

2021 Individual Income Tax Return Checklist

Form 1040 (Long)

Client name and number _____

Prepared by _____ Date _____ Reviewed by _____ Date _____

100) General

Yes/ Done	No/ N/A
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► 101) Obtain a signed engagement letter.

► 102) Consider asking the taxpayer to sign Form 2848, *Power of Attorney and Declaration of Representative*, and/or Form 8821, *Tax Information Authorization*.

► 103) Ask the taxpayer 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.

► 104) Consider requesting transcript(s) from the IRS. See the AICPA Tax Section's [IRS E-Services Transcript Delivery System Quick Reference Chart](#).

► 105) Review the prior year's return and note the amount, source and character of any carryforward (capital loss, net operating loss (NOL), charitable contributions, Sec. 179 deduction, investment interest, passive activity losses, basis limitation, etc.).

► 106) Confirm that there have been no unauthorized changes in an accounting method; confirm whether Form 3115, *Application for a Change in Accounting Method*, must be filed.

► 107) Review the proforma or organizer for accuracy.

► 108) Review any business financial statements and footnotes for relevant information, if applicable.

► 109) Do any qualified disaster relief provisions apply to the taxpayer for 2021?

► 110) Confirm the taxpayer's name, mailing address, email address, phone, birth date, Social Security number and occupation. Confirm changes are updated for your records and in all necessary systems.

► 111) Was the taxpayer legally married as of the last day of the tax year? Consider the correct filing status based on the circumstances.

1. Is head of household status claimed? If so, make sure the preparer due diligence requirements have been met and prepare Form 8867, *Paid Preparer's Due Diligence Checklist*. See the AICPA Tax Section's 2021 Paid Preparer's Due Diligence Checklist for additional guidance.

► 112) Is the taxpayer legally blind?

► 113) Determine if gift tax returns are required (see the Form 709 checklist). Consider Form 8892, *Application for Automatic Extension of Time to File Form 709 and/or Payment of Gift/Generation-Skipping Transfer Tax*.

► 114) Did the taxpayer or spouse die during the year? If so, consider the following:

1. Who should sign the return for the deceased (surviving spouse or appointed representative)?
2. Is Form 56, *Notice Concerning Fiduciary Relationship*, or Form 1310, *Statement of Person Claiming Refund Due a Deceased Taxpayer*, required?
3. Are there estate tax return filing requirements?

► 115) Did the taxpayer receive, sell, send, exchange or otherwise acquire any financial interest in any virtual currency/cryptocurrency during the year? If so, make sure the box on Form 1040, page 1 is checked and consider the tax consequences of all transactions.

► 116) Did the taxpayer receive economic impact payment(s) (often referred to as a recovery rebate) in 2021? If so, determine the amount of economic impact payment(s) received to help you calculate any recovery rebate credit. Note that if the calculated recovery rebate is less than the payment received, no adjustment is necessary.

► 117) Does the taxpayer wish to designate \$3 (\$6 if filing jointly) to the Presidential Election Campaign Fund?

► 118) Consider federal and state e-filing requirements.

Comments/explanations

200) Dependents

Note that there is no personal or dependent exemption available in 2021. However, the Code retains the definition of "dependent," which continues to be relevant for purposes of the child tax credit and the credit for non-child dependents.

► 201) For each person meeting the definition of a dependent, confirm the dependent's name, Social Security number, relation to the taxpayer, age and months lived in the taxpayer's home in 2021.

► 202) Did the dependent provide more than half of their own support?

► 203) For potentially dependent children, determine:

1. If the dependent is 19 years old or older, were they under age 24 as of December 31 and considered a full-time student for at least five months during the year?
2. Is the dependent under the age of 17 at the end of the tax year?
3. Did the taxpayer and/or the child's other parent provide more than half of the child's support?
4. If the taxpayer is divorced or separated from their child's other parent, has a court order been issued or is a written separation agreement in effect?

Yes/ Done	No/ N/A
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5. Is either parent required by a written agreement or court order to provide Form 8332, *Release/Revocation of Release of Claim to Exemption for Child by Custodial Parent*? If so, request a copy of any Form 8332 for 2021 provided to or by the taxpayer.

6. Has there been a revocation of a previous release of a claim to a child's exemption? If so, request a copy of the revocation.

► 204) Determine if kiddie tax is applicable to any dependent children. If so, consider whether to report the unearned income on the parent's return by using Form 8814, *Parents' Election to Report Child's Interest and Dividends*.

► 205) If the dependent completed and filed his or her own tax return, confirm that the return indicates that someone can claim him or her as a dependent.

► 206) Determine that the advance child tax credit paid to the taxpayer(s) is properly adjusted against the calculated 2021 child tax credit. Note that the advance child tax credit may have been paid based on circumstances on the taxpayer's 2019 or 2020 tax return.

Comments/explanations

300) Income

Yes/ Done	No/ N/A
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Note: If a taxpayer has foreign activities or investments, see the international section of this checklist.

Wages

► 301) Request all Forms W-2, *Wage and Tax Statement*, received by the taxpayer. Inquire about any Forms W-2G, *Certain Gambling Winnings*, received by the taxpayer.

► 302) Did the taxpayer receive any unrestricted property as compensation for services? If so, request the fair market value of such property at the time of receipt.

► 303) Did the taxpayer receive any restricted property as compensation for services? If so, was a Sec. 83(b) election made?

► 304) Are all taxable employee benefits included on Form W-2, including any expense payments related to a non-accountable plan?

► 305) Does the Form W-2 reflect dependent care benefits? If so, prepare Form 2441, *Child and Dependent Care Expenses*.

► 306) If there are multiple Forms W-2 for the same taxpayer, consider whether there is excess Social Security withholding.

► 307) Did the taxpayer receive any tip income? If so, confirm that the income is properly reported on Form W-2.

► 308) Did the taxpayer receive any moving expense allowance or reimbursement in 2021? Note that moving expense allowances or reimbursements are fully taxable except for moves related to military service.

► 309) Is the taxpayer a beneficiary of a nonqualified deferred compensation plan? If so, determine if there is any includable income from such plan in 2021.

Interest

► 310) Request all Forms 1099-INT, *Interest Income*, and 1099-OID, *Original Income Discount*, received by the taxpayer.

► 311) Did the taxpayer receive any mortgage interest on a residence sold by the taxpayer?

► 312) Did the taxpayer receive any interest from U.S. Treasury bills, notes or other bonds?

1. Did the taxpayer receive any U.S. savings bond interest on post-'89 bonds redeemed to pay higher education expenses?

► 313) Confirm the payers' name and the amount paid with respect to any other interest received by the taxpayer.

► 314) 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.

► 315) Did the taxpayer purchase or sell any bonds in 2021?

