

# 2021 Partnership/LLC Income Tax Return Checklist

## Form 1065 (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 <a href="#">AICPA Tax Section's Initial Business Return Filing Checklist</a> and the <a href="#">IRS's Closing a Business Checklist</a> .		
▶ 102) Obtain a signed engagement letter.		
▶ 103) Consider asking the partnership/LLC to execute a Form 2848, <i>Power of Attorney and Declaration of Representative</i> , and/or Form 8821, <i>Tax Information Authorization</i> .		
▶ 104) Request any correspondence, to or from the IRS or state tax authority, including any adjustments made to prior returns that could affect later returns.		
▶ 105) If any adjustments were made to previous returns, verify that the partnership representative has notified all partners/members and determine whether any additional adjustments or filings are necessary.		
▶ 106) Confirm the partnership's/LLC's name, employer identification number, address, tax year and business code.		
▶ 107) Review the proforma or organizer for accuracy.		
▶ 108) Review any business financial statements and footnotes for relevant information, if applicable.		
▶ 109) Obtain and review a copy of last year's return (including an amended return or administrative adjustment request, if applicable) that includes all forms and supporting schedules.		
▶ 110) Identify the authorized partner or LLC member who will sign the return.		
▶ 111) Reconcile income and expenses with book entries and review Schedule M-1 or M-3 of last year's return.		
▶ 112) Obtain a copy of the partnership agreement or operating agreement, including any amendments.		
▶ 113) Obtain a copy of Schedule K-1 from each entity in which the partnership/LLC is a partner, member or beneficiary.		
▶ 114) Did the partnership/LLC receive, sell, exchange or otherwise dispose of any financial interest in any virtual currency/cryptocurrency? If so, determine the reportable amount realized.		

Yes/ No/  
Done N/A

- ▶ 115) Check for carryover items such as prior year deferred income and deductions, installment sales, Sec. 481 adjustments and Sec. 179 amounts.
- ▶ 116) If the partnership/LLC 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).
- ▶ 117) 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.
- ▶ 118) Consider ramifications related to the Bipartisan Budget Act of 2015 (BBA) audit rules. For example, consider adjustments to the partnership/operating agreement, an election out of the rules, partner indemnification, new partners, procedures to determine the partnership representative, etc. Also, consider filing an extension request so that, if necessary, the partnership can file a superseded return by its extended due date.
- ▶ 119) Do any qualified disaster relief provisions apply to the partnership/LLC for 2021 (related to due dates of federal and state/local returns)?

Comments/explanations

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### 200) Partners and members

Yes/ No/  
Done N/A

- ▶ 201) Indicate the designated partnership representative on the current year's tax return (if the partnership/LLC will not elect out of the BBA audit rules).
- ▶ 202) With respect to each person who was a partner or member at any time during the taxable year, obtain the full name, partnership/LLC identification number, address, Social Security number and the tax year. If the partner or member is a disregarded entity, complete the additional information required on Schedule K-1, Part II.

Comments/explanations

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### 300) Income

Yes/ No/  
Done N/A

- ▶ 301) Request all Forms 1099 received by the partnership/LLC.
- ▶ 302) As to each item of income received by the partnership/LLC, determine whether it constitutes trade or business, portfolio, rental or foreign-source income.
- ▶ 303) Does the partnership/LLC engage in any passive activities? If so, determine if the grouping of passive activities is adequate and consistent with prior years.
- ▶ 304) Did the partnership/LLC lease any vehicles for business use in the taxable year? If so, calculate the appropriate income inclusion for leased vehicles and property under IRS tables.

