# *Pearsons Federal Taxation 2021 Corporations Partnerships Estates and Trusts 34th edition Rupert Solutions Manual*

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Pearsons Federal Taxation 2021 Corporations Partnerships Estates and Trusts 34th edition Rupert Solutions Manual

# Solutions Manual

# Pearson's Federal Taxation 2021

## *Corporations, Partnerships, Estates & Trusts*

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# PREFACE

This manual includes solutions to the discussion questions, problems, comprehensive problems, tax strategy problems, case study problems, and tax research problems to the *Pearson's Federal Taxation 2021: Corporations, Partnerships, Estates & Trusts* text. To restrict student access to the tax form/return preparation problems, these problem solutions are included in the Instructor's Resource Manual.

The Instructor's Resource Manual, including lecture outlines, is available on the Instructor's Resource Center Online at:

www.pearsonhighered.com/pearsontax

A password and user-id are required, and can be obtained from your Pearson representative. If you do not know your Pearson representative, you may visit:

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Every effort was made to minimize technical and typographical errors in the preparation of the Solutions Manual for the 2021 Edition. The solutions to each chapter were prepared by the individual who authored the text material for the chapter. In addition, a review of the materials for the 2021 Edition was conducted by an accuracy reviewer and by the editors.

We would appreciate receiving any corrections for subsequent revisions from those instructors who have adopted the text. In addition, we would appreciate receiving any suggestions for adding new problems or questions to the current problem materials for the next edition of this volume or enhancing the coverage of existing problem materials included in the 2021 Edition. Our thanks go out to those individuals who have alerted us to errors in the Solutions Manual for previous editions. These errata items have been corrected in this Solutions Manual. If you locate what you believe to be an error, please notify Professor David Hulse at dshuls00@uky.edu or Professor Kenneth Anderson at kea@utk.edu. A prompt reply will be provided concerning all possible errors. In addition, corrections to errors will be posted online at: www.pearsonhighered.com/pearsontax. See "Textbook Errata."

Sincerely,

Kenneth E. Anderson
David S. Hulse
Timothy J. Rupert

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# Chapter C:1

## Tax Research

**Note:** To do the online research problems for this chapter, textbook users must have access to an Internet-based tax service at their institution. Solutions are provided using RIA Checkpoint, when applicable. In some cases, solutions using other tax services may differ.

## Discussion Questions

**C:1-1** In a closed-fact situation, the facts have occurred, and the tax advisor's task is to analyze them to determine the appropriate tax treatment. In an open-fact situation, by contrast, the facts have not yet occurred, and the tax advisor's task is to plan for them or shape them so as to produce a favorable tax result. p. C:1-2.

**C:1-2** According to the AICPA's Statements on Standards for Tax Services, the tax practitioner owes the client the following duties: (1) to inform the client of (a) the potential adverse consequences of a tax return position, (b) how the client can avoid a penalty through disclosure, (c) errors in a previously filed tax return, and (d) corrective measures to be taken; (2) to inquire of the client (a) when the client must satisfy conditions to take a deduction and (b) when information provided by him or her appears incorrect, incomplete, or inconsistent on its face; and (3) not to disclose tax-related errors without the client's consent. pp. C:1-31 through C:1-33.

**C:1-3** When tax advisors speak about "tax law," they refer to the IRC as elaborated by Treasury Regulations and administrative pronouncements and as interpreted by federal courts. The term also includes the meaning conveyed by committee reports. p. C:1-7.

**C:1-4** Committee reports concerning tax legislation explain the purpose behind Congress' proposing the legislation. Transcripts of hearings reproduce the testimonies of the persons who spoke for or against the proposed legislation before the Congressional committees. Committee reports are sometimes used to interpret the statute. p. C:1-7.

**C:1-5** Committee reports can help resolve ambiguities in statutory language by revealing Congressional intent. They are indicative of this intent. pp. C:1-7 and C:1-8.

**C:1-6** The Internal Revenue Code of 1986 is updated for every statutory change to Title 26 subsequent to 1986. Therefore, it includes the post-1986 tax law changes enacted by Congress and today reflects the current state of the law. p. C:1-8.

**C:1-7** No. Title 26 deals with all taxation matters, not just income taxation. It covers estate tax, gift tax, employment tax, alcohol and tobacco tax, and excise tax matters. p. C:1-8.

**C:1-8** a. Subsection (c). It discusses the tax treatment of property distributions in general (e.g., amount taxable, amount applied against basis, and amount exceeding basis).

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b. Because Sec. 301 applies to the entire chapter, one should look throughout that entire chapter (Chapter 1 of the IRC – which covers Sec. 1 through Sec. 1400U-3) for any exceptions. One special rule – Sec. 301(e) – is found in Sec. 301. This special rule explains the tax treatment of dividends received by a 20% corporate taxpayer. Section 301(f) indicates some of the important special rules found in other IRC sections.

c. Legislative. Section 301(e)(4) authorizes the issuance of Treasury Regulations as may be necessary to carry out the purposes of the subsection. pp. C:1-9 through C:1-10.

**C:1-9** Researchers should note the date on which a Treasury Regulation was adopted because the IRC may have been revised subsequent to that date. That is, the regulation may not interpret the current version of the IRC. Discrepancies between the IRC and the regulation occur when the Treasury Department has not updated the regulation to reflect the statute as amended. p. C:1-9.