1. Was the bond purchased at a premium or a discount?

2. Determine whether to elect to amortize the bond premium.

3. Was there any accrued interest received on bonds sold in 2021 before maturity?

► 316) What amount of accrued interest was paid in 2021? \$ _____

► 317) If bonds were purchased prior to 2021, did the taxpayer elect to amortize the bond premium?

► 318) Compare the sources and amounts of interest income with prior year returns.

Dividends

► 319) Request all Forms 1099-DIV, *Dividends and Distributions*, received by the taxpayer.

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

► 321) Determine whether any dividends received from a real estate investment trust (REIT) or income from a publicly traded partnership (PTP) should be reported as qualified business income (QBI) for the purposes of Sec. 199A (see item 501).

► 322) Compare the sources and amounts of dividends with prior year returns.

Gain or loss on property

- ▶ 323) Request all Forms 1099-B, *Proceeds From Broker and Barter Exchange Transactions*, received by the taxpayer.
- ▶ 324) Request the Closing Disclosure for any purchases or sales of real property. Request any Forms 1099-S, *Proceeds From Real Estate Transactions*, received by the taxpayer.
- ▶ 325) For current year or prior year sales, do the installment method rules apply? If so, review the transaction documents and determine if payments were made and the amount of gain to be recognized.
 1. Determine whether there is depreciation recapture that must be immediately reported.
 2. Determine whether the installment obligation secures a loan which triggers taxation on the unrealized gain amount.
 3. Determine if property obtained from a prior year installment obligation was disposed or repossessed during the current year.
- ▶ 326) Were there any sales of tangible property in 2021? If so, determine the sales price, the original cost basis, the amount of accumulated depreciation taken in prior years and the holding period.
 1. Did the taxpayer have Sec. 1231 net gains in 2021? If so, verify if the taxpayer has any net Sec. 1231 losses in the previous five years.
 2. Determine if there is a recapture of net Sec. 1231 losses.
- ▶ 327) Were any shares of stock or other securities disposed of during 2021? If so, request the following: the name of the issuer, the number of shares (stock) or the maturity date (bonds), the date acquired, the selling price and the basis.
- ▶ 328) Were any market discount bonds disposed of or did any such bonds become worthless in 2021? If so, calculate the accrued market discount.
- ▶ 329) Were any securities sold at a loss in 2021? If so, determine if the taxpayer purchased substantially the same security within 30 days before or after the sale.
- ▶ 330) Did any securities become worthless during 2021? If so, request the following: the name of the issuer, the number of shares (stock) or the maturity date (bonds), the date acquired, the basis, the date on which such securities became worthless and the facts demonstrating worthlessness.
- ▶ 331) Were there any short sales of securities in 2021? If so, request the following: the date of the sale, the date the short sale was closed and information about whether the taxpayer also held a long position in the security that was the subject of the short sale.
- ▶ 332) Were any assets other than securities disposed of during 2021? If so, request the following information: description; date acquired; date sold; whether personal use, rental or business use; selling price and basis. For PTPs, determine the correct cost basis and if any suspended losses are allowable.
- ▶ 333) Did the taxpayer receive a grant of or exercise any nonqualified stock options or restricted stock during 2021? If so, determine whether the value was reported to the taxpayer, the basis of the shares and if the shares were disposed of during 2021. Also, review Forms W-2 for Code V in box 12 and reconcile to sales reported on Form 1099-B. Consider whether the taxpayer is eligible for the Sec. 83(i) deferral election and, if so, whether the taxpayer should make such election.

- ▶ 334) Did the taxpayer receive a grant of any incentive stock options? Consider the alternative minimum tax (AMT) implications. Did the taxpayer sell any securities in 2021 that were obtained through an incentive stock option plan?
- ▶ 335) Did the taxpayer sell a principal residence in 2021? If so, prepare Form 8949, *Sales and Other Dispositions of Capital Assets*, and verify the following: the taxpayer's period of ownership, the date on which it became their principal residence and any periods of ownership when the home was not used as the taxpayer's principal residence. Confirm whether the taxpayer received a Form 1099-S. Calculate the taxpayer's realized gain/loss and determine any taxable gain. Consider whether a home office deduction was claimed in prior years to determine whether depreciation recapture is required.
- ▶ 336) Did the taxpayer realize any losses with respect to the sale or other disposition of Sec. 1244 stock?
- ▶ 337) Did the taxpayer realize a gain on the sale of Sec. 1202 (qualified small business stock) which may qualify for a full or partial exclusion of the gain? Note that the percentage exclusion depends on the year of purchase (50% before Feb. 17, 2009; 75% from Feb. 17, 2009 to Sept. 28, 2010; and 100% after Sept. 28, 2010).
- ▶ 338) Did the taxpayer dispose of inherited property for which the basis was reported on Form 8971, *Information Regarding Beneficiaries Acquiring Property From a Decedent*, by the decedent's estate? If so, confirm that the gain or loss on the sale of such property properly reflects the reported basis. If Form 8971 was not required, determine the fair market value of the inherited property as of the date of death.
- ▶ 339) Did the taxpayer 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 only available to real property.
- ▶ 340) Did the taxpayer invest any capital gain proceeds in opportunity zone funds in 2021? If so, were such investments made within 180 days of the sale of the asset?
- ▶ 341) Did the taxpayer sell or exchange any virtual currency/cryptocurrency in 2021? If so, confirm the reporting of the taxable amount realized.

Rental income

- ▶ 342) For each rental property, request a description of the type and location of property and the total rent received. Also, request expense amounts for 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.
- ▶ 343) Did the taxpayer make any payments during 2021 that would require him or her to file Forms 1099? If so, have Forms 1099 been filed?
- ▶ 344) Determine the taxpayer's basis in each rental property.
- ▶ 345) Did the taxpayer rent any residential property? If so, request the number of rental days and the number of personal-use days (if any) during 2021. Determine if the vacation home rules apply.
 1. Was the property rented for a period of seven days or less per tenant and substantial services are provided primarily for the tenant's convenience? Consider the proper reporting of the activity (Schedule E versus Schedule C).
- ▶ 346) Are any of the properties low-income housing?
- ▶ 347) Did the taxpayer actively participate in rental real estate activities?

▶ 348) Does the taxpayer meet the tests for a real estate professional? If so, determine if an election has been made to group rental activities, and if the taxpayer materially participates in one or more rental activities.

▶ 349) Determine the taxpayer's at-risk amount for each rental property.

▶ 350) Review any at-risk loss carryforwards to 2022.

▶ 351) Review the amount of any passive losses and credit carryforwards to 2022.

▶ 352) Consider making the repair election pursuant to Sec. 263.

▶ 353) Do the taxpayer's rental activities qualify as QBI under Sec. 199A (see item 501)? Consider whether the activities fall within the safe harbor of Rev. Proc. 2019-38. Confirm that the taxpayer maintains proper records to support the safe harbor requirements.

