

2021 C Corporation Income Tax Return Checklist

Form 1120 (Long)

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 if any conflict of interest exists between the entity and its owners.		
▶ 104) Consider executing Form 2848, <i>Power of Attorney and Declaration of Representative</i> , and/or Form 8821, <i>Tax Information Authorization</i> .		
▶ 105) Request/review correspondence, to or from the IRS or state tax authority, including any adjustments made to prior returns that could affect later returns.		
▶ 106) Review the proforma or organizer for accuracy.		
▶ 107) Review financial statements and footnotes for relevant information.		
▶ 108) Review a copy of last year's return that includes all forms and supporting schedules.		
▶ 109) Identify the authorized officer who will sign the return.		
▶ 110) Confirm the taxpayer's name, employer identification number, address, tax year and business code.		
▶ 111) Determine whether the taxpayer has made any change in an accounting method. If yes, complete Form 3115, <i>Application for Change in Accounting Method</i> , as necessary.		
▶ 112) Reconcile income and expenses with book entries and review the prior year's Schedules M-1 or M-3.		
▶ 113) 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.		

Yes/ No/
Done N/A

- ▶ 114) 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.
- ▶ 115) For consolidated returns, consider stock basis, excess loss accounts and deferred intercompany transactions.
- ▶ 116) Determine if the corporation is a personal service corporation required to file on a calendar-year basis or has made an election under Sec. 444 to file on a fiscal-year basis. Form 8716, *Election To Have a Tax Year Other Than a Required Tax Year*, must be filed with the Form 1120 for the first tax year.
- ▶ 117) 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.
- ▶ 118) Was the taxpayer involved in a reorganization or liquidation in the taxable year? If so, address relevant tax and disclosure implications.
- ▶ 119) 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).
- ▶ 120) Determine whether corporate capitalization is realistic pursuant to the debt/equity rules.
- ▶ 121) During the last half of the year, were there five or fewer individuals who own directly or indirectly more than 50% of the stock?
- ▶ 122) Determine whether any debt was significantly modified under Regs. Sec. 1.1001-3 and any tax consequences.
- ▶ 123) 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](#).
- ▶ 124) 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).
- ▶ 125) 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.
- ▶ 126) Do any qualified disaster relief provisions apply to the taxpayer for 2021 (related to due dates of federal and state/local returns)?

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) Consider Sec. 482 (transfer pricing) ramifications under the consolidated return rules and disclosure on Form 5472, *Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business*.

▶ 205) Did the taxpayer engage in any like-kind exchanges (applicable only to real property)? If so, determine if there is any gain to be recognized and the basis of the replacement property.

1. Was any personal property involved in the exchange considered incidental to the real property acquired (i.e., the personal property is customarily transferred together with the acquired real property, and its fair market value (FMV) does not exceed 15% of the FMV of the real property, if Regs. Sec. 1.1031(k)-1(g) applicable)? If so, the personal property transfer does not invalidate the like-kind exchange, but gain will need to be recognized equal to the lesser of the realized gain on the relinquished personal property or the FMV of the acquired personal property. Were purchase price allocations between personal and real property considered?

▶ 206) Do the installment method rules apply to any sales made by the taxpayer during the taxable year? If so, do the following:

1. Determine whether the taxpayer is a dealer with respect to the property sold.
2. Calculate installment method interest on the deferred tax liability (where the face amount of tax-deferred obligations exceed \$5 million at the close of the tax year).
3. Determine whether there is recapture to be immediately reported (such as by using the installment obligation as security for a loan).
4. Confirm that adequate interest is being paid or accrued on the installment obligation (or if the imputed interest rules must be applied).
5. Confirm the proper calculation of capital gain, interest and ordinary income on installments received during the year.

▶ 207) 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.

▶ 208) Did the taxpayer barter for any goods or services in the taxable year? If so, obtain the details of the transaction, including the value of the goods and/or services exchanged. This includes transactions involving virtual currency (see Notice 2014-21).