**C:1-10** a. Proposed regulations are not authoritative, but they do provide guidance concerning how the Treasury Department interprets the IRC. Temporary regulations, which are binding on the taxpayer, often are issued after recent revisions to the IRC so that taxpayers and tax advisers will have guidance concerning procedural and/or computational matters. Final regulations, which are issued after the public has had time to comment on proposed regulations, are considered to be somewhat more authoritative than temporary regulations. pp. C:1-9 and C:1-10.

b. Interpretative regulations make the IRC's statutory language easier to understand and apply. They also often provide computational illustrations. In the case of legislative regulations, Congress has delegated the rulemaking on a specific topic (either narrow or broad) to the Treasury Department. However, after the Mayo Foundation case, both types of regulations will have the same authoritative weight. p. C:1-10.

**C:1-11** Prior to 2011, courts gave more authority to legislative regulations than to interpretive regulations. However, after the Supreme Court decision in Mayo Foundation, courts will hold both interpretive and legislative regulations to the same standard and will overturn them only in very limited cases. p. C:1-10.

**C:1-12** Under the legislative reenactment doctrine, a Treasury Regulation is deemed to have been endorsed by Congress if the regulation was finalized before a related IRC provision was amended by Congress and in the interim, Congress did not amend the statutory provision to which the regulation relates. p. C:1-10.

**C:1-13** a. Revenue rulings are not as authoritative as court opinions, Treasury Regulations, or the IRC. They represent interpretations by an interested party, the IRS. p. C:1-12.

b. If the IRS audits the taxpayer's return, the IRS likely will contend that the taxpayer should have followed the ruling and, therefore, owes a deficiency. p. C:1-12.

**C:1-14** a. The Tax Court, the U.S. Court of Federal Claims, or the U.S. district court for the taxpayer's jurisdiction. p. C:1-14.

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b. The taxpayer might consider the precedent, if any, existing within each jurisdiction. The taxpayer might prefer to avoid expending cash to pay the proposed deficiency. If so, the taxpayer would want to litigate in the Tax Court. If the taxpayer would like to have a jury trial address questions of fact, he or she should opt for the U.S. district court. pp. C:1-14 through C:1-19, p. C:1-21, and p. C:1-23.

c. Appeals from Tax Court and U.S. district court decisions are made to the circuit court of appeals for the taxpayer's geographical jurisdiction. U.S. Court of Federal Claims decisions are appealable to the Court of Appeals for the Federal Circuit. Appeals from any of the circuit courts of appeals may be brought to the U. S. Supreme Court. pp. C:1-20 through C:1-21.

**C:1-15** No. A taxpayer may not appeal a case litigated under the Tax Court's Small Cases Procedure. p. C:1-17.

**C:1-16** Tax Court regular and memo decisions have about the same precedential value. Decisions issued under the Small Cases Procedure of the Tax Court have little or no precedential value. pp. C:1-15 and C:1-17.

**C:1-17** Yes. The IRS can acquiesce (or nonacquiesce) in any federal court decision that is adverse to the IRS if the IRS decides to do so. In many cases the IRS does not acquiesce or nonacquiesce. p. C:1-17.

**C:1-18** In both the AFTR and USTC: decisions of U.S. district courts, U.S. bankruptcy courts, U.S. Court of Federal Claims, circuit courts of appeal, and the U.S. Supreme Court. Tax Court decisions are reported in neither of the two reporters. pp. C:1-16 and C:1-17 through C:1-22.

**C:1-19** Prior to 2009, revenue rulings appeared in the weekly Internal Revenue Bulletin (I.R.B.), and twice each year the decisions published in the I.R.B. were bound together and published in the Cumulative Bulletin (C.B.). For pre-2009 rulings, the I.R.B citation was temporary and was replaced by a citation to the C.B. After 2008, the IRS no longer publishes the Cumulative Bulletin. Therefore for current rulings, the initial I.R.B. citation is final. p. C:1-12.

**C:1-20** According to the Golsen Rule, the Tax Court will not follow a decision it made earlier, but rather will follow a decision of the circuit court of appeals to which the case under consideration is appealable. As an example, assume that the Tax Court, in a case involving a First Circuit taxpayer, ruled for the taxpayer. The issue had not been litigated earlier. Then, a U.S. district court in Georgia decided a case involving the same issue in favor of another taxpayer. The Eleventh Circuit, however, reversed the decision. Now a taxpayer from the Eleventh Circuit litigates the same issue in the Tax Court. Under the Golsen Rule, the Tax Court will follow the Eleventh Circuit's decision favoring the government. The Tax Court need not follow an appeals court decision if a case was litigated by a taxpayer whose appeal would have been made to any circuit other than the Eleventh. p. C:1-21.

**C:1-21** a. The precedent binding upon a California taxpayer would be the Tax Court case. The Tax Court has national jurisdiction. pp. C:1-21 and C:1-23.

b. Under the Golsen Rule, the Tax Court will depart from its earlier decision and follow the Fifth Circuit's decision favoring the government. p. C:1-21.

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**C:1-22** a. Congressional Record
b. Internal Revenue Bulletin
c. Tax Court of the United States Reports
d. Federal Register, Internal Revenue Bulletin, and/or Cumulative Bulletin
e. Federal Supplement, American Federal Tax Reports (only tax-related), United States Tax Cases (only tax-related).
f. Not found in an "official" publication; published by tax services
pp. C:1-7, C:1-12 through C:1-14, and C:1-17 through C:1-19.

**C:1-23** A tax advisor might find the provisions of a tax treaty useful where a U.S. taxpayer engages in transactions in a foreign country. The United States has tax treaties with over 55 countries. p. C:1-24.

**C:1-24** Citators (1) trace the history of the case in question and (2) list other authorities that have cited such case. p. C:1-30.

