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2021 C Corporation Income Tax Return Checklist

Form 1120 (Short)

Client name and number _____

Prepared by _____ Date _____ Reviewed by _____ Date _____

100) General	Yes/ Done	No/ N/A
▶ 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.		
▶ 103) Consider executing Form 2848, <i>Power of Attorney and Declaration of Representative</i> , and/or Form 8821, <i>Tax Information Authorization</i> .		
▶ 104) Request/review correspondence, to or from the IRS or state tax authority, including any adjustments made to prior returns that could affect later returns.		
▶ 105) Review the proforma or organizer for accuracy.		
▶ 106) Review financial statements and footnotes for relevant information.		
▶ 107) Review a copy of last year's return that includes all forms and supporting schedules.		
▶ 108) Identify the authorized officer who will sign the return.		
▶ 109) Confirm the taxpayer's name, employer identification number, address, tax year and business code.		
▶ 110) Reconcile income and expenses with book entries and review the prior year's Schedules M-1 or M-3.		
▶ 111) Obtain a copy of the federal and state Schedules K-1, K-2 and K-3 from each partnership or LLC in which the taxpayer is a partner or member.		
▶ 112) Check for carryover items such as prior year deferred income and deductions, net operating losses (NOLs), charitable contributions, passive losses and credits, an investment credit, installment sales, Sec. 481 adjustments, net Sec. 1231 losses from the previous five years, Sec. 179 carryover or potential recapture amounts, and Sec. 163(j) disallowed interest carryovers.		

Yes/ No/
Done N/A

▶ 113) Does the corporation have gross receipts on an “aggregate basis” (combined with relevant related parties) in excess of \$26 million? If so, make sure that the accrual basis of accounting is being used unless an exception applies.

▶ 114) Does the taxpayer have a written policy on the write-off of expenditures under a specified amount? If so, determine if this complies with the safe harbor election rules under Regs. Sec. 1.263(a)-1(f)(1).

▶ 115) During the last half of the year, were there five or fewer individuals who own directly or indirectly more than 50% of the stock?

▶ 116) Did the taxpayer receive, sell, exchange or otherwise dispose of any financial interest in any virtual currency/cryptocurrency in 2021? 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 virtual currency tax guidance and resources](#).

▶ 117) If the taxpayer deferred payment of the employer’s share of Social Security tax 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 (remaining 50% is due by Dec. 31, 2022).

▶ 118) Did the taxpayer allow qualified employees to defer withholding and payment of the employee’s portion of Social Security tax for wages paid between Sept. 1, 2020 and Dec. 31, 2020? If so, confirm that the deferred amounts were withheld from the employees’ 2021 wages.

Comments/explanations

200) Income

Yes/ No/
Done N/A

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

▶ 202) Has the taxpayer 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.

▶ 203) Were there any related-party transactions? If so, determine the effects of Sec. 267 and Sec. 1239.

▶ 204) Did the taxpayer 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.

▶ 205) Did the taxpayer receive funds from the Paycheck Protection Program (PPP)? If so, was any of the loan considered forgiven in 2021? Note that the forgiveness of a PPP loan is not considered federal taxable income and otherwise deductible expenses paid with the loan are tax deductible.

▶ 206) Did the taxpayer receive funds from other COVID-19-related funds/grants? If so, confirm federal and state taxable income treatment.

Financial transactions

- ▶ 207) Were any 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 FMV) and apply loss limitations to items not timely identified in the corporate books and records
 3. Wash sale rules applicability (Sec. 1091)
 4. Straddle rules applicability (Sec. 1092)

- ▶ 208) 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 information about if the taxpayer also held a long position in the security that was the subject of the short sale.

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

- ▶ 210) 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.

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

- ▶ 212) Was any income deferred for book purposes in the previous year, but included for tax purposes in that year? If so, determine whether to exclude such income for tax purposes in the current year.

- ▶ 213) Consider the proper reporting of virtual currency/cryptocurrency capital gain/loss transactions.

- ▶ 214) Was the taxpayer relieved of any debt obligation in the taxable year? For example, were payments related to a subsidy for certain types of loans (Sec. 1112 of the CARES Act)?

Interest/dividends

- ▶ 215) Did the taxpayer receive any interest from U.S. Treasury bills, notes or other bonds? If so, address state tax reporting rules.

- ▶ 216) For cash basis corporations, address accrued interest received on bonds sold in the taxable year before maturity.

- ▶ 217) Report interest on tax-exempt state or local obligations on Form 1120, Schedule K, item 9.

- ▶ 218) Determine the taxability of dividends received and complete Schedule C.