▶ 209) Determine whether the taxpayer must include in income any of the proceeds received from employer-owned life insurance contracts.

▶ 210) Did the taxpayer own life insurance contracts issued after Aug. 17, 2006 covering employees? If so, attach Form 8925, *Report of Employer-Owned Life Insurance Contracts*, to the taxpayer's return.

▶ 211) Is the taxpayer a qualified opportunity fund (QOF) or does the taxpayer operate a qualified opportunity zone business (QOZB)? If so, confirm that the 90% asset test is met.

▶ 212) 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.

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

Financial transactions

- ▶ 214) 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)

- ▶ 215) 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.

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

- ▶ 217) 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.

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

- ▶ 219) 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.

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

- ▶ 221) Did the taxpayer invest any capital gain proceeds in opportunity zone funds in 2021? If so, to qualify for gain deferral, were such investments made within 180 days of the capital gain? Or, if the 180- day period expired during the period April 1, 2020 through March 31, 2021, were the investments made by March 31, 2021?

1. Note that for a capital gain reflected on a Schedule K-1 from a partnership, the gain recognition event date is generally considered to be the last day of the partnership's tax year, and the taxpayer has until June 29, 2021 to defer the gain by investing the proceeds in an opportunity zone fund.

- ▶ 222) 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)?

1. 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.

Interest

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

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

- ▶ 225) 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.

▶ 226) If a bond was purchased at a premium prior to the taxable year, did the taxpayer elect to amortize the bond premium?

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

Dividends

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

▶ 229) For stock that was sold and had not been held for more than 45 days during the 90-day period surrounding the ex-dividend date, reduce the dividend received deduction.

▶ 230) For debt-financed stock, compute a reduction to the dividend received deduction.

Gain or loss on property

▶ 231) 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
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

▶ 232) Consider the Sec. 266 election for capitalization of carrying charges (interest, taxes, etc.) for unproductive property.

Rental income

▶ 233) 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).

▶ 234) Determine whether any of the disposed properties are properties for which the taxpayer previously took a low-income housing credit and determine whether credit recapture is needed (Form 8611).

Other income

▶ 235) 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.

▶ 236) Was the corporation a partner/member in a partnership or LLC that made a distribution in the taxable year? If so, consider making a Sec. 732(d) election.

▶ 237) Is the taxpayer a family farm corporation? If so, determine whether suspense account phase-out under Sec. 447(i)(5)(B) requires income inclusion.

Yes/ No/
Done N/A

- ▶ 238) 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) 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.
- ▶ 307) Does the corporation have a farm or real property business that elects out of the Sec. 163(j) interest deduction limitation? If so, apply ADS depreciation (see interest expense section below for more information).
- ▶ 308) Will the return cover a short tax year? If so, verify compliance with Rev. Proc. 89-15.
- ▶ 309) For depreciable industrial development bond financed property or certified historic structures for which a tax credit was taken, consider the limitations on depreciation.

- ▶ 310) Did the taxpayer acquire any software in the taxable year? If so, determine whether the 36-month depreciation rules can be applied.
- ▶ 311) Did the taxpayer incur any environmental remediation costs in the taxable year? If so, consider the Sec. 198 election to expense such costs.
- ▶ 312) Did the taxpayer use any vehicles or any phonographic, photographic, communication, video recording or other entertainment equipment (i.e., listed property) for business purposes in the taxable year? If so, determine if the taxpayer has written evidence supporting the business-use percentage. Note that computers are no longer listed property.
- ▶ 313) Have any assets been demolished or abandoned, become obsolete or been taken out of service in the taxable year? If so, consider whether a credit recapture is required.
- ▶ 314) Determine if real property and equipment leases are operating leases or capital leases.