**C:1-25** Revenue rulings, revenue procedures, and judicial decisions. p. C:1-29.

**C:1-26** Keyword, index, or citation are the three ways to search in tax service databases. p. C:1-26.

**C:1-27** a. The principal primary sources found in CHECKPOINT are as follows:

- IRC
- Treasury Regulations
- Court opinions
- Revenue rulings and procedures
- Letter rulings
- Committee reports
- Tax treaties

b. The principal secondary sources found in CHECKPOINT are as follows:

- Federal Tax Coordinator
- United States Tax Reporter
- Warren, Gorham & Lamont journals and treatises

Secondary sources will differ among the tax services. pp. C:1-26 through C:1-29.

**C:1-28** The features (i.e., icons, templates, and command buttons) will vary depending upon the particular tax service/Internet site accessed. Just about all commercial tax databases can be searched by keyword and citation. Some can be searched by table of contents and topic. Most noncommercial tax databases can be searched by keyword. Some can be searched by citation and table of contents.

The advantages of using a commercial tax service (as opposed to a noncommercial service) are broader database scope, greater historical coverage, and more efficient search engines. The principal disadvantage is cost.

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Because of their relative disadvantages, the noncommercial sites should not be regarded as a substitute for a commercial tax service. Access is non-uniform. The scope and breadth of their databases are limited. pp. C:1-26 through C:1-28.

**C:1-29** The CPA should have a good faith belief that his or her position has a realistic possibility of being sustained administratively or judicially on its merits if challenged. p. C:1-31.

**C:1-30** Under the AICPA's Statements on Standards for Tax Services (SSTSs), a tax preparer is not obligated (1) to verify client provided information if the information is not suspicious on its face and (2) to update professional advice based on developments following its original conveyance. p. C:1-31.

**C:1-31** This answer lists six requirements. Under Circular 230, the practitioner is expected to: (1) base the advice on reasonable assumptions, (2) consider relevant facts and circumstances, (3) identify the facts relevant to the advice, (4) be properly skeptical of representations by the taxpayer and others, (5) relate applicable law and authority to the facts, and (6) not base an opinion on the chances that a transaction will be identified by IRS and subject to audit. p. C:1-30.

**C:1-32** Circular 230 is a government issued document that dictates rules for practicing before the IRS. The Statements on Standards for Tax Services (SSTSs) are ethical standards issued by the AICPA aimed at tax practitioners. Circular 230 applies only to federal tax issues, and the SSTSs apply to both federal and state issues. Circular 230 only applies to income taxes, and the SSTSs apply to all types of taxes. Finally, Circular 230 does not provide the same depth of ethical guidance found in the SSTSs. p. C:1-30.

## Problems

**C:1-33** a. Yes. According to Secs. 71(a) and (b), the wife includes $25,000 per year. Also, the divorce agreement must explicitly state that the husband has no liability to make payments after the wife's death. See Sec. 71(b)(1)(D) and Temp. Reg. Sec. 1.71-1T(b), Q-11.

b. Yes. The husband deducts $25,000 per year according to Secs. 215(a) and (b). According to Sec. 62(a)(10), the alimony is deductible for AGI.

c. For alimony agreements after December 31, 2018, Secs. 71 and 215 are repealed. pp. C:1-8 and C:1-26 through C:1-29.

**C:1-34** a. Legislative. According to Sec. 385(a), "The Secretary is authorized to prescribe such regulations as may be necessary or appropriate. . . ."

b. Yes. Section 385(a) states that the regulations will be applicable "for purposes of this title." "This title" is Title 26 of the federal statutes. Because Title 26 encompasses all tax statutes, the regulations would be relevant for estate tax purposes. pp. C:1-8 through C:1-10 and C:1-26 through C:1-29.

**C:1-35** a. Both rulings hold that contributions to a fund formed to acquire a portrait of a former judge and donated to a governmental agency are deductible under Sec. 170. pp. C:1-12 and C:1-13.

b. Private letter rulings cannot be cited as precedence and apply only to the taxpayer for whom the IRS issued the ruling. pp. C:1-12 and C:1-13.

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c. Revenue rulings can be cited as precedence, and they are relied on by both taxpayers and the IRS for guidance in particular factual situations. pp. C:1-12 and C:1-13.

**C:1-36** Sections 355 and 856. The official IRS publication is the Internal Revenue Bulletin, which eventually is incorporated into the Cumulative Bulletin. pp. C:1-12 and C:1-29.

**C:1-37** Results might vary as the online service adds or deletes documents, but as of this writing:

a. 58.
b. 33.
c. 16.

**C:1-38** The following results were obtained using RIA Checkpoint. Results using other tax services may vary.

a. 14.
b. 8 using 'home office' without quotations, 4 with quotes around the term.
c. The results after refining for "home office" are more relevant primarily because 280A also covers issues related to rental and vacation homes and refining the results omits these references. The search within results output produced revenue rulings related to home office issues, and the first result is to a revenue ruling explaining how the IRS would interpret an important Supreme Court case addressing home office deductions. pp. C:1-26 through C:1-28.

**C:1-39** a. Acquiescence. See AOD 1986-030, 1986-1 C.B. 1.
b. No. The acquiescence was only with respect to whether a transfer to the taxpayer's spouse is a taxable disposition. pp. C:1-17 and C:1-29.

**C:1-40** a. Acquiescence. See AOD 2016-02.
b. The AOD addressed whether the limitation on home mortgage deductions applied on a per property or per taxpayer business. pp. C:1-17 and C:1-29.