- ▶ 305) Did the partnership/LLC 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.
- ▶ 306) Was any income deferred for book purposes in the taxable year or in the previous year? If so, determine whether such income must be included in the current year.
- ▶ 307) Did the partnership/LLC receive funds from the Paycheck Protection Program (PPP) related to COVID- 19? If so, was any of the loan considered forgiven in 2021? Note that for federal income tax purposes, the forgiveness of a PPP loan is not considered taxable income and otherwise deductible expenses paid with the loan are tax deductible.
- ▶ 308) Did the partnership/LLC receive funds from other COVID-19-related funds/grants? If so, confirm federal and state taxable income treatment.
- ▶ 309) Was the partnership/LLC relieved of any debt obligation in the taxable year, other than by means of payment? Determine if there is an exclusion of cancellation of debt income and file Form 982, *Reduction of Tax Attributes due to Discharge of Indebtedness*, if applicable.

**Financial transactions**

- ▶ 310) Were any shares of stock or other securities sold during the year? If so, determine:
1. Dates purchased and sold, cost basis and gain/loss
  2. Dealer status for Sec. 475 treatment (adjust assets to fair market value (FMV) and apply loss limitations to items not timely identified in the books and records)
  3. Wash sale rules applicability (Sec. 1091)
  4. Straddle rules applicability (Sec. 1092)
  5. Reporting of short sales of securities

**Interest/dividends**

- ▶ 311) Did the partnership/LLC receive any interest from U.S. Treasury bills, notes or other bonds? If so, address state tax reporting rules.
- ▶ 312) For cash basis partnerships/LLC, address accrued interest received on bonds sold in the taxable year before maturity.
- ▶ 313) Did the partnership/LLC purchase any bonds in the taxable year? If so, was the bond purchased at a premium? What amount of accrued interest was paid in the taxable year? \_\_\_\_\_
- ▶ 314) Did the partnership/LLC receive any interest on tax-exempt state or local obligations? If so, address state tax reporting rules.
- ▶ 315) Determine whether any dividends received were paid by a domestic corporation on stock held by the partnership/LLC for the requisite holding period to be “qualified dividends.”
- ▶ 316) Compare the sources and amounts of interest and dividend income with prior year returns.

Yes/ No/  
Done N/A

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**Gain or loss on property**

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- ▶ 317) Were there any sales of tangible property or other assets other than inventory in the taxable year? In order to complete Schedule D (Form 1120) and/or Form 4797, *Sales of Business Property*, obtain all the following:
    1. Forms 1099-B and/or 1099-S
    2. Closing Disclosures for any purchases or sales of real property
    3. The selling price, original cost basis, accumulated depreciation (if applicable), date purchased and date sold, nature (i.e., method) of accumulated depreciation taken in prior years and the holding period for other tangible property
  - ▶ 318) Are there any Sec. 1231 net gains in the taxable year? If so, verify any net Sec. 1231 losses from the previous five years.
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**Rental income**

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- ▶ 319) For each rental property, obtain a description of the type and location of the property, the total rent income and itemized expenses.
  - ▶ 320) Report the real estate rental activities on Form 8825, *Rental Real Estate Income and Expenses of a Partnership or an S Corporation*.
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Comments/explanations

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**400) Deductions and losses**

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Yes/ No/  
Done N/A

**Depreciation**

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- ▶ 401) Consider whether the partnership/LLC should make a Sec. 179 election (on Form 4562) to immediately expense part or all the cost of qualifying property. Note that the Sec. 179 deduction limit is \$1.05 million for 2021 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.
  - ▶ 402) Determine whether there are any property classes to which alternative depreciation system (ADS) depreciation should be applied.
  - ▶ 403) Did the partnership/LLC acquire any property in the taxable year that qualifies for bonus depreciation? If so, determine if electing out of bonus depreciation is appropriate.
  - ▶ 404) Determine the following for each asset placed in service in the taxable year: the modified accelerated cost recovery system (MACRS) life, the appropriate depreciation method and the applicable convention.
  - ▶ 405) Did the partnership/LLC make any improvements that are classified as qualified improvement property (QIP) during the taxable year? Note that such property is considered 15-year property and is eligible for bonus depreciation under MACRS and is considered 20-year property under ADS.
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▶ 406) Consider whether 2018 and 2019 tax returns should be amended and/or an accounting method change is necessary due to the CARES Act provision providing that QIP is eligible for bonus depreciation retroactively to Jan. 1, 2018.