Interest expense

- ▶ 315) Was any interest expense related to tax-exempt income? Determine any disallowed interest expense. (Sec. 265(a)(2)).
- ▶ 316) Was any interest incurred to purchase or carry market discount bonds or short-term obligations? Consider any deduction limitation.
- ▶ 317) Were any post-1987 bonds purchased at a premium? If so, determine the amount of amortizable bond premium that offsets interest income.
- ▶ 318) Was there any interest expense allocable to unborrowed policy cash values with respect to life insurance policies and/or endowment or annuity contracts covering beneficial owners and key employees?
- ▶ 319) Consider interest expense deduction limitations for the following:
 1. An applicable high-yield discount obligation as defined in Sec. 163(i)
 2. A disqualified debt instrument under Sec. 163(l) (essentially when interest is payable in equity)
 3. Interest expense exceeding \$5 million for corporate acquisition indebtedness as defined in Sec. 279

Sec. 163(j) business interest limitation

- ▶ 320) 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.
- ▶ 321) 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.
- ▶ 322) Consider the safe harbor under Notice 2020-59 that allows a taxpayer managing or operating a qualified residential living facility to elect out of the business interest expense limits.

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

Business gifts, travel, meals and entertainment

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

- ▶ 325) 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.

- ▶ 326) 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. 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.

- ▶ 327) 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

- ▶ 328) 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.

1. Did the taxpayer make any qualified non-COVID-19 "qualified disaster area" charitable contribution from Jan. 1, 2020 through Feb. 25, 2021? If so, corporations may temporarily deduct qualified contributions of 100% of the taxpayer's taxable income.

- ▶ 329) Did the taxpayer make any leave-based donation to charitable organizations that provide relief to COVID-19 pandemic victims?

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

- ▶ 331) Confirm that contributions to a college for athletic tickets or seating rights are not deducted.

- ▶ 332) 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%).

- ▶ 333) Attach a supporting schedule if the taxpayer has or is using a charitable deduction carryforward deduction.

- ▶ 334) For accrued charitable contributions that were paid by the fifteenth day of the third month after the end of the tax year, verify that, before the end of the year, there were corporate minutes authorizing the accrual.

Uniform capitalization rules

- ▶ 335) 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.
- ▶ 336) Determine if the taxpayer qualifies for any of the simplified methods of capitalizing indirect costs and consider electing to use the avoided cost method.
- ▶ 337) Was beginning inventory revalued? If so, ascertain the Sec. 481 adjustment and whether a simplified method should be elected.
- ▶ 338) Is the taxpayer in the business of farming or ranching? If so, consider a one-time election out of uniform capitalization rules and the exemption for expenses incurred in the production of animals.

Long-term contracts (revenue)

- ▶ 339) 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).
- ▶ 340) Did the taxpayer 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 the costs to previously used estimates.

Other deductions

- ▶ 341) Did the taxpayer incur any lobbying expenses in the taxable year? If so, confirm that such expenses are not deducted.
- ▶ 342) Did the taxpayer pay any trade association dues in the taxable year? If so, determine if such dues include nondeductible lobbying expenses.
- ▶ 343) If the taxpayer has previously deducted expenses for employee parking and/or mass transit, note that these expenses are no longer deductible unless an exception in Sec. 274(e) applies or the amount is treated as wages because it exceeds the Sec. 132(f) exclusion amount.
- ▶ 344) Confirm that no amount has been deducted for expenses related to sexual harassment cases which are subject to a confidentiality or nondisclosure agreement.
- ▶ 345) 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).
- ▶ 346) Confirm that the specific write-off method is used for bad debts.

▶ 347) 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.

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

▶ 349) 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.

▶ 350) Review increases or decreases in reserve accounts for potential M-1 or M-3 items.

▶ 351) If the taxpayer incurred a disaster loss or had any property involuntarily converted during the tax year, consider the following: 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.

▶ 352) 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).

▶ 353) Determine whether professional fees and/or employee salaries need to be capitalized.

▶ 354) For current or previous transfers of property to employees who are no longer subject to substantial risk of forfeiture under Sec. 83, determine if compensation deductions are allowed.