Gain or loss on property

- ▶ 219) To complete Schedule D (Form 1120) and Form 4797, *Sales of Business Property*, obtain all the following:
 1. Forms 1099-B and/or 1099-S

Yes/ No/
Done N/A

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 for other tangible property

Other income

▶ 220) For each rental property, obtain a description of the type and location of the property, the total rental 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 coop fees and any other expenses).

▶ 221) Was there any change in the cash surrender value of key-person life insurance? If so, determine if an M-1 or M-3 adjustment is required.

▶ 222) Did the taxpayer have 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 considered to claim the paid sick or paid family leave tax credit and Sec. 45S credit for family and medical leave. Note the documentation requirements for qualifying employee leave.

Comments/explanations

300) Deductions

Yes/ No/
Done N/A

Depreciation

▶ 301) Consider whether the corporation should make a Sec. 179 election (on Form 4562) to immediately expense part or all the cost of qualifying property. Note that the 2021 Sec. 179 deduction limit is \$1.05 million with the phase out beginning at \$2.62 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.

▶ 302) Determine whether there are any property classes to which alternative depreciation system (ADS) depreciation should be applied. The ADS recovery period for residential rental property was shortened from 40 to 30 years beginning with tax year 2018 property.

▶ 303) Did the taxpayer acquire any property in the taxable year that qualifies for bonus depreciation? If so, determine if electing out of bonus depreciation is appropriate.

▶ 304) Determine the following for each asset placed in service: the modified accelerated cost recovery system (MACRS) life, the appropriate depreciation method and the applicable convention.

▶ 305) Did the corporation 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.

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

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

Interest expense

▶ 308) Was any interest expense related to tax-exempt income? Determine any disallowed interest expense. (Sec. 265(a)(2)).

Sec. 163(j) business interest limitation

▶ 309) For a taxpayer having average annual gross receipts in excess of \$26 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 2021 excluding investment interest income). ATI is taxable income before business interest expense, depreciation, NOLs and non-business income. Interest expense subject to the limitation does not include floor plan financing interest.

▶ 310) If the taxpayer 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.

▶ 311) Verify any carryover of prior year disallowed interest under Sec. 163(j).

Business gifts, travel, meals and entertainment

▶ 312) Advise the taxpayer that business gift deductions are limited to \$25 per recipient.

▶ 313) For any separate travel expense exceeding \$75, advise the taxpayer to maintain a receipt and a documentary item of evidence of the time and place, business purpose and business relationship with the person being entertained.

▶ 314) Determine the disallowed portion of meal expenses as well as club dues.

1. Note that a temporary 100% deduction for 2021 and 2022 may be taken for qualifying business meals provided by a restaurant for 2021 and 2022.

▶ 315) 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

▶ 316) Did the taxpayer make qualified cash contributions during calendar year 2021? Qualified cash contributions are allowed up to 25% of the taxpayer's taxable income and any excess amount can be carried over to the next taxable year.

▶ 317) Did the taxpayer make any property contributions to charitable organizations in the taxable year? If so, obtain the information needed for reporting. Obtain a signed Form 8283, *Noncash Charitable Contributions*, from the charity, if applicable. Obtain a copy of the qualified appraisal, if required.

▶ 318) Consider an enhanced contribution deduction for any contributions of food inventories to a charity. For contributions of food inventory in 2021, taxpayers may deduct qualified contributions of up to 25% of their taxable income (up from 15%).

Uniform capitalization/ long-term contracts (revenue)

- ▶ 319) Did the taxpayer produce or acquire property for inventory in the taxable year? If so, verify the correct application of the uniform capitalization rules under Sec. 263A, considering that most producers or re-sellers meeting the \$26 million gross receipts test (an aggregate test, combined with relevant related parties) are exempt from the uniform capitalization rules.
- ▶ 320) Did the taxpayer 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 may be used for contracts for the construction of real property that is expected to be completed within two years or less if the corporation meets the \$26 million gross receipts test (an aggregate test).

Other deductions

- ▶ 321) Did the taxpayer incur any lobbying expenses in the taxable year? If so, confirm that such expenses are not deducted.
- ▶ 322) Did the taxpayer pay any trade association dues in the taxable year? If so, determine if such dues include nondeductible lobbying expenses.
- ▶ 323) 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).
- ▶ 324) Confirm that the specific write-off method is used for bad debts.
- ▶ 325) 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.
- ▶ 326) Was there any inventory write-down for book purposes? If so, determine if there should be an adjustment for tax purposes.
- ▶ 327) Did the taxpayer 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.
- ▶ 328) Review increases or decreases in reserve accounts for potential M-1 or M-3 items.
- ▶ 329) 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).
- ▶ 330) Determine a limit on the compensation deduction for certain employees of certain companies under Sec. 162(m).
- ▶ 331) Determine whether officer's life insurance expense is deductible.
- ▶ 332) Is the taxpayer 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.