Pass-through income or loss

▶ 354) Request any Schedules K-1, K-2 or K-3 received by the taxpayer.

▶ 355) Calculate or request the taxpayer's basis with respect to each Schedule K-1 source. For shareholders in an S corporation who report a loss, receive a distribution, dispose of stock or receive a loan repayment, a basis computation must be attached to the return. Consider basis consequences related to Paycheck Protection Program (PPP) loan forgiveness.

▶ 356) With respect to each trade or business activity for which a Schedule K-1 is received, determine if the taxpayer is a limited partner or if the taxpayer materially participated in the activity.

▶ 357) Determine if there has been an election to group activities for the material participation test. Consider whether this election should be made for the current year.

▶ 358) Determine the at-risk amount for each activity.

▶ 359) Determine if there are any partnership or S corporation losses in excess of basis carryforwards, at-risk loss carryforwards, passive losses or credit carryforwards to 2022.

▶ 360) Did the taxpayer own any publicly traded partnership interests? If so, determine whether there is any loss carryforwards.

▶ 361) Did the taxpayer make any shareholder loans or receive a repayment of any shareholder loans from an S corporation in 2021? If so, determine the basis of the loan and whether the loan was documented.

▶ 362) Did the taxpayer have any unreimbursed partnership expenses? If so, determine if the expenses are deductible and whether these amounts reduce self-employment income.

▶ 363) Did the taxpayer have interest expense that is allocable to the pass-through entity as an expense under Notice 89-35? If so, consider whether the interest reduces self-employment income.

▶ 364) Did a liquidating distribution of a partnership in which the taxpayer owned an interest occur in 2021? If so, consider both the allocation of basis rules under Sec. 732(c) and Sec. 751(c) and making a Sec. 732(d) election.

Schedule C businesses/Single member LLCs

- ▶ 365) Request the following: employer identification number (if any), business name, principal business, business address, accounting method and inventory method (if any).
- ▶ 366) Did the taxpayer participate in the activity on a regular, substantial and continuous basis?
- ▶ 367) Did the taxpayer begin or acquire the business during 2021?
- ▶ 368) If the taxpayer generated an NOL, note that the application of the 80% taxable income limitation is applicable for the 2021 taxable year and no carryback is allowed.
- ▶ 369) Did the taxpayer experience a large business loss? If so, note that the limitation on an excess business loss does not apply for taxable years beginning in 2018, 2019 or 2020, but does apply for 2021 (\$262,000 single/\$524,000 married filing jointly). In addition, the limitation on excess farm losses does not apply for taxable years beginning after 2017 and before 2026.
- ▶ 370) Did the taxpayer receive funds from the Paycheck Protection Program (PPP) during the taxable year? If so, was any of the loan considered forgiven in 2021? A statement, including the amount of tax-exempt income from forgiveness and the date of forgiveness, should be attached to the return.
- ▶ 371) If the taxpayer deferred payment of 50% of the Social Security tax on net earnings from self-employment income for the period from March 27, 2020 through Dec. 31, 2020, confirm that at least 50% of the deferred amount was paid by Dec. 31, 2021.
- ▶ 372) Are there any accounting method change adjustments? Consider if Form 3115 is necessary. Determine if the cash method of accounting is applicable due to meeting the \$26 million gross receipts test.
- ▶ 373) Request the total amount of gross receipts or sales, returns and allowances and other income from this business (request Forms 1099-NEC and/or 1099-K, if applicable). Request the expenses of this business (cost of sales, advertising, car and truck expenses, commissions and fees, contract labor, etc.). Determine if the uniform capitalization rules apply to inventories. Note that most producers or re-sellers meeting the \$26 million gross receipts test (an aggregate test) are exempted from the uniform capitalization rules.
- ▶ 374) Consider whether the taxpayer meets the standards for for-profit activities under the Sec. 183 hobby loss rules. If not, consider whether the taxpayer can improve its operations to qualify as a trade or business going forward.

Business assets

- ▶ 375) Did the taxpayer acquire or improve any business property in 2021? If so, determine the property class, recovery period and depreciation method for each asset. Consider the Sec. 179 deduction and/or Sec. 168(k) depreciation. Note that the Sec. 179 deduction has been expanded to include lodging property, HVAC, fire and security systems. Also, note that Sec. 168(k) depreciation applies to used and new equipment.
- ▶ 376) Were there any leasehold improvements made in 2021? If so, request the date that the lease terminates. Determine if the improvements are qualified under Sec. 168 (e)-(k) for depreciation purposes.

▶ 377) Does the taxpayer make any improvements that are classified as qualified improvement property during taxable years beginning after Jan. 1, 2018 through the current taxable year? If so, note that such property is now considered retroactively to be 15-year property under MACRS and 20-year property under ADS. Consider whether prior year tax returns should be amended and/or if an accounting method change is necessary.

▶ 378) Were any repairs and maintenance expense related to capital assets? If so, request the amount. Determine if elections should be made pursuant to the repair regulations of Sec. 263.

▶ 379) Determine if the taxpayer should make the safe harbor election to expense the acquisition costs of materials, supplies and other tangible property.

▶ 380) Did the taxpayer incur expenses related to disabled access to the business property? If so, determine if expenditures are eligible for the Sec. 44 disabled access credit or consider making the Sec. 190 election to expense the costs.

▶ 381) Did the taxpayer make an "applicable asset acquisition" in 2021? If so, determine that applicable reporting requirements regarding the allocation of the purchase price have been met and that Form 8594, *Asset Acquisition Statement*, has been prepared.

Condemnation proceeds

▶ 382) Did the taxpayer receive any proceeds from the condemnation of investment property or business property because of a disaster for which a presidential declaration was made or any other condemnations?

Distributions from individual retirement accounts (IRAs), retirement plans, etc.

▶ 383) Request Forms 1099-R, *Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.*, and Forms SSA-1099, *Social Security Benefit Statement*, received by the taxpayer. Review distribution codes to confirm proper reporting. Did the taxpayer receive any railroad retirement benefits?

▶ 384) Is the taxpayer a retired public safety officer? If so, consider the election to exclude from income distribution amounts that were used to pay insurance premiums.

▶ 385) Did the taxpayer take any distributions from an IRA or qualified plan in 2021? Consider required minimum distribution (RMD) provisions requiring distributions by age 72 (the first year RMD can be delayed one year).

▶ 386) Did the taxpayer take any distributions that are considered coronavirus-related? If so, note that any amount required to be included in income is included in income ratably over the three-year period beginning with the year of distribution unless the individual elects not to have a ratable inclusion apply. Any portion of a coronavirus-related distribution may be recontributed to an eligible retirement plan as a rollover within a three-year period and is not includible in income.

▶ 387) Was a distribution from an IRA made directly to a charitable organization? Consider whether the taxpayer meets the qualifications to exclude the distribution from income. Confirm that the Form 1040 indicates "QCD," if applicable.