▶ 355) Determine a limit on the compensation deduction for certain employees of certain companies under Sec. 162(m).

▶ 356) Determine whether officer's life insurance expense is deductible.

▶ 357) Determine if there are any nondeductible payments made under golden parachute agreements (Sec. 280F).

▶ 358) 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.

▶ 359) 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.

▶ 360) Verify that there has been no deduction for any accruals of interest, compensation or other expenses payable to a cash basis payee who owns directly or indirectly more than 50% of the company's stock.

▶ 361) For a personal service corporation (PSC) with a fiscal year end, determine the amount including carryover to be deducted in the current year. Complete Schedule H to figure the required minimum distribution and the maximum deductible amount and attach Schedule H to the return if the minimum distribution requirements are not met.

▶ 362) Was any income included in gross income in a previous year and deducted this year? If so, consider whether the Sec. 1341 claim of right doctrine applies.

Yes/ No/
Done N/A

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

▶ 364) Determine whether the taxpayer complies with Sec. 409A (nonqualified deferred compensation or stock options with strike prices below market value).

Net operating losses (NOLs)

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

▶ 366) If an NOL incurred in the current year or if a carryforward has been deducted in the current year, consider the impact of the ownership-change rules under Sec. 382, including disclosure.

▶ 367) 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).

▶ 368) 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*.

▶ 369) For a closely held corporation with losses or credits from passive activities, consider loss limitations for shareholders who do not materially participate. For PSCs, consider these loss limitations even if shareholders materially participate. Determine the loss carryforward and use of a carryforward in a future year and file Form 8810, *Corporate Passive Activity Loss and Credit Limitations*.

▶ 370) Is the corporation a partner or member in a partnership or LLC that reports a loss? If so, determine loss limitations for amounts not at risk or exceeding basis under Sec. 704(d) and for carryforwards.

Comments/explanations

400) Credits Yes/ No/
Done N/A

▶ 401) Determine whether the corporation 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 for the credit limit).

▶ 403) Did the corporation pay any employees who took leave under the Family Medical Leave Act (FMLA) in 2021? If so, consider whether the corporation is eligible for a credit under Sec. 45S.

► 404) Consider whether any of the following credits apply:

1. Gasoline and special fuels credit (Form 4136)
2. Investment tax credit (rehabilitation, solar or geothermal energy tax credits, advanced project credit and gasification project credit) (Form 3468)
3. Disabled access credit (Form 8826)
4. Enhanced oil recovery credit (Form 8830)
5. Increased research activities credit (Form 6765)
6. Work opportunity tax credit (Form 5884)
7. Low-income housing credit (Form 8586)
8. Orphan drug credit (Form 8820)
9. Credit for contributions to selected community development corporations (Form 8847)
10. Credit for employer Social Security and Medicare taxes paid on certain employee tips (Form 8846)
11. New markets credit (Form 8874)
12. Credit for employer-provided childcare facilities and services (Form 8882)
13. Credit for small employer pension plan startup costs (Form 8881)
14. Low sulfur diesel fuel production credit (Form 8896)
15. Credit for employer differential wage payments (Form 8932)
16. Credit for carbon dioxide sequestration (Form 8933)
17. Plug-in electric drive motor vehicle credit (excluding two and three-wheeled vehicles) (Form 8936)
18. Credit for small employer health insurance premiums (Form 8941)
19. General business credit for wages paid to qualifying employees while they are on family and medical leave (Form 8994)

Comments/explanations

500) Elections	Yes/ Done	No/ 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.		
▶ 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 whether to adopt the ratable accrual method for real estate property taxes.		
▶ 506) Consider electing to deduct certain costs of qualified film or television productions.		
▶ 507) Consider electing to deduct up to \$10,000 of reforestation expenses.		
▶ 508) Consider an election to expense intangible drilling costs, mining costs and circulation expenditures.		
▶ 509) Consider a research and experimental cost election.		

