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Checklist

Initial business return

Tax Matters

Initial Business Return Filing Checklist

Taxpayer name _____

Prepared by _____ Date _____ Reviewed by _____ Date _____

Purpose of checklist: To inform practitioners of considerations related to an initial business tax return in areas such as entity selection, accounting methods and elections. For comprehensive business checklists used in annual filings, as well as engagement letters, organizers and practice guides, please see the suite of resources included in the [Annual Tax Compliance Kit](#).

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>.

100) General

Yes/
Done No/
N/A

► 101) Consider the entity and ownership classification (foreign or domestic):

1. C corporation (review articles of incorporation)
2. S corporation
 - a) Review entities' qualifications for making an S election.
 - b) If entity is an LLC, review operating agreement provisions, including allocations and distributions, to confirm consistency with S corporation status
 - c) Complete Form 2553
 - d) Review IRS acceptance letter of S corporation election and note the date election was granted and effective date.
3. Partnership (review partnership agreement)
4. Limited liability company (LLC) (review articles of incorporation and LLC operating agreement)
 - a) Single member treated as a disregarded entity
 - b) Multi-member filing as a partnership
 - c) Multi-member filing as a C corporation

▶ 102) Apply for a federal employer identification number (EIN).

▶ 103) Complete Form 8832, *Entity Classification Election*, as necessary.

▶ 104) Select the appropriate year-end.

1. Ensure the initial year covers the start date through the year-end and is for a period covering consecutive months (12 or fewer).
2. If the entity existed previously as a different entity type, be sure to take into consideration prior year-ends.
3. Note that certain entities have a required tax year.

▶ 105) Consider obtaining a Form 2848, *Power of Attorney and Declaration of Representative*.

▶ 106) Ensure that the "Initial Return" box on the initial return is checked.

▶ 107) Determine the principal business activity, product or services and business code number that will be shown on the return. Ensure familiarity with the client's industry and the [IRS's Audit Techniques Guides](#).

▶ 108) Develop a method or system to track internal and external basis records for partners and corporate owners (if applicable). It is important to begin tracking basis from the initial return for purposes of ownership changes and other tax considerations. Review IRS Schedule K-1 reporting requirements.

1. Consider Form 7203 and instructions for S corporations basis tracking and reporting as required.

▶ 109) Discuss the following items with the client:

1. Employee and employment taxes versus independent contractors and filing requirements — Note that worker classification has non-tax legal implications as well; an attorney may need to be consulted.
- 2) Foreign bank accounts reporting requirements
- 3) Retirement plans, including filings required for plans (Form 5500 series)
- 4) Payroll tax required filings such as Forms W-2, 940, 941 and information return requirements such as Forms 1099-NEC, 1099-MISC, 1095 series and others. Consider electronic filing requirements for information returns using electronic federal tax payment system (EFTPS) and filing information returns electronically (FIRE) as applicable.
- 5) Filings required by CTA (see note above)
- 6) Ramifications related to the [Bipartisan Budget Act of 2015 \(BBA\) partnership audit rules](#), if applicable — For example, consider adjustments to the partnership/operating agreement, an election out of the rules, partner indemnifications, new partners, procedures to determine the partnership representative, etc.
- 7) Potential provisions that may violate S elections, if applicable.

Yes/ No/
Done N/A

8) Other tax and financial matters, such as vehicle expensing policies, related-party matters and identification of key personnel.

9) Document the accounting system used and discuss the importance of proper recordkeeping.

Comments/explanations

200) Accounting method considerations

Yes/ No/
Done N/A

► 201) Determine if the entity is a small business as defined under Sec. 448(c). This has implications on the choice of accounting method, inventory valuation method, whether the entity is subject to the interest expense limitation of Sec. 163(j) and other considerations.

1) Consider if the new entity has a predecessor entity.

2) Consider if there are related entities and the gross receipts aggregation rules apply (Sec. 448(c) and regulations).

3) Consider whether the entity meets the definition of a tax shelter under Sec. 448(d)(3) which precludes use of the favorable methods for small businesses of Sec. 448, 471(c) and 263A(i).

4) Consider the annual election to use prior year allocations for tax shelter determination (determination (Regs. Sec. 1.448-2(b)(2)(iii)(B)) if applicable.

► 202) Determine the accounting method (cash, accrual or hybrid) as permitted and indicate the selected method on the initial tax return. Changes to accounting methods in the future may require additional filings.

1) Business and personal items may use different accounting methods.

2) A different accounting method may also be selected for each separate and distinct business (Sec. 446(d)).