**C:1-41** a. Nonacquiescence. See AOD 1988-014, 1988-2 C.B.1.
b. Yes. In 2003, the Commissioner withdrew the 1988 AOD and acquiesced. See AOD 2003-001, 2003-2 I.R.B. pp. C:1-17 and C:1-29.

**C:1-42** a. Yes. The case was reviewed by the court. No. It was not a unanimous decision. Judges Korner, Swift, and Gerber did not participate. Judge Simpson dissented. pp. C:1-26 through C:1-29.
b. Yes. The decision was entered under Rule 155. p. C:1-17.
c. Yes. The case was reviewed by the Sixth Circuit Court of Appeals. pp. C:1-26 through C:1-29.

**C:1-43** a. Yes. The case was reviewed by the court. The decision was not unanimous. Judge Quealy dissented. Judge Tannenwald issued a concurring opinion with which five judges agreed. Judge Chabot issued a dissenting opinion with which three judges agreed, and Judge Nims issued a dissenting opinion with which three judges agreed. pp. C:1-26 through C:1-29.
b. No. The decision was not entered under Rule 155. p. C:1-17.

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c. Yes. The case was reviewed by the Sixth Circuit Court of Appeals in 1982. pp. C:1-26 through C:1-29.

**C:1-44** a. National Cash Register Co. v. U.S., 400 F.2d 820, 22 AFTR 2d 5562, 68-2 USTC ¶9576 (6th Cir., 1968).

b. Thomas M. Dragoun, 1984 RIA T.C. Memo ¶84,094 (T.C. Memo 1984-94), 47 TCM 1176.

c. U.S. v. John M. Grabinski, 558 F. Supp. 1324, 52 AFTR 2d 83-5169, 83-2 USTC ¶9460 (DC MN, 1983).

d. U.S. v. John M. Grabinski, 727 F.2d 681, 53 AFTR 2d 84-710, 84-1 USTC ¶9201 (8th Cir., 1984).

e. Rebekah Harkness v. U.S., 469 F.2d 310, 30 AFTR 2d 72-5754, 72-2 USTC ¶9740 (Ct. Cl., 1972). Note that during this period, Court of Claims decisions were published in the Federal Reporter, Second Series. Alternatively, you could give the citation 199 Ct. Cls. 721, which references the Court of Claims Reporter. In the RIA citator the name of the case is simply Harkness.

f. Hillsboro National Bank v. CIR, 460 U.S. 370, 51 AFTR 2d 83-874, 83-1 USTC ¶9229 (USSC, 1983).

g. Rev. Rul. 78-129, 1978-1 C.B. 67. pp. C:1-17 through C:1-22.

**C:1-45** a. Rev. Rul. 99-7, 1999-1 C.B. 361.

b. Frank H. Sullivan, 1 B.T.A. 93 (1924).

c. Tate & Lyle, Inc., 103 T.C. 656 (1994).

d. Ralph L. Rogers v. U.S., 539 F. Supp. 104, 49 AFTR 2d 82-1160, 82-1 USTC ¶9246 (DC OH, 1982).

e. Norman Rodman v. CIR, 542 F.2d 845, 38 AFTR 2d 76-5840, 76-2 USTC ¶9710 (2nd Cir., 1976). pp. C:1-17 through C:1-22.

**C:1-46** a. Circuit Court of Appeals for the Ninth Circuit; page 1198 of Volume 648 of the Federal Reporter, Second Series and page 81-5353 of Volume 48 of the American Federal Tax Reports, Second Series.

b. U. S. Court of Federal Claims; page 455 of Volume 14 of the Claims Court Reporter and paragraph (not page) 9231 of Volume 1 of the 1988 U. S. Tax Cases.

c. Supreme Court; page 13 of Volume 309 of the United States Supreme Court Reports and page 816 of Volume 23 of the American Federal Tax Reports.

d. A U.S. District Court in Texas; page 76 of Volume 441 of the Federal Supplement and page 78-335 of Volume 41 of the American Federal Tax Reports, Second Series.

e. Not a court decision; page 72 of Volume 1 of the 1983 Cumulative Bulletin.

f. Circuit Court of Appeals for Sixth Circuit; page 474 of Volume 568 of the Federal Reporter, Second Series and paragraph (not page) 9199 of Volume 1 of the 1978 U.S. Tax Cases. pp. C:1-16 and C:1-22.

**C:1-47** a. A facelift as a deductible medical expense is discussed in ¶K-2109 of the Federal Tax Coordinator. Solutions using other tax services will differ.

b. Section 213.

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c. Generally no. Section 213(d)(9) (effective for tax years beginning after 1990) provides that the cost of cosmetic surgery is not deductible except in certain narrow circumstances. pp. C:1-28 and C:1-29.

**C:1-48** No. The regulation does not reflect the amendments to Sec. 302 made by P.L. 96-589, P.L. 97-248, P.L. 98-369, and P.L. 111-325. A caution to this effect appears at the beginning of the regulation. pp. C:1-26 through C:1-29.

**C:1-49** a. Casualty losses from termite damage are discussed in ¶M-1743 (Federal Tax Coordinator) and Ann ¶1655.3020 (U.S. Tax Reporter).

b. Authorities include: Rev. Rul. 63-232, 1963-2 C.B. 97; Henry L. Sutherland, 1966 PH T.C. Memo ¶66,155, 25 TCM 822; and Martin A. Rosenberg v. CIR, 42 AFTR 2d 303, 52-2 USTC ¶9377 (8th Cir., 1952). The first two authorities denied a deduction and the third allowed a deduction. Textbook users may find additional authority. pp. C:1-28 and C:1-29.