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

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

**Partner/member transactions**

▶ 409) Are there any guaranteed payments to partners or members? If so, determine if such payments are for services or capital. Note the requirement on Schedule K-1 to report these figures separately.

▶ 410) Obtain the current year contributions to retirement plans. Verify that contributions were made using the eligible contribution limit according to the plan.

▶ 411) Are any partners/members classified as employees? If so, notify your client that partners/members may not be treated as employees and should not receive Forms W-2, *Wage and Tax Statement* (all income from the partnership should be reflected on the Schedule K-1).

**Interest**

▶ 412) Was any interest paid in the taxable year? If so, determine that interest is properly allocated among passive, business and investment income activities.

▶ 413) Does the partnership/LLC have average annual gross receipts in excess of \$26 million? If so, the interest deduction may be limited (generally 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, net operating losses (NOLs) and non-business income. Interest expense subject to the limitation does not include floor plan financing interest.

▶ 414) Determine if there is any unused amount of the business interest deduction limitation. If so, the excess is allocated to the partners/members.

▶ 415) Was any interest expense related to tax-exempt income? Determine any disallowed interest expense.

**Business gifts, travel, meals and entertainment**

▶ 416) Advise the partnership/LLC that business gift deductions are limited to \$25 per recipient.

▶ 417) For any separate travel expense exceeding \$75, advise the partnership/LLC 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.

▶ 418) Determine the disallowed portion of meals expenses, as well as club dues, and verify the correct reporting on Schedule K-1 as the disallowed portion reduces the outside basis of partners/members. Note that the 50% limit now applies to on-premises meals provided for the convenience of the employer.

1. Note that a temporary 100% deduction for 2021 and 2022 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.

▶ 419) Verify that any entertainment expenses are not deducted and that meals provided in conjunction with entertainment activities are separately invoiced.

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**Charitable contributions**

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

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

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▶ 421) Did the partnership/LLC make any property contributions to charitable organizations in the taxable year? If so, obtain the necessary information.

1. Prepare the applicable section of Form 8283, *Noncash Charitable Contributions*, for property contributions to charitable contributions, including a copy of a qualified appraisal, if applicable. Provide a copy to each partner/member.

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

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**Uniform capitalization rules**

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▶ 423) Did the partnership/LLC produce or acquire property for inventory in the taxable year? If so, verify the correct application of the uniform capitalization rules under Sec. 263A. Note that most producers or re-sellers meeting the \$26 million gross receipts test (an aggregate test) are now exempt from the uniform capitalization rules.

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**Long-term contracts**

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▶ 424) Did the partnership/LLC enter any contracts for the manufacture, building, installation or construction of property in the taxable year that were not completed at the end of the year? If so, consider electing the simplified method of allocating costs or the modified percentage-of-completion method. Note that beginning in 2018, the completed contract method has been expanded to apply to contracts for the construction of real property that is expected to be completed within two years or less if the taxpayer meets the \$26 million gross receipts test (an aggregate test).

▶ 425) Did the partnership/LLC complete any long-term contracts in the taxable year? If so, consider whether an election not to apply the look-back method is available or apply the look-back rule to compare the actual contract price and costs to previously used estimates.

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**Other deductions**

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▶ 426) Did the partnership/LLC incur any lobbying expenses in the taxable year? If so, confirm that such expenses are not deducted.

▶ 427) Did the partnership/LLC pay any trade association dues in the taxable year? If so, determine if such dues include nondeductible lobbying expenses.

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▶ 428) If the partnership/LLC has previously deducted expenses for employee parking and/or mass transit, note that these expenses are no longer deductible unless an exemption applies (see Sec. 274(e)), or the amount is treated as wages because it exceeds the Sec. 132(f) exclusion amount.

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▶ 429) Did the partnership/LLC pay any fines or penalties owed to the government due to the violation of any law in the taxable year? If so, confirm that such expenses are not deducted. See Sec. 162(f).