▶ 388) Did the taxpayer receive a taxable distribution from a retirement plan/annuity before the age of 59½? If so, determine if an exception to the early-withdrawal penalty applies, such as:

1. Did the taxpayer receive an IRA payment that was part of a series of substantially similar periodic payments?
2. Were any retirement plan payments received because of a permanent and total disability?

3. Did the taxpayer receive a distribution to pay for unreimbursed medical expenses?

4. If the taxpayer was unemployed, did the taxpayer receive distributions that did not exceed health insurance premiums?

5. Did the taxpayer make a withdrawal to pay for first-time home buying expenses or qualified higher education expenses?

6. Did the IRS levy a retirement plan/annuity?

▶ 389) Did the taxpayer receive a lump-sum (non-periodic) retirement plan distribution in 2021?

▶ 390) Did the taxpayer receive a distribution from an annuity? If so, determine the following: the amount received in 2021, the non-taxable portion of the distribution, the annuity start date, the amount of any after-tax contributions and the amount of any basis recovery in prior years.

▶ 391) Did the taxpayer receive an IRA or a qualified plan payment as the beneficiary of a decedent?

▶ 392) Did the taxpayer receive an IRA or qualified plan distribution that he or she rolled over to an IRA or other qualified plan within 60 days of receipt?

▶ 393) Were any retirement plan payments made to a spouse or former spouse pursuant to a qualified domestic relations order (QDRO)?

▶ 394) Was the amount distributed from a qualified plan in 2021 equal to the full amount the employee had in the plan?

▶ 395) Verify that any distributions from a health savings account (HSA), Sec. 529 plan or ABLE account were used to pay for qualifying expenditures (note the recent change allowing up to \$10,000 for tuition of public, private or religious elementary and secondary schools).

Non-death benefits from life insurance or long-term care insurance

▶ 396) Request any Forms 1099-LTC, *Long-Term Care and Accelerated Death Benefits*, received by the taxpayer. If the plan is non-tax qualified and reimburses expenses, determine whether any of the benefits are taxable.

▶ 397) During 2021, did the taxpayer either receive money with respect to a life insurance policy that the taxpayer owned, or leave with the life insurance company dividends that the insurance company would otherwise have paid to the taxpayer? If so, did the taxpayer have the insurance company buy more insurance with the dividends or were all amounts received because of an insured person dying?

▶ 398) Were any accelerated death benefits from a life insurance policy received on the life of an insured person due to a terminal illness? If so, prepare Form 8853, *Archer MSA and Long-Term Care Insurance Contracts*.

Miscellaneous income

▶ 399) Request any other Forms 1099 that were received by the taxpayer (Forms 1099-A, 1099-G, 1099-C, 1099-Q, 5498, etc.).

▶ 400) Did the taxpayer receive any refunds of state or local taxes in 2021? If so, determine the amounts that are includable in income.

► 401) Was the taxpayer relieved of any debt obligation in 2021, other than by means of payment?

1. Does the taxpayer qualify for any exclusion of cancellation of debt income in 2021? If so, prepare Form 982, *Reduction of Tax Attributes Due to Discharge of Indebtedness (and Sec. 1082 Basis Adjustment)*. Note that certain student loans after Dec. 31, 2020 and before Jan. 1, 2026 are excluded from income (see Sec. 108(f)).

► 402) Did the taxpayer receive any of the following?

1. Any gambling winnings in 2021? If so, request the total amounts wagered in 2021 and the wager amounts related to any winnings (see Notice 2015-21). If the taxpayer claims itemized deductions, determine the deductible amount of gambling losses.
2. Any damage or injury awards? If so, determine what portion (if any) of such awards relate to a personal physical injury.
3. Any revenue from an activity that does not meet the for-profit activity rules of Sec. 183? If so, report the revenue as "other income" rather than on Schedule C.
4. Any scholarships, fellowships or grants? If so, were any such amounts remuneration for services or payment for room and board?
5. Any disability payments in 2021? If so, determine what amount, if any, is excludable from income.
6. Any awards and prizes, director's fees, estate or trust fiduciary fees, jury service fees or royalty income?
7. Any income from virtual currency/cryptocurrency transactions (e.g., Bitcoin, Ethereum, Ripple)?
8. Any payments from a former spouse or a spouse from whom the taxpayer is separated? If so, determine if such payments constitute a property settlement, alimony or child support. Note the rules regarding the inclusion of alimony received change regarding agreements entered into (or modified) after Dec. 31, 2018.
9. Any unemployment compensation? Note that the unemployment exclusion available for 2020 does not apply to the 2021 tax year.
10. Any emergency rental assistance payments? For eligible households, these payments are not considered income to members of the household. See IRS FAQs.

► 403) In 2021, did the taxpayer recover any expenses or losses deducted on prior returns?

► 404) Did the taxpayer barter for any goods or services in 2021? If so, request the details of the transaction, including the value of the goods and/or services exchanged.

Comments/explanations

500) Deductions and losses

Yes/ No/
Done N/A

Qualified business income (QBI) deduction (Sec. 199A)

- 501) Did the taxpayer have any income from any sole proprietorships or pass-through entities? For rental activities, consider whether the activity qualifies as a trade or business. See Rev. Proc. 2019-38 for safe harbor rules.
1. If so, determine the amount of gross income, gain, deduction and loss that were effectively connected with the conduct of a U.S. trade or business and included or allowed in determining taxable income for the year. Deductions attributable to a trade or business include, but are not limited to, deductible tax on self-employment income, self-employed health insurance and contributions to a qualified retirement plan.
 2. Do not include:
 - Short-term and long-term capital gains and losses
 - Sec. 1231 gains and losses that are capital gains or losses
 - Dividends or income equivalent to a dividend
 - Non-operating interest income
 - Interest income attributable to working capital
 - Gain or loss relating to transactions in commodities
 - Excess foreign currency gains
 - Income from notional principal contracts
 - Annuity income not in connection with a trade or business
 - Qualified REIT dividends and PTP income
 - Reasonable compensation received by an S corporation shareholder
 - Any guaranteed payment received by a partner for services
 - Sec. 707(a) payments received other than in capacity of a partner
 3. Determine the taxpayer's allocable portion of Form W-2 wage payments made by the qualified trade or business. Consider Rev. Proc. 2019-11 for the calculation of allocable wages.
 4. Determine whether the trade or business is a specified service business.
 5. Determine the taxpayer's allocable share of the unadjusted basis of qualified property owned by the trades or businesses.
 6. Did the taxpayer have any REIT dividends that were not capital gain dividends or qualified dividend income?
 - a) If so, was the REIT stock held for at least 45 days?
 7. Did the taxpayer have any income from a PTP that is not taxed as a corporation and that constitutes ordinary income under Sec. 751(a) or is attributable to U.S. trades or businesses conducted by the partnership?