**C:1-50** a. More than 35% of the excess of the value of the decedent's gross estate over the sum of allowable Sec. 2053 and 2054 deductions.

b. No. The regulation indicates the test is more than (1) 35% of the gross estate or (2) 50% of the taxable estate. It does not reflect the P.L. 94-455 or P.L. 97-34 amendments to the IRC. A caution to this effect appears before the beginning of the reprint of the regulations. pp. C:1-26 through C:1-29.

**C:1-51** a. 645.

b. 572-3rd - Accounting Methods – Adoptions and Changes.
570- 2nd - Accounting Methods – General Principles.

c. 568-4th.

d. 367.

e. 523-2nd.

p. C:1-25.

**C:1-52** "Fireman, Allowed; uniform" is discussed at ¶L-3806. Note: The RIA source document does not use the gender neutral phrase "firefighter." The revenue ruling dealing with this topic is Rev. Rul. 70-474, 1970-2 C.B. 34. pp. C:1-27 and C:1-28.

**C:1-53** a. 13.

b. 12 issues are listed in the findings of fact.

c. Yes. The Fourth Circuit reviewed the case. pp. C:1-28 and C:1-29.

**C:1-54** a. 27.

b. No. According to the headnote to the opinion, the decision dealt with one issue, deductions.

c. No. The decision has not been cited unfavorably. pp. C:1-28 and C:1-29.

**C:1-55** a. 1972.

b. The deductibility of the cost of a customer list under Sec. 162.

c. The government. The cost was not currently deductible.

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d. No. The decision was not reviewed at the trial level.
e. Yes. The decision was appealed to the Sixth Circuit Court of Appeals.
f. Yes. The RIA citator lists eight citations to the decision. pp. C:1-26 through C:1-29.

**C:1-56** a. To file a tax return electronically, one must (1) purchase the requisite software from a commercial vendor or download it from a designated Internet site; (2) obtain a Personal Identification Number (PIN) from the IRS; (3) either prepare a tax return offline and upload, or prepare the return online; and (4) transmit the return to the IRS.

b. The taxpayer can transmit funds electronically in one of three ways: (1) by authorizing an electronic funds withdrawal from a checking or savings account; (2) by authorizing payment by credit card; or (3) by mailing to the IRS a check or money order using a payment voucher.

c. Electronic filing (1) allows the taxpayer to file a return from any personal computer; (2) is more accurate than manual filing; (3) offers the safety and security of direct deposit; (4) offers the convenience of filing a tax return early and delaying payment up to the due date, and (5) allows one to file federal and state tax returns simultaneously. p. C:1-28.

**C:1-57** a. "Request for Copy of Tax Return."
b. "Corporation Claim for Deduction for Consent Dividends."
c. "Excise Tax on Greenmail."
p. C:1-28.

**C:1-58** a. "Request for Copy of Individual Tax Return."
b. "Corporation Income and Franchise Tax Return."
c. "Partnership Income Tax Return."
p. C:1-28.

**C:1-59** The latest data as of this writing was for January 2019.
a. 7 (Alaska, Florida, Nevada, South Dakota, Texas, Washington, Wyoming).
b. 2 (New Hampshire and Tennessee).
c. 9.9%.
d. North Dakota, 2.9%.
p. C:1-28.

## Comprehensive Problem

**C:1-60** STEP ONE: In searching CHECKPOINT's United States Tax Reporter (USTR), you would consult the topical index under "Advertising – special or unusual forms of" and use the keyword "Yacht." In USTR, you would likely find an annotation at ¶1625.356(13).

STEP TWO: In print research, you would leave the tax service reporter volume to look up the case on page 879, Volume 36 of Tax Court of the United States Reports. In computerized research, you would remain in the service and click on the hyperlinked citation. Either way, you would find the text of R.L. Henry, 36 T.C. 879. This case involved an attorney/accountant who tried to deduct the costs of insuring and maintaining a yacht on which he flew a pennant with the numerals "1040." It is analogous to your client's case.

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STEP THREE: In print research, to check the status of the case, you would leave Tax Court of the United States Reports to consult a citator. In computerized research, you would remain in the service and click on the citator command button. Either way, you would discover a listing of cases that cite R.L. Henry. You also would discover that the case is still "good law."

STEP FOUR: In both print and computerized research, based on the ruling in R.L. Henry, you likely would conclude that the costs of maintaining and insuring the physician's yacht are not deductible as ordinary and necessary business expenses. pp. C:1-26 through C:1-29.

## Tax Strategy and Critical Thinking Problem

**C:1-61** Choose Alternative 2; file the lawsuit in the Tax Court. HPU is likely to lose a lawsuit filed in the U. S. district court (Alternative 1) because that court is bound by *district court* precedent adverse to the taxpayer. Likewise, HPU is likely to lose a lawsuit filed in the Court of Federal Claims (Alternative 3) because that court is bound by *circuit court* precedent adverse to the taxpayer. On the other hand, in the Tax Court (Alternative 2) the tax return position taken by HPU has a realistic possibility of being sustained on its merits. In a case involving HPU, the Tax Court would not be bound by the other circuit court's precedent, which is adverse to the taxpayer because of the Golsen Rule. Rather, the Tax Court would be bound by HPU's own circuit court precedent, which, based on the specific facts of the problem, is nonexistent because HPU's circuit court has merely offered *dictum*, which is not binding. However, if the Tax Court issues a ruling consistent with the circuit court's second proposition, namely, that by opening the home improvement center, HPU is merely "improving customer access to its existing products," HPU will win the lawsuit, and its deduction will be sustained. pp. C:1-21 and C:1-23.

