

1120 and 1120S Corporate Tax Review

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Part I

Overview and Business Structures

Overview and Business Structures

Four Principal Business Structures:

1. **Sole Proprietorships**
2. **Partnerships**
3. **“C” Corporations**
4. **“S” Corporations**
5. **Limited Liability Company**

Overview and Business Structures (Cont.)

Sole Proprietorship (Schedule C of Form 1040)

- **Individual owner has unlimited personal liability for the debts of the business.**
- **Owner's death would terminate business and place assets into probate, delaying the disposition of assets to creditors and heirs.**
- **Business income is folded into the individual's tax return**

Overview and Business Structures (Cont.)

Partnerships (Form 1065)

- **Formed when two or more individuals form a business and share profits, losses and responsibility for running the business.**
- **Individual partners pay taxes on their proportionate share of net partnership income at their individual tax rate.**
- **Two types of partnerships: General and Limited**

Overview and Business Structures (Cont.)

General Partnerships (Form 1065)

- **Each partner is personally responsible for the debts of the entire business and is responsible for the actions of every other partner.**
- **Partnership is dissolved immediately on the death, withdrawal, insanity, or insolvency of any partners – although the personal liability to partnership creditors exists even after the partnership is dissolved.**

Overview and Business Structures (Cont.)

Limited Partnerships (Form 1065)

- **A limited partner has limited decision-making ability and his or her liability is limited to the amount he or she invested in the partnership.**
- **A limited partner's death, withdrawal, insanity, or insolvency does not dissolve the partnership.**

Overview and Business Structures (Cont.)

“C” Corporations (Form 1120)

- **State-chartered business that is owned by stockholders.**
- **Stockholder is not personally liable for the debts of the corporation.**
- **Income to the officers is folded into the officer’s individual tax returns via salary and dividends.**

Overview and Business Structures (Cont.)

“S” Corporations (Form 1120-S)

- **Generally is a small, start-up business with a limited number of stockholders.**
- **Business gains and losses are passed on to the stockholders.**
- **Stockholders are taxed at their individual tax rate for their proportionate share of the ownerships.**
- **Stockholder wages is folded into the individual’s tax return via salary and dividends.**

Overview and Business Structures (Cont.)

Limited Liability Company (Form 1065)

- **Generally is a small, start-up business with a limited number of members.**
- **Members are taxed at their individual tax rate for their proportionate share of the ownerships.**
- **Member wages are folded into the individual's tax return via salary and dividends.**

Part II

Review of Forms 1120 and 1120S

Review of Forms 1120 and 1120S

See Handouts

Part III

Miscellaneous

Miscellaneous

1. Relying solely on tax returns - What are the dangers?

- They are not independently audited financial statements
- Items may not be classified correctly (Short-term/Long-term etc).
- May not be what was actually filed. Could request transcript via Form 4506-T through IRS.gov website.

Miscellaneous (Cont.)

2. What if you discover the tax returns were filed wrong by the applicant?

- If you suspect or know of an individual or company that is not complying with the tax laws on issues such as:
 - False Exemptions of Deductions
 - Kickbacks
 - False/Altered Document
 - Failure to Pay Tax
 - Unreported Income
 - Organized Crime
 - Failure to withhold.

You may report the activity by completing Form 3949-A. It is voluntary.

Miscellaneous (Cont.)

3. Suspicious Activity Related to Loan Fraud

- **FinCEN Advisory FIN-2012-A009**
 - **Issued: August 16, 2012**
 - **Subject: Suspicious Activity Related to Mortgage Loan Fraud**
- **Lists many types of loan fraud identified by law enforcement.**
- **Information is intended assist financial institutions in identifying when illicit activities occur in connection with mortgage loan transactions.**

Miscellaneous (Cont.)

3. Suspicious Activity Related to Loan Fraud (Cont).

Some examples as listed in the Advisory:

- Occupancy fraud
- Income fraud
- Employment fraud
- Liability fraud

Part IV – Question and Answer

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