8. Determine whether the sum of 20% of the taxpayer's QBI, 20% of the taxpayer's qualified REIT dividends and 20% of the taxpayer's qualified PTP income exceeds 20% of the amount by which the taxpayer's taxable income exceeds his or her net capital gains.
9. Determine if the taxpayer should elect aggregation of qualified trades or businesses to overcome the Form W-2 wage limitation.
10. If aggregation is elected, attach a statement to the return containing:
 - a) A description of each trade or business
 - b) The name and EIN of each entity in which a trade or business is operated
 - c) Information identifying any trade or business that was formed, ceased operations, was acquired or was disposed of during the taxable year
11. If the taxpayer's taxable income is above the threshold amount (\$329,800 for married filing joint returns and \$164,900 for others), compute the applicable percentage.
12. Consider if married filing separately would provide a QBI deduction benefit.

Automobile expenses

- 502) Request the total and non-personal mileage for 2021 for all automobiles.
 1. Request a breakdown of the non-personal mileage between self-employment, investment activity, rental activity and charitable activity.
 2. Request the average daily round trip and total 2021 commuting miles.
- 503) If the taxpayer owned an automobile used for business purposes in 2021, determine:
 1. For the first year of service of an automobile, determine the method of deducting expense. Note that if the standard mileage rate was not used in the initial year of placing the automobile in service, this method is not available for future years.
 2. Whether it was used for business purposes in the previous year and, if so, what method was used to determine the deductible expenses (standard mileage rate method or actual expense method)
 3. The year the car was purchased, the date business usage began, the purchase price and the fair market value on the date the business usage began
 4. If the vehicle was available for personal use during off-duty hours
 5. If the vehicle was used primarily by a more-than-5% owner or related person
 6. If another vehicle was available for personal use
- 504) Request the amount of parking, tolls and personal property taxes for the business in 2021.
- 505) Request the operating expenses of any business-use vehicles (gas, oil, repairs and maintenance, insurance, tags and licenses, etc.).

► 506) Did the taxpayer receive any employer automobile or mileage reimbursements in 2021? If so, were they included on Form W-2?

► 507) If the taxpayer leased a car used for business purposes in 2021, request the date the lease began, costs associated with the lease and the car's fair market value at the beginning of the lease period.

Home office

► 508) Determine whether the taxpayer's office-at-home qualifies him or her to be able to deduct expenses for the business use of their home.

1. Determine the self-employment activity with respect to the taxpayer's use of the office. Note that miscellaneous itemized deductions subject to the 2% floor under current law are repealed through 2025.
2. Was the area used exclusively on a regular basis as their principal place of business or to conduct administrative or management activities for this business?
3. Was the area used exclusively on a regular basis for meeting and conducting business with customers or taxpayers?
4. Was the area used on a regular basis to store inventory or product samples and was this the sole fixed location of the taxpayer's business?
5. Was the space a separate structure, not attached to the taxpayer's dwelling unit, that was used exclusively on a regular basis in the taxpayer's business?
6. Was the taxpayer's home used on a regular basis to provide day care?

► 509) Request the square footage of the home used for business and the total square footage in the home.

► 510) Request the total amount spent in 2021 for the following: rent, utilities, insurance, repairs, maintenance and condo or co-op fees. Of the total amount spent for repairs and maintenance in 2021, determine the amount that relates solely to the in-home office.

► 511) Request a description and dollar amount of any improvements made to the house in 2021 and, if the house is leased, the date the lease terminates.

► 512) Consider the effect of depreciation recapture upon the future sale of the residence.

► 513) Consider using the simplified method of calculating the deduction.

Nonbusiness bad debts and worthless investments

► 514) Were there any nonbusiness receivables or investments that became uncollectible or worthless in 2021? If so, request the basis of the debt or investment, a description of the debt or investment, the date it became uncollectible or worthless, the factual basis for uncollectability or worthlessness and the date acquired.

Retirement plan contributions

► 515) Request the amount of any contributions to traditional or Roth IRAs for 2021, including any contributions that will be made by the initial due date of the return. Confirm that the taxpayer qualifies to make contributions. Consider recharacterization of contributions if necessary.

- ▶ 516) Determine whether a traditional IRA has been converted to a Roth IRA during 2021. Note that the conversion can no longer be reversed by the due date of the tax return as previously allowed.
- ▶ 517) If a 2021 contribution to a traditional IRA is fully or partially nondeductible, request the taxpayer's basis for earlier years and confirm that Form 8606, *Nondeductible IRAs*, has captured all previous nondeductible contributions.
- ▶ 518) With respect to SEP IRAs, SIMPLE IRAs and Keogh plans, determine the total amount allowed to be contributed for 2021 and the contributions the taxpayer will make before the extended due date of the return.

Miscellaneous above-the-line deductions

- ▶ 519) Was any interest paid on education loans used entirely for post-secondary school tuition of an eligible student?
- ▶ 520) Did the taxpayer's employer pay any principal and interest on a qualified education loan of the taxpayer under a Sec. 127 plan? If so, the employee cannot claim a deduction for interest paid on student loans on the amount for which an exclusion is allowable.
- ▶ 521) Did the taxpayer pay any forfeited interest penalty for a premature savings deposit withdrawal?
- ▶ 522) Did the taxpayer pay any alimony in 2021? If so, request the amount paid and the recipient's name and Social Security number. Note that the rules regarding the deduction of alimony changed for agreements entered (or modified) after Dec. 31, 2018.
- ▶ 523) Did the taxpayer make any contributions to an Archer MSA in 2021?
- ▶ 524) If the taxpayer is an "eligible educator," did the taxpayer pay any classroom or professional development expenses in 2021? Note that costs incurred for personal protective equipment for COVID-19 is eligible for this deduction.
- ▶ 525) Confirm that the one-half of self-employment tax paid for 2021 is deducted.
- ▶ 526) If the taxpayer had self-employment income, did the taxpayer pay any health insurance costs for the taxpayer and their family? Consider including Medicare and long-term care premiums for these costs, if applicable.
- ▶ 527) Was the taxpayer a reservist, performing artist or fee-basis government official during 2021? If so, does the taxpayer have any expenses related to these activities in 2021?
- ▶ 528) Did the taxpayer make any contributions (other than employer contributions) to an HSA in 2021? If so, complete Form 8889, *Health Savings Accounts (HSAs)*.

Itemized deductions

- ▶ 529) Request the amount the taxpayer paid for medical expenses (including insurance premiums) for the taxpayer, dependents and persons who would be dependents had they met the income test. Note that amounts paid for personal protective equipment ("PPE") related to COVID-19 qualify as medical expense deductions. Note also that certain other expenses incurred by order of a physician and capital improvements to a home may be deductible.