## Case Study Problem

**C:1-62** Statements on Standards for Tax Services (SSTS) No. 3 states that a CPA "may in good faith rely, without verification, on information furnished by the taxpayer or by third parties" (Para. 2, reproduced in Appendix E of the text). Thus, you may accept Mal's information at face value. His increase in AGI of over $30,000 may explain his increase in charitable contributions of approximately $10,000. In the second scenario the provision from SSTS No. 3 that a CPA "should make reasonable inquiries if the information furnished appears to be incorrect, incomplete, or inconsistent either on its face or on the basis of other facts known to a member" would be pertinent. Recently, the IRS audited Mal's return, and Mal lacked substantiation for about 75 percent of the charitable contributions he had claimed. (He may have made the contributions, but he could not prove that he did.) Further, the round amount ($25,000) reported by Mal suggests that Mal may be estimating what he contributed. You probably should request to see substantiation (canceled checks, etc.) for the contribution(s) claimed. For charitable contributions of $250 or greater made after December 31, 1993, no deduction is allowed unless the donee organization substantiates the contribution with a contemporaneous, written acknowledgement. Mal needs to be made aware of this rule for his current year's return. All cash contributions, regardless of amount, must be documented with a bank record or written communication from the charity. The communication must include the name of the charity, date, and amount. p. C:1-32.

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## Tax Research Problems

**C:1-63** a. The primary issue is whether the amounts Thomas A. Curtis, M.D. Inc. paid to Ellen Curtis as compensation during fiscal years 1988 and 1989 were reasonable.

b. Neither party was totally victorious. In fiscal year 1988, Ellen Curtis was paid $410,500. The amount held to be reasonable compensation by the Tax Court for 1988 was $227,000. In fiscal year 1989, Ellen Curtis was paid $510,500. The amount held to be reasonable compensation by the Tax Court for 1989 was $239,000. The amount held to be compensation, however, is more than the $100,000 and $105,000 the IRS asserted was reasonable compensation.

c. The plaintiff is the corporation because it is the party that claimed a deduction for the compensation. The IRS is attempting to disallow the corporation's deduction for part of the compensation paid. The disallowance of the deduction will have little effect on the two individuals since the amounts received will be either salary or dividends depending on the outcome of the case.

d. Ellen Barnert married Dr. Thomas Curtis in 1984.

e. Ms. Curtis worked approximately 60 to 70 hours supervising all departments set up within the corporation and the independent contractors, including scheduling and staffing of all the corporation's offices. Ms. Curtis was a registered nurse. She had a bachelor's degree in science and took worker's compensation courses at the University of Southern California Law School. She had worked as a nurse for a number of years and managed an ambulatory hospital system.

f. In fiscal year 1989, Ellen Curtis was paid $510,500. The Tax Court held $239,000 to be reasonable compensation in 1989.

g. The corporation paid no dividends in either fiscal year.

h. The case is appealable to the Ninth Circuit.

i. The five factors mentioned in determining reasonable compensation according to Elliott's are: (1) the employee's role in the company, (2) external comparison of the employee's salary with those paid by similar companies for similar services, (3) character and condition of the company, (4) conflict of interest in the employee's relationship to the corporation, and (5) the internal consistency in the company's treatment of payments to employees.

**C:1-64** Judicial authority exists to exclude the Medicare payments from the amount the mother is treated as having provided for her own support. The IRS agrees with this authority; therefore, if the IRS audits the client's return, the IRS will not argue that Josh's mother provided the majority of her own support. (This information should be included in the client letter.)

The work papers should include a discussion of the authorities summarized below. Section 152(a) provides that one of the tests for claiming another as a dependent is to provide over one-half of such person's support. (Note: Josh's mother's gross income of $2,000 is not too high in the current year for her to be claimed his dependent assuming all other requirements are met.) If he provides over one-half of her support, he also may deduct any medical expenses he pays on her behalf. Section 152 does not define "support." Regulation Sec. 1.152-1(a)(2) states that support includes "food, shelter, clothing, medical and dental care, education, and the like." It also provides that in determining the amount an individual contributes to his own support, one must count the cost of support items paid for from "income, which is ordinarily excludable from gross income, such as benefits received under the Social Security Act."

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In Alfred H. Turecamo v. CIR, 39 AFTR 2d 77-1487, 77-1 USTC ¶9415 (2nd Cir., 1977), the court held that hospital costs paid by Basic Medicare do not constitute support the ill person furnishes for himself or herself. After studying the legislative history of the Medicare statute, the court could find no valid basis "for distinguishing between hospital benefits received under Part A of Medicare [Basic Medicare] and either private insurance proceeds or supplemental benefits received under Part B [of Medicare]."

In Rev. Rul. 70-341, 1970-2 C.B. 31, the IRS ruled that Basic Medicare payments on a person's behalf must be treated as contributions by such person toward his own support. Such treatment was in contrast to that of Supplemental Medicare, which the IRS viewed as in the nature of insurance proceeds, and not self-support. Revenue Ruling 64-223, 1964-2 C.B. 50, held that amounts paid by an insurance company for medical costs are disregarded in the support test.

In Rev. Rul. 79-173, 1979-1 C.B. 86, the IRS revoked Rev. Rul. 70-341. Thus, the IRS currently treats Basic Medicare payments consistently with Supplemental Medicare and ignores amounts received from either source for purposes of the support test. In Archer v. Comm. 73 T.C. 963 (1980), the court held that both Medicare and Medicaid are disregarded in the support test.