3) For further information, see [IRS Publication 538, Accounting Periods and Methods](#), and guidance such as Sec. 446 and Sec. 481.

► 203) Select the appropriate method of inventory (if applicable) and indicate the selected method on the initial tax return. Changes to inventory methods may require additional filings.

1) If entity qualifies as a small business taxpayer (discussed above), inventory can be accounted for by:

a. Treating the inventory as non-incidental materials and supplies

OR

b. Conforming to its treatment of inventory in an applicable financial statement (as defined in section 451(b)(3) or if no applicable financial statement, by using the method of accounting used in books and records.

2) If entity does not qualify as a small business (defined above) or chooses to use the accrual method and account for inventory, the following methods of valuation are available:

a. Specific identification

b. FIFO (first-in first-out)

c. LIFO (last-in last-out)

i. If LIFO method is selection, Form 970, Application to use LIFO Inventory Method, must be completed and filed.

3) Consider inventory valuation method (cost, lower of cost or market or retail). See Sec. 471.

4) See [IRS Publication 538](#) for further information.

► 204) Accrual-method businesses have additional method choices or elections. Consider the recurring item exception under Sec. 461(h)(3) and advance payments under Sec. 451(c) and related regulations.

Comments/explanations

300) Elections

► 301) Review the grid below to ensure elections are timely and appropriately filed.

Election	Applicable to*	How to make election**
Form 8832, <i>Entity Classification Selection</i>	LP, LC	File a stand-alone statement.
Form 1122, <i>Authorization and Consent of a Subsidiary Corporation To Be Included in a Consolidated Income Tax Return</i>	C	File a stand-alone statement.
Organization and startup expenses (Sec. 195, Sec. 248 and Sec. 709):		
A business can deduct up to \$5,000 of business organization and/or startup costs (reduced dollar for dollar but not below zero) by the cumulative amount of costs exceeding \$50,000. The remaining costs can be deducted ratably over a 15-year period	C, S, P, LP, LC, LS, LI	No statement or election is required to be filed.
A business may forgo the deemed election to deduct and amortize organization and startup costs. Give special consideration on whether this is the appropriate choice for the entity.	C, S, P, LP, LC, LS, LI	Attach a statement to the initial return.
Form 8716, <i>Election to Have a Tax Year Other Than a Required Tax Year</i> (election under Sec. 444)	C, S, P, LP, LC, LS	File a stand-alone statement.
Form 2553, <i>Election by a Small Business Corporation</i>	S, LS	File a stand-alone statement or attach a statement to the initial return.
Form 970, <i>Application to Use LIFO Inventory Method</i>	C, S, P, LP, LC, LS	File a stand-alone statement.

Election	Applicable to*	How to make election**
Election to adjust partnership basis for distributed property or transferred partnership interest	P, LP	Attach a statement to the return.
Regs. Sec. 1.761-2(b) election to not be treated as a partnership for certain unincorporated entities with multiple owners. For an entity owned by spouses, consider whether a qualified joint venture under Sec. 761(f) is appropriate.	P, LP	Attach a statement to the initial return.
Regs. Sec. 1.263(a)-3(h) capitalization threshold, including the annual de minimis safe harbor expensing election under Regs. Sec. 1.263(a)-1(f). See the IRS's tangible property regulations FAQs .	C, S, P, LP, LC, LS, LI	Attach a statement to the return(s) for the taxable year(s) in which the amounts are paid.
Regs. Sec. 1.266-1(b) election to capitalize carrying charges	C, S, P, LP, LC, LS, LI	Attach a statement to the return annually.
Sec. 351 tax-free transfer to corporation. Note this is not technically an elective provision. Statements required to be filed with the applicable returns of the transferee and transferor.	C, S, LC, LS	Attach a statement to the return.

* C = C corporation; LP = LLC filing as a partnership; P = Partnership; S = S corporation; LC = LLC filing as a C corporation; LI = Single-member LLC; LS = LLC filing as an S corporation

** Consult the specific tax return or election form instructions for due dates and consider any allowable extension periods.

400) State tax considerations, professional responsibilities and reminders	Yes/ Done	No/ N/A
► 401) Determine if any special state rules apply such as whether a separate S election is needed at the state level; determine where the entity will have state and local filing obligations due to the location of assets, operations and owners.		
► 402) Consider pass-through entity tax (PTET) regime for applicable states for entities filing as an S corporation or a partnership.		
► 403) Confirm that you/your firm have/has 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 and preparer penalties.		

Comments/explanations
