or partners/members after Aug. 17, 2006? If so, confirm that the partnership/LLC has satisfied the notification and information reporting requirements. See Form 8925, *Report of Employer-Owned Life Insurance Contracts*.

► 1108) Is the partnership/LLC organized for the purpose of investing in qualified opportunity zone property (other than another qualified opportunity fund)? If yes, determine whether to file Form 8996, *Qualified Opportunity Fund*.

► 1109) 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*.

► 1110) 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.

► 1111) Determine if health plan(s) and/or reimbursement arrangements are compliant with the Affordable Care Act (ACA). If applicable, file Form 1094/1095-C.

► 1112) Determine if the partnership/LLC has filed all required Forms W-2, 1095, 1098, 1099, 1042, 8804, 8805 and 8813. Note that partnerships/LLCs that have 10 or more information returns are generally now required to file them electronically.

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

► 1114) Determine whether all non-tax-shelter tax positions either meet the "substantial authority" standard or meet the "reasonable basis" standard and are disclosed on Form 8275, *Disclosure Statement*.

► 1115) Determine if electronic filing is required for Form 1065. Note [T.D. 9972](#) has changed the electronic filing requirement.

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. For more information, see the [AICPA's SALT Road Map – State and Local Tax Guide](#).

Yes/ No/
Done N/A

► 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 (e.g., PPP loan forgiveness or deductible expenses).
 - b) Note any specific state tax credits allowable.
7. Pass-through entity tax consideration.
8. Estimated tax payments. Note any paid during 2023. Determine whether they are required for 2024.

Comments/explanations

1300) Professional responsibilities and reminders – FOR PAID PREPARER USE

Yes/ No/
Done N/A

- 1301) Confirm that you/your firm have met all professional responsibilities as outlined in the AICPA Code of Professional Conduct, AICPA Statements on Standards for Tax Services and federal and state authorities, such as Circular 230. Consider potential conflicts of interest, preparer penalties and reminders to clients about their responsibility for the contents of the tax return.

Consider the AICPA hosting services interpretation ([ET Sec. 1.295.143](#)) applicability to your clients.

- 1302) Determine if requirements for avoiding penalties for improper disclosure or use of taxpayer information by tax return preparers imposed under Sec. 6713 and Sec. 7216 have been met.

► 1303) Internal processing procedures:

- Reconcile source documents to completed return results.
- Prepare filing instructions and a transmittal letter.
- Confirm delivery instructions (portal, mail, pickup or delivery).

Yes/ Done	No/ N/A
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- 1304) Provide your client with complete federal and state returns, including copies of any disclosure consent form(s) and advise your client to retain copies for at least six years. Return original documents to your client and provide other documents/support, as applicable.
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Comments/explanations