**C:1-65** In determining whether the property is used "too much" for personal purposes so that Sec. 280A applies, use of the residence by Amy or by family members constitutes personal use, as does use by persons who pay less than fair rental value (Sec. 280A(d)(2)). Use by Amy when performing repairs and maintenance full-time is totally disregarded (Sec. 280A(d)(2)). For purposes of allocating the expenses attributable to rental use, however, all the days on which the property is rented for fair rental value are considered, even if the property is rented to family members on some of these days (Prop. Reg. Sec. 1.280A-3(c)).

The total number of days rented at fair rental value – the numerator of the fraction used in the allocation – is determined as follows:

| | |
|---|---|
| Days rented to sister | 8 |
| Days rented to cousin | 4 |
| Days rented to three families | 120 |
| Total | 132 |

The denominator for allocating interest and taxes is in dispute. Per Prop. Reg. Sec. 1.280 A-3(d)(3), the denominator is the total number of days of actual use (exclusive of use by the owner for performing repairs). Thus, the denominator would be 146 (12 + 8 + 4 + 2 + 120). Case law supports using as the denominator the number of days in the year, or 365 days in this case for allocating interest and taxes. Dorrance D. Bolton v. CIR 51 AFTR 2d 83-305, 82-2 USTC ¶9,699, (9th Cir., 1982), affirming 77 T.C. 104 (1981), and Edith G. McKinney v. CIR 52 AFTR 2d 83-6281, 83-2 USTC ¶9,665 (10th Cir., 1983).

For allocating repairs, insurance, and depreciation, this ratio is the number of days rented at fair rental value divided by the total number of days of actual use, or 132/148. However, there is a conflict between Sec. 280A(e) and Prop. Reg. §1.280A-3(d)(3). The proposed regulation excludes repair days from the denominator, but the IRC is silent. Excluding the repair days results in a denominator of 146.

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**C:1-66** a. The principal issue in both cases was whether the corporation could deduct amounts paid as compensation to the spouse (ex-spouse) of a sole shareholder. This issue, in turn, depended on whether such compensation was "reasonable" under the circumstances.

b. The Tax Court considered a number of factors, including (1) the employee's qualifications and training, (2) the nature, extent, and scope of her duties, (3) responsibilities and hours involved, (4) the size and complexity of the business, (5) the results of the employee's efforts, (6) the prevailing rates for comparable employees in comparable businesses, (7) the scarcity of other qualified employees, (8) the ratio of compensation to the gross and net income of the business, (9) the salary policy of the employer to other employees, and (10) the amount of compensation paid to the employee in prior years.

c. The facts of these cases are similar in the following respect: in both cases, the taxpayers were corporations that claimed a deduction for payments made to the spouse or ex-spouse of a sole shareholder. The facts are different in these respects: (1) In Summit the IRS contended that only a portion of the salary payments were nondeductible; in J.B.S., it argued that none of the salary payments were deductible. (2) In Summit, the spouse performed extensive services for the firm; in J.B.S., the ex-spouse appears to have performed no services. (3) In Summit, the court took into consideration the corporation's rising profits; in J.B.S., the court did not. (In fact, the latter opinion does not mention the firm's profits or loss position). (4) In Summit, the payments did not appear to be motivated by tax avoidance. (Because the corporation paid substantial dividends to its sole shareholder, the payments to the spouse did not appear to be "disguised dividends"). In J.B.S., the payments did appear to be motivated by tax avoidance. (Testimony indicated that some tax positions had been taken to minimize the corporation's tax liability).

**C:1-67** The memorandum should supply the following answers:

a. Revenue Proc. 2020-1, I.R.B. 2020-1, 1 and Rev. Proc. 2020-4, I.R.B. 2020-1, I.R.B. 148, govern requests for determination letters.

b. Form 5300, "Application for Determination for Employee Benefit Plan," must be filed with the request.

c. The following information must be provided in the request:

1 Complete statement of facts and other information

2. Copies of all contracts, wills, deeds, agreements, instruments, other documents pertinent to the transaction, and foreign laws

3. Analysis of material facts

4. Statement regarding whether same issue is in an earlier return and additional information required for §301.9100 requests

5. Statement regarding whether same or similar issue was previously ruled on or whether a request involving it was submitted or is currently pending

6. Statement regarding interpretation of a substantive provision of an income or estate tax treaty

7. Statement regarding involvement of a transactional party located in a foreign country

8. Letter from Bureau of Indian Affairs relating to a letter ruling request for recognition of Indian tribal government status or status as a political subdivision of an Indian tribal government.

9. Statement of supporting authorities

10. Statement of contrary authorities

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11. Statement identifying pending legislation
12. Statement identifying information to be deleted from the public inspection copy of letter ruling or determination letter
13. Signature by taxpayer or authorized representative
14. Authorized representatives
15. Power of attorney and declaration of representative
16. Penalties of perjury statement
17. Number of copies of request to be submitted
18. Sample format for a letter ruling request
19. Checklist for letter ruling requests

d. Actions that must accompany the filing include payment of appropriate user fee and notification of interested parties.