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▶ 430) Verify that the specific write-off method is used for bad debts.

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▶ 431) 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.

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

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Yes/ No/  
Done N/A

- ▶ 433) Review increases or decreases in reserve accounts for potential M-1 or M-3 items.
- ▶ 434) Review any vacation pay policy to determine if an accrual-based deduction is available (vested at year end and taken or actually paid within 2<sup>1</sup>/<sub>2</sub> months after year end).
- ▶ 435) Did the partnership/LLC 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.

Comments/explanations

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### 500) Credits/Elections

Yes/ No/  
Done N/A

- ▶ 501) Consider whether the partnership/LLC is eligible for any tax credits.
  - 1. Determine whether the partnership/LLC 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.
- ▶ 502) Determine if the partnership/LLC is eligible to elect out of the Bipartisan Budget Act of 2015 (BBA) audit rules. If so, determine whether the partnership/LLC should make the election.
- ▶ 503) Determine if a Sec. 754 election is in place. If not, consider the appropriateness of making one.
- ▶ 504) Determine if the partnership/LLC should make the safe harbor election to expense the acquisition costs of materials and supplies and other tangible property.
- ▶ 505) Consider making an election to expense repairs and maintenance under the safe harbor rules.
- ▶ 506) Consider an election to deduct up to \$5,000 of organizational expenses and up to \$5,000 of business start-up costs.
- ▶ 507) Consider whether to adopt the recurring items exception and 3<sup>1</sup>/<sub>2</sub> month rule with respect to the economic performance rules.
- ▶ 508) Consider other elections necessary for the partnership/LLC.

Comments/explanations

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### 600) Allocations

Yes/ No/  
Done N/A

- ▶ 601) Determine that each item on Schedule K is distributed to the partners/members in accordance with the provisions of the partnership agreement and the regulations.
- ▶ 602) Verify the correct analysis of net income by partner/member type at the bottom of Schedule K.

Yes/ No/  
Done N/A

- ▶ 603) Verify that proper reporting and detail have been provided on Schedules K-1 for all items that affect the partners'/members' tax liability (including information needed to calculate a Sec. 199A deduction).
- ▶ 604) Apply the at-risk rules to partnership/LLC activities. Note the requirement to indicate if activities have been aggregated for the purpose of the Sec. 465 at-risk rules; see page one of Form 1065, item K(1).
- ▶ 605) Have activities been grouped for the purpose of the Sec. 469 passive-activity rules? If so, note the requirement to indicate whether the activities have been grouped; see page one of Form 1065, item K(2).
- ▶ 606) Segregate all tax preference and alternative minimum tax (AMT) items to be listed on the appropriate lines of Schedules K and K-1.

Comments/explanations

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### 700) Partnership liabilities and capital accounts

Yes/ No/  
Done N/A

- ▶ 701) Is there any nonrecourse debt? If so, determine whether a minimum gain calculation is necessary to confirm the proper allocation of deductions attributable to the nonrecourse debt.
- ▶ 702) Determine the allocation of recourse and nonrecourse liabilities to be entered separately on each partners'/members' Schedule K-1. Identify any qualified nonrecourse debt allocated to the partners/members.
- ▶ 703) Is the partnership/LLC a partner in a lower-tier partnership? If so, determine the appropriate allocation of the lower-tier partnership's liabilities and check the applicable box on Schedule K-1, Part II, item K.
- ▶ 704) Compute earnings from self-employment for the partners/members and enter the amount on Schedules K and K-1.
- ▶ 705) If the partnership's balance sheet (Schedule L) is reported on the tax basis, verify that the beginning and ending total capital accounts on Schedule L agree with the reconciliation of the capital accounts on Schedule M-2. Attach a reconciliation, if different. No reconciliation is required if Schedule L is not reported on the tax basis.
- ▶ 706) Confirm that each partner's/member's capital account has been calculated using the transactional approach for the tax basis method. Note that Sec. 743(b) basis adjustments are not considered under the tax basis method and should be removed if previously included.