Yes/ No/
Done N/A

▶ 333) 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.

▶ 334) Confirm that retirement plan contributions were made using the eligible compensation limit.

Net operating losses (NOLs)

▶ 335) Prepare an NOL supporting schedule to be attached to the tax return.

▶ 336) If the corporation generated an NOL, note that the application of the 80% taxable income limitation is suspended for taxable years beginning after Dec. 31, 2017 and before Jan. 1, 2021. Consider amending returns for prior years. For 2021 returns, the NOL is limited to 80% of taxable income and any excess can be carried forward indefinitely (note exceptions for certain farming losses and certain insurance companies).

▶ 337) If an NOL is anticipated for next year, consider filing Form 1138, *Extension of Time for Payment of Taxes by a Corporation Expecting a Net Operating Loss Carryback*.

Comments/explanations

400) Credits

Yes/ No/
Done N/A

▶ 401) Determine whether the taxpayer is eligible for the employee retention credit (ERC), which is available for qualified wages paid by Sept. 30, 2021. Note that the ERC is taken against employment taxes, not income taxes.

▶ 402) 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 to use the simplified computation of the credit limitation).

▶ 403) Consider whether the taxpayer qualifies for any other tax credits.

Comments/explanations

500) Elections

Yes/ No/
Done N/A

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

Yes/ No/
Done N/A

▶ 502) Consider making an election to expense repairs and maintenance under the safe harbor rules.

▶ 503) If the business began this tax year, consider an election to deduct up to \$5,000 of organizational expenses and up to \$5,000 of business start-up costs.

▶ 504) Consider whether to adopt the recurring items exception and 3½ month rule with respect to the economic performance rules.

▶ 505) Consider other elections, such as the research and experimental cost election, an election to expense intangible drilling/mining costs, etc.

Comments/explanations

600) Tax payments

Yes/ No/
Done N/A

▶ 601) Obtain the date and amount of (1) 2021 estimated tax payments, (2) payments made with the 2021 extensions, (3) prior year overpayments credited to 2021 and (4) any back-up withholding.

▶ 602) If there is an overpayment of tax, consider an election to apply any overpayment to a quarter other than the first quarter.

▶ 603) If estimated tax payments applicable to the tax year are less than the tax liability, consider filing Form 2220, *Underpayment of Estimated Tax by Corporations*.

▶ 604) Determine the proper amount of estimated tax payments for the 2022 tax year.

Comments/explanations

700) Foreign transactions and reporting

Yes/ No/
Done N/A

▶ 701) At any time during the tax year, did the corporation or its officer(s) have an interest in, or a signature or other authority over, financial account(s) in a foreign country having an aggregate balance of at least \$10,000 at any time during the year? If so, file FinCEN Form 114 (and Form 114a, if applicable) (due April 15 with an automatic extension to October 15). Note that FinCEN has announced its intention to amend the regulations to include virtual currency accounts, but no such regulations have yet been adopted.

▶ 702) For closely held corporations, does the taxpayer have specified foreign financial assets? If so, prepare Form 8938, *Statement of Specified Foreign Financial Assets*.

Yes/ No/
Done N/A

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- ▶ 703) If the taxpayer has foreign business activity, consider reviewing other international filing obligations shown in the Form 1120 long checklist.
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Comments/explanations

800) Other federal issues

Yes/ No/
Done N/A

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- ▶ 801) Is the taxpayer an accrual basis taxpayer? If so, consider the deferral of state or local income or franchise tax refunds.
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- ▶ 802) Does the taxpayer have financial statement disclosures under FASB ASC 740 (*Accounting for Uncertainty in Income Taxes*)? If so, determine the need to include Schedule UTP (Form 1120), *Uncertain Tax Position Statement*.
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- ▶ 803) Determine if health plan(s) and/or reimbursement arrangements are compliant with the Affordable Care Act (ACA). If applicable, file Form 1094/1095-C.
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- ▶ 804) Determine if the taxpayer has filed all required Forms 1095, 1098, 1099 and 1042.
-
- ▶ 805) Consider checking the box allowing the IRS to contact the preparer.
-
- ▶ 806) Is the corporation required to electronically file its federal return? Corporations with \$10 million or more in assets and that file 250 or more returns each year are required to electronically file their corporate return. If so, confirm that all federal and state e-filed authorizations are obtained from the taxpayer.
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Comments/explanations

900) State considerations

Yes/ No/
Done N/A

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- ▶ 901) Determine [state and local filing requirements](#). Consider items such as nexus, apportionment and state adjustments/credits.
-

Comments/explanations

1000) Professional responsibilities and reminders

Yes/ No/
Done N/A

▶ 1001) 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.

▶ 1002) 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).

▶ 1003) 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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