

Choice of Entity

Course Description & Study Guide

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. In addition, unless otherwise indicated, no correct or incorrect feedback for any exam question will be provided.

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

Field of Study: Taxes

Prerequisite: General understanding of federal income taxation.

Advanced Preparation: None

Learning Assignments & Objectives

As a result of studying each assignment, you should be able to meet the objectives listed below each assignment.

ASSIGNMENT	SUBJECT
-------------------	----------------

Chapter 1	Sole Proprietorship
------------------	----------------------------

At the start of Chapter 1, participants should identify the following topics for study:

- * Advantages & disadvantages
- * Formation
- * Schedule C
- * Self-employment tax
- * Estimated tax
- * Sale of a business
- * Classification of assets
- * Other business dispositions
- * Income splitting
- * Estate planning

Learning Objectives

After reading Chapter 1, participants will be able to:

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 complete the C-EZ form or request an automatic filing extension.
3. Recognize the taxes imposed on self-employed persons noting 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.

After studying the materials in Chapter 1, answer the exam questions 1 to 14.

ASSIGNMENT	SUBJECT
-------------------	----------------

Chapter 2	Partnerships
------------------	---------------------

At the start of Chapter 2, participants should identify the following topics for study:

- * Definition of partnership
- * Partners taxed as individuals
- * Partnership tax return
- * Year taxable
- * Transactions between partner & partnership
- * Contributions of property
- * Inside basis of contributed assets
- * Basis of partner's interest – outside basis
- * Sales & exchanges of partnership interests
- * Partnership distributions

Learning Objectives

After reading Chapter 2, participants will be able to:

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 noting several advantages and disadvantages of each and recognize how partners share tax items.
2. Identify the taxation of partners and partnerships and its affect on the preparation of individual returns and K-1s and, specify the exclusion requirements noting tax rate and §1031 exchange impact.
3. Recognize separately stated items noting 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 insure 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.

After studying the materials in Chapter 2, answer the exam questions 15 to 31.

ASSIGNMENT

Chapter 3

SUBJECT

Limited Liability Companies

At the start of Chapter 3, participants should identify the following topics for study:

- * Advantages of LLCs over C corporations
- * Advantages of LLCs over S corporations
- * Advantages of LLCs over limited partnerships
- * Advantages of LLCs over general partnerships
- * Disadvantages
- * Uses
- * Federal tax consequences
- * Conversion to LLCs from other entities
- * Local taxes on conversion
- * California Limited Liability Company Act

Learning Objectives

After reading Chapter 3, participants will be able to:

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.

After studying the materials in Chapter 3, answer the exam questions 32 to 46.

ASSIGNMENT	SUBJECT
Chapter 4	Corporations

At the start of Chapter 4, participants should identify the following topics for study:

- * Corporation defined
- * PSC corporations
- * Incorporation
- * Small business stock exclusion
- * Start-up & organizational expenses
- * Alternative minimum tax
- * Capital gains & losses

- * Accumulated earnings
- * Accounting periods & methods
- * Inventories

Learning Objectives

After reading Chapter 4, participants will be able to:

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 noting tax recognition of the entity, tax rates, AMT computation, 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 noting the treatment and impact of tax-exempt income, inventory identification & evaluation, multiple corporations, and corporate liquidations and distributions.

After studying the materials in Chapter 4, answer the exam questions 47 to 68.

ASSIGNMENT	SUBJECT
Chapter 5	S Corporations

At the start of Chapter 5, participants should identify the following topics for study:

- * Advantages & disadvantages
- * S corporation status
- * Termination
- * Income & expense
- * Built-in gain
- * Passive income
- * Basis of stocks & debts

- * Distributions
- * Form 1120S
- * Fringe benefits

Learning Objectives

After reading Chapter 5, participants will be able to:

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, 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 noting reasonable compensation requirements, related party rules, S corporation distribution taxation, tax year choices, fringe benefits, and specifying when the Form 1120S must be filed.

After studying the materials in Chapter 5, answer the exam questions 69 to 80.

ASSIGNMENT	SUBJECT
Chapter 6	Basic Fringe Benefits

At the start of Chapter 6, participants should identify the following topics for study:

- * Benefit mechanics
- * Employee achievement awards
- * Group term life insurance
- * Self-insured medical reimbursement plans
- * Medical insurance
- * Meals & lodging
- * Cafeteria plans
- * Employer-provided automobile
- * Adoption assistance program
- * Interest-free & below-market loans

Learning Objectives

After reading Chapter 6, participants will be able to:

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 noting how to implement proper coverage.

4. Recognize the mechanics of §105 self-insured medical reimbursement plans, and determine the requirements of §106 medical insurance noting 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” noting how it operates.

6. Identify the requirements and limits of employee educational assistance programs and dependent care assistance noting 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 child care benefits and corporate funded educational savings accounts, specify S corporation fringe benefits, and identify ERISA compliance requirements.

After studying the materials in Chapter 6, answer the exam questions 81 to 99.

ASSIGNMENT

Chapter 7

SUBJECT

Retirement Plans

At the start of Chapter 7, participants should identify the following topics for study:

- * Qualified deferred compensation
- * Basic requirements of a qualified pension plan

- * Basic types of corporate plans
- * Types of defined contribution plans
- * Self-employed plans – Keogh
- * Distribution & settlement options of IRAs
- * Tax-free rollovers for IRAs
- * Roth IRAs
- * Simplified employee pension plans (SEPs)
- * SIMPLE Plans

Learning Objectives

After reading Chapter 7, participants will be able to:

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 noting the types of defined contribution plans and specifying their effect on retirement benefits.
4. Determine the differences between self-employed and qualified plans for other business types noting key choice of entity factors.
5. Specify the requirements of IRAs, SEPs and SIMPLEs, and identify tax-free Roth IRA distributions noting where to maximize plan benefits.

After studying the materials in Chapter 7, answer the exam questions 100 to 117.

ASSIGNMENT	SUBJECT
Chapter 8	Nonqualified Plans

At the start of Chapter 8, participants should identify the following topics for study:

- * Postponement of income
- * Purposes & benefits
- * Constructive receipt
- * Economic benefit
- * Funded company account plan
- * Segregated asset plan
- * Tax consequences
- * Accounting

- * Estate planning considerations
- * Withholding, Social Security & IRAs

Learning Objectives

After reading Chapter 8, participants will be able to:

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.

After studying the materials in Chapter 8, answer the exam questions 118 to 125.

Notice

This course and test have been adapted from materials and information contained in the above text and any supplemental material provided. This course is sold with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional advice and assumes no liability whatsoever in connection with its use. Since laws are constantly changing, and are subject to differing interpretations, we urge you to do additional research and consult appropriate experts before relying on the information contained in this course to render professional advice.