Comments/explanations

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### 800) Distributions and basis adjustments

Yes/ No/  
Done N/A

- ▶ 801) Were there any sales or exchanges of partnership/LLC interests, partner or member deaths, liquidating distributions or distributions of property?
  1. If so, verify any Sec. 754 basis adjustments and determine whether there was a Sec. 743(d) substantial built-in loss that causes a basis reduction.
  2. If so, determine the amount of Sec. 751 assets that are deemed exchanged and whether a Form 8308, *Report of a Sale or Exchange of Certain Partnership Interests*, is necessary.



Yes/ No/  
Done N/A

▶ 802) Were there any distributions of appreciated partnership/LLC property in the taxable year?

1. Determine whether there was a gain or loss on the distribution.
2. Determine whether a Sec. 732(d) mandatory basis adjustment is necessary.
3. Determine whether the gain is recognized by the partner under Sec. 737 resulting in a step up in the inside basis of assets.

▶ 803) Were there any distributions in excess of a partner's/member's basis? If so, determine whether there was any gain or loss on the distribution.

Comments/explanations

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### 900) Foreign transactions and reporting

Yes/ No/  
Done N/A

Note that new Schedules K-2 and K-3 may be required. Partnerships/LLCs must complete the schedules beginning in tax year 2021 if they both: (1) must file a U.S. partnership tax return and (2) have items of U.S. international tax relevance (in general, non-U.S. activities or non-U.S. person partners). The schedules would not affect domestic partnerships with no foreign activities or foreign partners. Consider the transition period penalty relief available under Notice 2021-39.

▶ 901) At any time during the tax year, did the partnership/LLC have an interest in, or a signature or other authority over, a financial account in a foreign country with an aggregate balance of at least \$10,000? If so, prepare FinCEN Forms 114 and 114a (due by April 15, with an automatic extension to October 15 for the preceding calendar year).

▶ 902) If the partnership/LLC has foreign business activity, consider reviewing other international filing obligations shown in the Form 1065 long checklist.

Comments/explanations

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### 1000) Other federal and state/local filing issues

Yes/ No/  
Done N/A

▶ 1001) Verify that all items required to be separately stated are properly disclosed to the partner/member. Determine that proper reporting and detail have been provided for all items that affect the partner's/member's tax liability.

▶ 1002) Confirm that the return and Schedules K-1 report results on an activity-by-activity basis. Note the requirement to indicate on Schedules K-1 whether more than one activity exists for at-risk and/or passive activity purposes and provide additional information as necessary.

Yes/ No/  
Done N/A

▶ 1003) Confirm that required disclosures regarding property contributions made during the year have been made (checking boxes on Schedule K-1, providing detail supporting the schedules, etc.).

▶ 1004) Determine if health plan(s) and/or reimbursement arrangements are compliant with the Affordable Care Act (ACA). If applicable, file Form 1094/1095-C.

▶ 1005) Determine if the partnership/LLC has filed all required Forms W-2, 1095, 1098, 1099, 1042, 8804, 8805 and 8813. Note that partnerships/LLCs that are required to file 250 or more information returns for any calendar year must file electronically.

▶ 1006) Consider checking the box allowing the IRS to contact the preparer.

▶ 1007) Determine if electronic filing is required for Form 1065 (partnerships with more than 100 partners).

▶ 1008) Determine what [state and local returns must be filed](#) by the partnership/LLC and by the partners/members. Determine whether nonresident partners/members will have to file returns individually or whether a composite return may be filed. Consider items such as nexus, apportionment and state adjustment credits.

Comments/explanations

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### 1100) Professional responsibilities and reminders

Yes/ No/  
Done N/A

▶ 1101) 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.

▶ 1102) Internal processing procedures:

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

Yes/ No/  
Done N/A

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- ▶ 1103) Provide your client with complete federal and state returns, including copies of any disclosure consent form(s) and advise your client to retain copies for at least six years. Return original documents to your client and provide other documents/support, as applicable.
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Comments/explanations

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