Comments/explanations

600) Other taxes	Yes/ Done	No/ N/A
▶ 601) Does the taxpayer have accumulated earnings in excess of \$250,000 (\$150,000 if a PSC)? If so, determine if the accumulated earnings tax applies.		
▶ 602) Determine whether the personal holding company tax applies. If so, prepare Schedule PH.		
▶ 603) If the corporation has revoked an S election on or after Dec. 22, 2017, consider the special rules for adjustments under Sec. 481 over a six-year period.		

Comments/explanations

700) Tax payments

Yes/ No/
Done N/A

- ▶ 701) 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.
- ▶ 702) If there is an overpayment of tax, consider an election to apply any overpayment to a quarter other than the first quarter.
- ▶ 703) 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*.
- ▶ 704) Determine the proper amount of estimated tax payments for the 2022 tax year.

Comments/explanations

800) Foreign transactions and reporting

Yes/ No/
Done N/A

- ▶ 801) 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.
- ▶ 802) Determine the applicability of filing the following forms:
 1. Form 5471 (taxpayer has ownership in a controlled foreign corporation (CFC))
 2. Form 5472 (taxpayer is owned by foreign shareholders)
 3. Form 8865 (taxpayer has ownership of an interest in a foreign partnership)
 4. Form 8858 (taxpayer has ownership in a foreign disregarded entity or branch)
 5. Form 8621 (taxpayer has ownership in a passive foreign investment company (PFIC))*
 6. Form 8938 (for closely held corporations that have ownership in specified foreign financial assets)

*Consider whether the mark-to-market election under Sec. 1296 or the election to be treated as a qualified electing fund (QEF) under Sec. 1295 should be made.

- ▶ 803) If the taxpayer has any operations in or transactions with a boycotting country, file Form 5713, *International Boycott Report*.
- ▶ 804) For transfers of property to a foreign corporation, determine whether Form 926, *U.S. Transferors of Property to a Foreign Corporation*, is required.

Yes/ No/
Done N/A

▶ 805) Was there a transfer of stock or securities to a foreign corporation (or successive transfers of assets that are considered indirect stock transfers under Regs. Sec. 1.367(a)-3(d)) during the taxable year? If so, determine if a gain recognition agreement (GRA) and related forms are required or if an annual certification is required with respect to a GRA filed with a prior year return.

▶ 806) Consider the need to file Form 3520, *Annual Return To Report Transactions With Foreign Trusts and Receipt of Certain Foreign Gifts*. Form 3520 is required when there are transfers, to or from a foreign trust, including direct and indirect distributions and the receipt of loans (unless with arm's-length terms). It may also be required when there are gifts received from foreign taxpayers.

▶ 807) Has the base-erosion and anti-abuse tax (BEAT) been considered (Sec. 59A)?

BEAT can apply when the corporation: (1) has average gross annual receipts of at least \$500 million for the three-year period ending with the preceding tax year, (2) made base-erosion payments (as defined in Sec. 59A(d)) to foreign related parties and (3) has a base-erosion percentage of 3% or more. Generally, the total base-erosion payments divided by the aggregate deductions equals the base-erosion percentage.

▶ 808) Is the taxpayer a shareholder which owns 10% or more of the vote or value of a CFC? If so, has the inclusion of global intangible low-taxed income (GILTI) been considered (Sec. 951A)?

▶ 809) Is the taxpayer a U.S. domestic corporate shareholder, not including a regulated investment company (RIC) or a real estate investment trust (REIT), which owns 10% or more of the vote or value of a CFC? If so, has the deduction for GILTI been considered (Sec. 951A)?

▶ 810) Is the taxpayer a U.S. domestic corporate shareholder (not including a RIC or a REIT)? Has the deduction of foreign derived intangible income (FDII) been considered (Sec. 250)?

▶ 811) 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, the fifth installment (8% of the total repatriation tax) is due with the 2021 return.