1. Determine the number of miles the taxpayer used his or her car for medical care-related purposes, if any.

2. Did the taxpayer receive any medical expense reimbursements in 2021? If so, was the expense incurred this year or in an earlier year? If in an earlier year, was the expense deducted in that year?

► 530) If the taxpayer incurred a disaster casualty loss or had any property involuntarily converted during the tax year, consider the special rules pertaining to federally declared disasters, involuntary conversion rules and elections, and the option to deduct current year qualifying disaster losses on a preceding year's tax return by filing an amended return.

► 531) Qualified mortgage interest

1. Request all Forms 1098, *Mortgage Interest Statement*, from the taxpayer.

2. Did the taxpayer pay qualified residence interest? If so, request the amount and the name of the payee. Determine that the limits for acquisition indebtedness have been considered. Consider indebtedness incurred prior to Dec. 15, 2017 subject to a \$1 million limitation and indebtedness incurred after Dec. 14, 2017 subject to a \$750,000 limitation. Note that home equity indebtedness may be considered acquisition debt to the extent the principal amount was used to build, acquire or substantially improve a qualified residence.

3. Did the taxpayer (or the seller of a home that the taxpayer bought) pay any mortgage interest points in 2021 to buy a principal residence that is not shown on Form 1098, *Mortgage Interest Statement*?

4. Did the taxpayer refinance his or her principal residence in 2021? If so, request the amount of points and loan fees paid and the length of the loan. If the amount of the loan is in excess of the original outstanding debt, determine the applicable limitation. Note any unamortized points from a previous refinance that were paid off with the proceeds of the new loan.

5. Were any points paid but not fully deducted prior to 2021? If so, request the year paid, amount paid and length of the loan.

6. Did the taxpayer pay any other interest on loans secured by real property that was not reflected on Forms 1098? If so, request the recipient's name, address and tax identification number.

► 532) Other interest paid

1. Did the taxpayer pay any interest on loans related to business activities? If so, request the amount of interest traceable to loan proceeds used for business activities.

2. Did the taxpayer pay any business interest in 2021? Consider the limitation on the business interest deduction if the taxpayer has more than \$26 million in average annual gross receipts.

3. Did the taxpayer pay any interest on loans related to rental property? If so, request the amount. Using the interest tracing rules, determine whether this should be expensed on Schedule E or Schedule A, or if it is nondeductible personal interest.

4. Did the taxpayer pay interest related to any investments? If so, request the separate amounts for interest incurred to purchase or carry market discount bonds or short-term debt obligations; make sure to add any investment interest carryforward to 2022.

a) Consider the election to treat qualified dividends and net long-term capital gains as investment income.

5. Did the taxpayer pay any interest to a related party? If so, determine whether the loan was at a below-market rate and recalculate the interest on the loan, if necessary.

► 533) Taxes paid

1. Request the amounts paid in 2021 for estimated state and municipal income taxes this year.
2. Request the amounts paid in 2021 for state and municipal income taxes for previous years.
3. Request the amounts paid for state and local general sales taxes (either actual taxes paid or the amount from optional tables shown in the instructions to Schedule A, Form 1040) to determine if they are higher than state and local income taxes paid.
4. Request the amounts paid for real estate taxes.
5. Request the amounts paid for personal property taxes.
6. Request the amounts paid for any other taxes (except federal income taxes).
7. Note that the deduction for non-business state and local taxes (or sales tax in lieu of income taxes) and property tax is limited to \$10,000 (\$5,000 for married taxpayers filing separately).

► 534) Charitable contributions

1. Did the taxpayer make any cash contributions to charitable organizations in 2021? If so, request the following: the total dollar amount contributed, the name of the charities to which the contribution was made and the date of the contribution. Confirm that the taxpayer has the appropriate written documentation from the organizations to substantiate a charitable contribution of \$250 or more.
2. Note that up to \$300 of qualified cash charitable contributions (\$600 on a joint return) can be claimed as a deduction in 2021.
3. If a qualified conservation easement deduction is being taken, determine that a qualified appraisal has been obtained and it includes the following information:
 - a) Description of the property in sufficient detail to identify the contributed property
 - b) Physical condition of the property (if tangible property)
 - c) Date (or expected date) of contribution
 - d) Terms of any agreement or understanding entered into (or expected to be entered into) by or on behalf of the donor or donee that relates to the use, sale or other disposition of the property contributed
 - e) Name, address and identifying number of the qualified appraiser
 - f) Qualifications of the qualified appraiser who signs the appraisal, including the appraiser's background, experience, education and membership, if any, in professional appraisal associations
 - g) Statement that the appraisal was prepared for income tax purposes
 - h) Date(s) on which the property was appraised
 - i) Appraised fair market value (within the meaning of Sec. 1.170A-1(c)(2)) of the property on the date (or expected date) of the contribution

j) Method of valuation used to determine the fair market value

k) Specific basis for the valuation, such as specific comparable sales transactions or statistical sampling

4. Determine if the amount of any charitable contributions should be reduced due to receiving state credits for the donations or if any part of the contribution was payment for goods or services.

5. Consider the percentage deduction limitations and any contribution carryovers.

6. Confirm that no charitable deduction is allowed for payments made to college institutions for the right to purchase tickets or seats at athletic events.

7. Did the taxpayer make any property contributions to charitable organizations in 2021? If so, request 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 the value, the date the property was acquired, how the property was acquired, the taxpayer's basis in the property and information about whether the charity used the property in a manner unrelated to its charitable purpose. Prepare Form 8283, *Noncash Charitable Contributions*, as necessary. Attach a signed page two of Form 8283 and the appraisal, if required.

8. Determine the number of miles driven related to volunteer work for a charitable organization, if any.

9. Request the amount of any out-of-pocket expenses incurred by the taxpayer for charitable work.

Use of listed property

► 535) Did the taxpayer use any vehicles or any phonographic, photographic, communication, video recording or other similar equipment (i.e., listed property) for business purposes in 2021? If so, does the taxpayer have written evidence supporting the business-use percentage?

Meals and business gifts

► 536) Did the taxpayer have any expenses for meals or business gifts in 2021 related to a business or rental property? Consider the \$25 per recipient per year limit for gifts.

1. Note that a 100% deduction may be taken for qualifying business meals provided by a restaurant. A restaurant does not include businesses that primarily sell pre-packaged foods for immediate consumption (such as grocery and convenience stores). Business meals not qualifying for the 100% deduction are still eligible for the 50% deduction.

2. If so, advise the taxpayer that, for any separate travel expenses exceeding \$75, he or she must maintain both a receipt and documentary evidence of the time and place and business purpose of such expenses.

3. Confirm that expenses classified as entertainment are not deducted.

Comments/explanations

600) Credits

Yes/
Done No/
N/A

Note: See the AICPA Tax Section's 2021 Paid Preparer's Due Diligence Checklist related to the earned income tax credit, American opportunity tax credit, child tax credit and other dependent credit (Form 8867).

