

Choosing the Right Entity

Course Description

This comprehensive book describes and compares sole proprietorships, partnerships, limited liability companies, “C” corporations and “S” corporations. It examines their advantages and disadvantages, permitting the reader to properly select the right business entity for their tax and liability needs. Major emphasis is given the maximization of tax benefits in each business format. Fringe benefits, retirement plan alternatives, and nonqualified deferred compensation are discussed in detail.

Completion Deadline & Exam: This course, including the examination, must be completed within one year of the date of purchase.

Course Level: Overview. This program is appropriate for professionals at all organizational levels.

CPE Credits: 22 (CPA, EA)

Category: Taxes

Prerequisite: General understanding of federal income taxation.

Advanced Preparation: None

Course Learning Objectives

Chapter 1: Sole Proprietorship

1. Determine the advantages and disadvantages associated with sole proprietorships, and specify the formation requirements.
2. Identify not-for-profit activities particularly as they relate to Schedule C businesses and recall the various requirements permitting such businesses to request an automatic filing extension.
3. Recognize the taxes imposed on self-employed persons specifying compliance with payment requirements, determine how sole proprietorship assets are characterized on disposition, and identify income splitting and estate planning devices available for such business owners and their impact on entity choice.

Chapter 2: Partnerships

1. Determine what constitutes a partnership under §761(a) including the status of joint ventures, cotenancy, publicly traded partnerships, and the special benefits of family partnerships citing several advantages and disadvantages of each and recognize how partners share tax items.

2. Identify the taxation of partners and partnerships and its effect on the preparation of individual returns and K 1s, and specify the exclusion requirements stating the tax rate and §1031 exchange impact.
3. Recognize separately stated items identifying the relationship of deductions to outside basis, partnership versus partner deductions, allocation of deductions, and related filing requirements to improve accurate tax reporting.
4. Determine the closing of a partnership year, the events that terminate a partnership and the events that do not close the year to ensure proper tax allocation.
5. Identify types of transactions between a partner and the partnership that can influence the treatment of the transaction, and specify the character of property contributions under §721.
6. Determine inside and outside basis, including complications caused by the contribution of services, specify their interplay with the at-risk & passive rules, their impact on the disposition of partnership interests, and their effect on partnership distributions, and identify how such distributions and liquidations effect gain or loss for partnership and partners.

Chapter 3: Limited Liability Companies

1. Identify the characteristics of limited liability companies (LLCs) that distinguish them from other entities, particularly C corporations, and specify benefits of an LLC and their effect on choosing a form of entity.
2. Cite reasons for choosing an LLC over S corporations, limited partnerships, and general partnerships and, in contrast, determine the drawbacks of LLCs to assist clients in entity selection.
3. Identify several ways to use the LLC form effectively and thereby fit client objectives and expand business-planning opportunities.
4. Recognize the varying tax consequences of forming or converting to an LLC including possible tax differences using the California Limited Liability Company Act.

Chapter 4: Corporations

1. Determine a “corporation,” for tax purposes, and identify regular corporations from other entities.
2. Identify “personal service corporations” and small business investment companies, their requirements & tax treatment and determine when and how clients can engage or avoid such classification for their benefit.
3. Recognize the transfer of money, property or both by prospective shareholders to a corporation and the requirements of §351.
4. Specify the requirements of §1244 stock and the small business stock exclusion, and determine the differences between start-up expenses and organizational expenses.
5. Identify corporate pitfalls and dangers citing tax recognition of the entity, tax rates, AMT repeal, capital gains & losses under §1212 and the dividends received deduction under §243.

6. Specify necessary corporate action for making allowable corporate charitable contributions, benefiting from the repeal of §341, and avoiding tax penalties under §541 and §531.
7. Identify available corporate accounting periods and methods stating the treatment and impact of tax-exempt income, inventory identification & evaluation, multiple corporations, and corporate liquidations and distributions.

Chapter 5: S Corporations

1. Determine what constitutes an S corporation and specify the advantages and disadvantages associated with them.
2. Identify variables that impact whether a business can choose S corporation status, and recall three ways that an S corporation may be terminated and the related procedures that must be followed.
3. Recognize S corporation tax treatment including special areas involving income and expenses, pass-through items, built-in gain, passive income, tax preference items, LIFO recapture tax, capital gains tax, investment credit recapture, estimated tax payments, and basis of S corporation stock.
4. Identify S corporation owner compensation and distribution options recognizing reasonable compensation requirements, related party rules, S corporation distribution taxation, tax year choices, fringe benefits, and specifying when the Form 1120S must be filed.

Chapter 6: Basic Fringe Benefits

1. Recognize basic fringe benefit planning by specifying “income” under §61, and determining the differences between former nonstatutory and current statutory fringe benefits created by recent cases, rulings, and tax law changes.
2. Identify the basic mechanics of typical fringe benefits, determine the fair market value of a fringe benefit under the general valuation rule or the special valuation rules, and cite the general accounting rule and the special two-month pour-over accounting rule.
3. Determine what constitutes a §274 “employee achievement award” and specify the rules for §79 group term life insurance specifying how to implement proper coverage.
4. Recognize the mechanics of §105 self-insured medical reimbursement plans, and determine the requirements of §106 medical insurance stating the differences between the two Code sections.
5. Specify the rules for excluding the value of meals and lodging under §119 and determine what constitutes a “cafeteria plan” stating how it operates.
6. Identify the requirements and limits of employee educational assistance programs and dependent care assistance determining how to obtain each type of assistance.
7. Determine “no-additional-cost services” and identify what property or services are excludable from income as qualified employee discounts under §132(c), and specify exceptions to working condition fringes and de minimis fringes.

8. Recognize the requirements for qualified transportation fringe benefits under §132(f), specify valuation methods for employer-provided automobiles, and identify qualifications for the popular physical fitness exclusion and the requirements and benefits of adoption assistance programs.
9. Identify planning services available under §§132, 212 and 67, determine interest-free and below-market loans, recognize the elements of childcare benefits and corporate funded educational savings accounts, specify S corporation fringe benefits, and identify ERISA compliance requirements.

Chapter 7: Retirement Plans

1. Determine the differences between qualified deferred compensation plans and nonqualified plans, and recognize the major benefit of qualified plans, the basis of the benefits and contributions the current and deferred advantages and the disadvantages of corporate plans and fiduciary responsibilities and prohibited transactions.
2. Specify the requirements of the basic forms of qualified pension plans.
3. Identify defined contribution and defined benefit plans stating the types of defined contribution plans and specifying their effect on retirement benefits.
4. Determine the differences between self-employed plans and qualified plans for other business types recognizing key choice of entity factors.
5. Specify the requirements of IRAs, SEPs and SIMPLEs, and identify tax-free Roth IRA distributions stating where to maximize plan benefits.

Chapter 8: Nonqualified Plans

1. Identify the advantages of nonqualified deferred compensation, specify the purposes of nonqualified plans and factors that a nonqualified retirement benefit can be based on, determine the contractual provisions of such arrangements and necessary provisions, recognize the IRS's position on nonqualified compensation, and determine "constructive receipt" and "economic benefit."
2. Specify the differences among unfunded bare contractual promise plans, funded company account plans and segregated asset plans and the tax consequences of each, and identify the basic tax consequences associated with nonqualified plans.