Comments/explanations

900) Other federal issues

Yes/ No/
Done N/A

▶ 901) Is the taxpayer an accrual basis taxpayer? If so, consider the deferral of state or local income or franchise tax refunds.

▶ 902) 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*.

▶ 903) Is the taxpayer a cooperative? If yes file Form 1120-C, *Income Tax Return for Cooperative Associations*, and consider the Sec. 199A deduction.

▶ 904) Is the taxpayer a RIC or REIT? If so, has the relevant return been prepared for filing?

▶ 905) Is the taxpayer a member of a controlled group? If so, consider the tax benefit item apportionment rules under Sec. 1561 and attach an apportionment schedule (Schedule O).

1. Have the gross receipts of the controlled group members been considered when determining if the taxpayer is a qualified small business? This is important for the purposes of electing out of Sec. 163(j) and potentially disqualifying the taxpayer from many relief provisions.

▶ 906) For a sale or purchase of a group of assets or a business, determine whether the transaction is considered an applicable asset acquisition for which a Form 8594, *Asset Acquisition Statement Under Section 1060*, is needed to reflect the allocation of the purchase price.

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

▶ 908) Determine if the taxpayer has filed all required Forms 1095, 1098, 1099 and 1042.

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

▶ 910) Determine whether all non-tax-shelter tax positions either meet the "substantial authority" standard or are disclosed on Form 8275, *Disclosure Statement*, and meet the "reasonable basis" standard.

▶ 911) For positions that are tax shelters and reportable transactions, prepare Form 8886, *Reportable Transaction Disclosure Statement*, and determine if the "more likely than not" standard has been met and include the reportable transactions on Form M-3, if applicable.

▶ 912) 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.

▶ 913) For a consolidated tax return, consider the following:

1. Attaching Form 851, *Affiliations Schedule*, and Form 1122, *Authorization and Consent of Subsidiary Corporation To Be Included in a Consolidated Income Tax Return*, for the shareholder's first year only, and a master surtax apportionment schedule
2. The 30-day rule for incoming and outgoing shareholders
3. The correct calculations of intercompany eliminations and restorations

▶ 914) For a consolidated return with an NOL, consider the separate return limitation year (SRLY).

▶ 915) If total assets exceed \$10 million, complete Schedule M-3, as well as reconciliation forms (Forms 8916 and 8916-A), if applicable.

▶ 916) For a taxpayer that had organizational actions affecting basis of its stock, confirm that informational and reporting requirements are met (Form 8937).

Yes/ No/
Done N/A

▶ 917) For non-dividend distributions, file Form 5452, *Corporate Report of Nondividend Distributions*.

Comments/explanations

1000) State considerations

Yes/ No/
Done N/A

▶ 1001) Determine [state and local filing requirements](#).

▶ 1002) Consider the following:

1. Nexus issues, including sales and use tax nexus (consider the *Wayfair* case for remote sellers)
2. State returns filed in a previous year (still have nexus, final return required, etc.)
3. Taxpayer doing business in new states
4. Apportionment (considering each state's rules)
5. Each state's modifications requirements (due date, attachment requirements, etc.)
6. State tax adjustments/credits:
 - a) Review state specifics regarding items that may not conform to federal law.
 - b) Note any specific state tax credits allowable.
7. Estimated tax payments. Note any paid during the taxable year. Determine whether they are required for 2022.

Comments/explanations

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](#)) became effective July 1, 2019 and consider its applicability to your clients.

Yes/ No/
Done N/A

▶ 1102) 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.

▶ 1103) 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).
-

▶ 1104) 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

This copyrighted resource is provided exclusively to AICPA Tax Section members and should not be shared, reproduced or used by anyone who is not a member of the AICPA Tax Section without explicit consent from the AICPA Tax Section. See our [terms and conditions](#). For information about content licensing, please email copyright-permissions@aicpa-cima.com.