- ▶ 601) Did the taxpayer pay any costs for qualified education expenses? If so, determine if the costs were for the education of the taxpayer or the taxpayer's dependent or spouse, and the years of postsecondary education to which the expenses relate. Consider the American opportunity tax credit and make sure the proper due diligence requirements are met (Form 8867).
- ▶ 602) Did the taxpayer have a qualifying dependent who did not meet the definition of a qualifying child? If so, determine whether the family credit applies and make sure the preparer due diligence requirements are met (Form 8867).
- ▶ 603) Did the taxpayer receive benefits from a dependent care assistance program during 2021? If so, determine how much was received. Note that the child and dependent care credit has been enhanced and made refundable by the American Rescue Plan Act.
- ▶ 604) Did the taxpayer incur adoption expenses in 2021? If so, request the following: information regarding whether the adoption was domestic or foreign and whether the child is a special-needs child, whether the adoption was finalized in 2021, the nature and amount of the qualified adoption expenses and whether the taxpayer's employer reimbursed any of the adoption expenses.
- ▶ 605) Determine whether the taxpayer has one or more qualifying children for the child tax credit. If so, make sure the preparer due diligence requirements have been met (Form 8867). Also, confirm that the child has a Social Security number. See the AICPA Tax Section's Paid Preparer's Due Diligence Checklist.
 - 1. For 2021, the child tax credit was expanded to include dependents who are age 17 and the amount of the credit has increased to \$3,000 (children ages 6 to 17) and to \$3,600 (children under age 6) from \$2,000.
 - 2. There are two phaseouts for the child tax credit. The first phaseout is based on modified adjusted gross income (AGI) limits (e.g., \$150,000 for married filing jointly taxpayers) for the additional amount of the credit (\$1,000 or \$1,600). The second phaseout is for the \$2,000 per child credit based on the modified AGI limits (e.g., \$400,000 for married filing jointly taxpayers).
- ▶ 606) Did the taxpayer have employees who were eligible for the employee retention credit and were the credits claimed against employment taxes? If so, determine that the full amount of the credit reduces salary expense. Consider amending payroll returns to claim the credit retroactively for 2020.
- ▶ 607) Did the taxpayer have employees (including household employees) who were eligible for paid sick or paid family leave and were the related tax credits claimed against employment taxes? Determine that the full amount of the credit for qualified leave wages (and any allocable qualified health plan expense and share of the Medicare tax on the qualified leave wages) is included in gross income. Also, note that qualified leave wages may not be taken into account to claim the paid sick or paid family leave tax credit and Sec. 45S credit for family and medical leave.
- ▶ 608) If the taxpayer is self-employed, determine if the taxpayer can claim an income tax credit for a qualified sick leave or qualified family leave equivalent amount. If so, complete Form 7202, *Credits for Sick Leave and Family Leave for Certain Self-Employed Individuals*.
- ▶ 609) Was the taxpayer age 65 at the end of 2021, retired on permanent and total disability and receiving taxable disability income?
- ▶ 610) Did the taxpayer have any income earned from a foreign source or from a U.S. possession in 2021? If so, request the amount of income taxes paid to the foreign country, its political subdivisions or to a U.S. possession.

Yes/ No/
Done N/A

- ▶ 611) Is the taxpayer eligible for the earned income tax credit? Note the changes to the qualifications for this credit in 2021. If so, make sure the preparer due diligence requirements have been met and prepare Form 8867. Consider an election to use 2019 earned income for the purposes of determining this credit.
- ▶ 612) Did the taxpayer have an eligible small business that paid or incurred amounts to comply with applicable requirements under the Americans with Disabilities Act of 1990? If so, prepare Form 8826, *Disabled Access Credit*.
- ▶ 613) Is the taxpayer eligible for the health coverage tax credit (HCTC)? Note that individuals who wish to continue to participate in the HCTC Monthly Program must have re-enrolled for 2021 by submitting a Form 13441-A, *Health Coverage Tax Credit (HCTC) Monthly Registration and Update*.
- ▶ 614) Consider whether the following additional credits may apply to the taxpayer: alcohol fuel credit, enhanced oil recovery credit, energy credit or credit for qualified rehabilitation expenditures with respect to a certified historic structure, work opportunity tax credit, low-income housing credit, mortgage interest credit, credit from Form 2439, *Notice to Shareholder of Undistributed Long-Term Capital Gains* (from a mutual fund), nonconventional source fuel credit, research and development credit, alternative motor vehicle credit or alternative fuel vehicle refueling property credit, credits for qualified tax credit bonds, plug-in electric drive motor vehicle credit, credit for small employer health insurance premiums or the qualified retirement savings contribution credit. Also, consider the nonbusiness energy property credit for qualified energy saving items installed in connection with the taxpayer's home.

Comments/explanations

700) Additional taxes

Yes/ No/
Done N/A

- ▶ 701) Did the taxpayer pay any household employee cash wages of \$2,300 or more in 2021 or \$1,000 or more in any calendar quarter? If so, prepare Schedule H.
 1. Did the taxpayer withhold any federal income tax during 2021 at the request of a household employee? If so, prepare Schedule H.
 2. Did the taxpayer defer payment of Social Security taxes owed in 2021? If so, include amounts on Line 12e of Schedule 3 (Form 1040).
- ▶ 702) Determine whether the taxpayer is subject to the additional 0.9% Medicare tax, which applies to earned income above \$200,000 (\$250,000 for married couples filing jointly and \$125,000 for married couples filing separately).
- ▶ 703) Did the taxpayer have any net investment income? If so, determine the applicability of the 3.8% net investment income tax (NIIT). If this is the first year that the taxpayer is subject to the NIIT, consider the election to regroup their passive activities. See Regs. Sec. 1.469-11(b)(3)(iv).

Comments/explanations

800) Alternative minimum tax (AMT)

Yes/ No/
Done N/A

▶ 801) Did the taxpayer receive any interest from specified private activity bonds exempt from the regular tax?

▶ 802) Did the taxpayer realize any excludable gain from Sec. 1202 qualified small business stock?

▶ 803) Did the taxpayer exercise any incentive stock options or receive stock in settlement of a restricted stock unit? Consider whether the taxpayer is eligible for the Sec. 83(i) deferral election and, if so, whether the taxpayer should make such election.

▶ 804) Did the taxpayer receive a Schedule K-1 from an estate, trust, partnership or S corporation showing an AMT adjustment?

▶ 805) Determine the amount of the minimum tax credit that can be used in 2021 and any carryover to 2022.

▶ 806) Determine any AMT differences related to:

1. Dispositions of property
2. Depreciation
3. Passive activities
4. Loss limitations
5. Circulation costs
6. Long-term contracts
7. Mining costs
8. Research and experimental costs
9. Intangible drilling costs
10. Qualified housing interest
11. NOLs
12. Foreign tax credits

Comments/explanations

900) Tax payments

Yes/ No/
Done N/A

- ▶ 901) Request the date and amount of any 2021 estimated tax payments.
- ▶ 902) For extended returns, confirm that the extension payment has been properly reflected on the return.
- ▶ 903) Does the taxpayer have amounts related to the prior year's income that qualify him or her under Sec. 1341 (claim-of-right doctrine) for relief provisions in 2021?
- ▶ 904) Based on discussions with the taxpayer, determine the taxpayer's need to make estimated tax payments for the forthcoming year, considering:
 - 1. Estimated income/deductions for 2022
 - 2. Non-recurring items in 2022
 - 3. Withholding changes for 2022
 - 4. For extended returns, consider estimates paid (or needed to be paid) prior to filing the return.

Comments/explanations

1000) Affordable Care Act (ACA) individual health insurance mandate

Yes/ No/
Done N/A

Minimum essential coverage (MEC)

Note that the Tax Cuts and Jobs Act reduces the individual shared responsibility payment (ISRP) to zero for tax years starting Jan. 1, 2019. However, the law still requires taxpayers to maintain MEC for the 2021 tax year. Also note that there could be a state requirement to maintain insurance coverage or be subject to a penalty.

- ▶ 1001) Did all members of the taxpayer's household maintain MEC for all months in 2021?
 - 1. If yes, is there documentation to support that they have MEC (such as Form 1095-A, Form 1095-B or Form 1095-C)? Note that the IRS issued Notice 2021-76 regarding the requirement to furnish Form 1095-B to individuals.
 - 2. If the taxpayer and/or members of their household did not maintain MEC for all 12 months of 2021, determine if they are eligible for an exemption from health coverage.

Premium tax credit (PTC)

- ▶ 1002) Did the taxpayer and/or members of their household purchase insurance through an Exchange?
 - 1. If yes, use Form 8962, *Premium Tax Credit*, to determine if they are eligible for the PTC.
 - a) Obtain Form 1095-A, *Health Insurance Marketplace Statement*, from the client.

2. Determine if any advance credit payments were received (see the Form 1095-A).

- a) If yes, calculate the amount of the credit and reconcile the advance payments to the allowable credit on Form 8962, which must be filed with the Form 1040.
- b) If the reconciliation shows excess advance payments, the overage (subject to a maximum amount) does not need to be repaid on the 2021 return.
- c) If the reconciliation shows that an additional credit is due, it will increase any refund or decrease any taxes due. The PTC and any advance credit will be taken into consideration when calculating the underpayment of estimated tax penalty.
- d) If no, calculate the amount of the credit.

► 1003) If the taxpayer was divorced in 2021, an allocation of the credit may be necessary. Complete Section 4 of Form 8962.

► 1004) If the taxpayer was married during 2021, and there are excess advance credits, he or she may benefit from the alternative calculation for marriage. Complete Section 5 of Form 8962.

Comments/explanations

1100) International issues

Note: For more guidance on international tax, go to the AICPA Tax Section's collection of [international resources](#).

► 1101) Did the taxpayer 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 and automatically extended to October 15 for the preceding calendar year) and complete the questions on Schedule B related to foreign accounts.

Note that FinCEN has announced its intention to amend the regulations to include virtual currency accounts, but no such regulations have yet been adopted.

► 1102) Determine if Form 8938, *Statement of Specified Foreign Assets*, is needed.

► 1103) Did the taxpayer receive any foreign gifts or have a transaction with a foreign trust? If so, determine if Form 3520, *Annual Report To Report Transactions With Foreign Trusts and Receipt of Certain Foreign Gifts*, should be filed. Consider whether Form 3520-A, *Annual Information Return of Foreign Trust with a U.S. Owner*, is required. Note that the due date of Form 3520-A is generally March 15 and the individual extension (Form 4868) does not cover this form.

► 1104) Consider if an overseas taxpayer qualifies for the automatic two-month filing extension, the foreign earned income exclusion, the housing exclusion or the housing deduction (note exclusions are indexed for inflation).

Yes/ No/
Done N/A

► 1105) Is the taxpayer a shareholder who owns 10% or more of the vote or value of a controlled foreign corporation (CFC)? If so, has the inclusion of global intangible low-taxed income (GILTI) been considered (Sec. 951A)?

► 1106) 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, note that an installment (generally 8% of the total repatriation tax) is due with the 2021 return. Note that the installment amount goes up to 15% for the sixth installment, 20% for the seventh installment and 25% for the eighth installment.

► 1107) Is the taxpayer a shareholder in an S corporation who was subject to the repatriation tax (Sec. 965)? If so, was a valid election made with their 2017 return to defer the payment of this tax until a specified triggering event occurred? Determine whether a triggering event occurred and, if so, consider making an election to pay the tax over eight installments.

Comments/explanations

1200) Other federal considerations

Yes/ No/
Done N/A

► 1201) Consider direct deposit for refunds and automatic withdrawal for payments. Consider whether to apply a refund to an IRA. See Form 8888, *Allocation of Refund (Including Savings Bond Purchases)*.

► 1202) Consider checking the box to allow the IRS to contact the preparer.

► 1203) Determine if all tax positions meet the "substantial authority" standard. Determine if all positions disclosed on Form 8275, *Disclosure Statement*, meet the "reasonable basis" standard.

► 1204) Are there any tax shelters and reportable transactions? If so, prepare Form 8886, *Reportable Transactions Disclosure Statement*, and determine if the "more likely than not" standard has been met.

► 1205) Determine if the taxpayer is reporting the tax treatment of any item inconsistent from the reporting provided on Schedule K-1, Schedule Q or a foreign trust statement. If so, prepare Form 8082, *Notice of Inconsistent Treatment or Administrative Adjustment Request (AAR)*.

Comments/explanations

1300) State considerations

Yes/ No/
Done N/A

► 1301) Determine state and local filing requirements. See the [AICPA's SALT Road Map – State and Local Tax Guide](#).

► 1302) Consider the following:

1. Nexus issues

2. State returns filed in a previous year (still have nexus, final return required, etc.)

3. Taxpayer doing business in new states

4. Apportionment and allocation (considering each state's rules)

5. Each state's modifications requirements (due date, conformity with federal laws, depreciation provisions, etc.)
6. State tax adjustments/credits. Review state specifics regarding items that may not conform to federal law and note any allowable state tax credits.
7. Estimated tax payments. Note any amounts paid during 2021 and determine whether they are required for 2022.

Comments/explanations

1400) Professional responsibilities and reminders

- ▶ 1401) 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.

Note the AICPA hosting services interpretation ([ET Sec. 1.295.143](#)) that became effective July 1, 2019 and consider its applicability to your clients.

- ▶ 1402) 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.

- ▶ 1403) Internal processing procedures:

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

- ▶ 1404) 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.

Comments/explanations

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