## "What Would You Do In This Situation?" Solution

**Ch. C:1, p. C:1-34.**

In this context, you have two professional duties: first, a duty of confidentiality to each client, and second, a duty to verify information that appears to be incorrect on its face. According to Statement No. 3 of the Statements on Standards for Tax Services, a CPA who is required to sign a tax return should consider information actually known to the CPA from the tax return of another client if (1) that information is relevant to the former return, (2) its consideration is necessary to properly prepare that return, and (3) the use of such information does not violate any rule of confidentiality. Here, (1) the information relating to each return is relevant to the other; (2) its consideration is necessary to properly prepare the other return; and (3) the use of such information does not violate any rule of confidentiality, *so long as the information is not disclosed to the other client.* Your considering the tax return information should lead you to believe that it is incorrect on its face; therefore, you have a duty to verify it.

Accordingly, without revealing the basis for your belief, you should request from each client documentary evidence of its respective claim. Such evidence should consist of a paid invoice, a canceled check, a signed or certified receipt, a bill of lading, or any other document that indicates the essential terms of the contract of sale.

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# Instructor's Resource Manual
Mitchell Franklin

# Pearson's Federal Taxation 2021
## *Corporations, Partnerships, Estates & Trusts*

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# PREFACE

## General

The text materials from Pearson's Federal Taxation, 2021: Corporations, Partnerships, Estates & Trusts (Anderson, Hulse, and Rupert) are principally designed for use in a second course in federal taxation for undergraduate or graduate accounting and business students.

With the inclusion of chapters on partnerships, S corporations, C corporations, estates and trusts, and gift and estate taxation, the text also can be used in a survey federal taxation course for undergraduate or graduate students.

The text also could be used in an introductory business entities course in law school to the extent the instructor prefers a more direct approach than the case method.

The text includes a full complement of supplementary and ancillary materials. We recommend that all adopters refer to the Preface to the text for the supplementary and ancillary materials provided to adopters. Many of these items are available to faculty and students at no cost. Adopters are encouraged to use these materials to enhance their teaching effectiveness and their students' learning experience.

## Sample Syllabi

This guide contains two sample syllabi for a one-term second tax course. It contains suggested reading and problem assignments that can be turned into a complete assignment sheet with only minimal work. Because the term is broken down into individual class sessions, either syllabus can be used for classes taught on the quarter system.

## Instructor Outlines

The instructor outline for each chapter includes: learning objectives, areas of greater and lesser significance, problem areas for students, highlights of recent tax law changes, teaching tips, lecture outline, and a set of references to court cases that are designed to be interesting and informative to the student. A summary description of each area is presented below.

## Learning Objectives

The materials for each chapter include the learning objectives for that chapter. This focus will be useful to the instructor and may be communicated to students to assist their study.


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## Areas of Greater Significance

The materials for each chapter point out the areas of greater significance. This feature permits the instructor to allocate a greater share of class time and homework assignments to these areas.

## Areas of Lesser Significance

The materials for each chapter point out the areas of lesser significance. This feature permits the instructor to reduce the amount of class time and homework assignments devoted to these areas.

## Problem Areas for Students

The materials for each chapter detail areas in which students are likely to experience difficulty in learning and in retaining. Instructors may allocate more class time to these topics, while letting the student learn other topics directly from the text and problems.

## Highlights of Recent Tax Law Changes

Recent tax law changes are highlighted, including amendments to the Internal Revenue Code, administrative pronouncements, and judicial decisions. These changes are cross-referenced to the text materials.

## Teaching Tips

Each lecture outline contains a series of teaching tips designed to improve an instructor's coverage or presentation of the materials in the chapter. Each of the teaching tips is keyed to a particular page in the chapter. Some of the teaching tips concern issues that might be added to the lecture outline at a particular point. Others are keyed to the method of presentation of a topical item or ancillary materials provided by Pearson to make the learning process a better experience for the students. These teaching tips have been provided by the authors or instructors who are currently using the book.

## Lecture Outline

The lecture outlines for each chapter are organizational tools centered on the topics that could be covered in lecture discussions. Textual examples, tables, figures, and problems are referenced to the applicable topic. Microsoft Word files are available for the lecture outlines so that faculty members can use these outlines to develop their own lecture outlines.


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The Instructor's Resource Manual, including lecture outlines, is available on the Instructor's Resource Center Online at:

www.pearsonhighered.com/pearsontax

A password and user-id are required, and can be obtained from your Pearson representative. If you do not know your Pearson representative, you may visit:

www.pearsonhighered.com/replocator

The lecture outlines are designed so the instructor can share them with students to assist them in taking notes and subsequent study.

## Court Case Briefs

Each chapter contains references to and a brief annotation of a series of selected court cases. These cases are recommended as a way for faculty members to incorporate interesting illustrations into their lectures.

## Solutions to Tax Form/Return Preparation Problems

The authors have prepared solutions to the Tax Form/Return Preparation Problems for their chapters.

## Final Remarks

We hope these materials are helpful when teaching with the Pearson's Federal Taxation, 2021: Corporations, Partnerships, Estates & Trusts text. We would appreciate receiving any suggestions that you have for improving these or any other supplemental materials. Please send any error corrections or suggestions to any of the following editors. If you would like to obtain an immediate solution to your question or problem, please do not hesitate to contact the editors at:


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# Chapter C:1

# Tax Research

## Learning Objectives

After studying this chapter, the student should be able to:

1. Distinguish between closed fact and open fact tax situations.
2. Describe the steps in the tax research process.
3. Explain how the facts influence tax consequences.
4. Identify the sources of tax law and assess the authoritative value of each.
5. Consult tax services to research an issue.
6. Apply the basics of Internet-based tax research.
7. Use a citator to assess tax authorities.
8. Describe professional guidelines that CPAs in tax practice should follow.
9. Prepare work papers and communicate to clients.

## Areas of Greater Significance

Since this will usually be a student's first exposure to tax research, the importance of the facts to the tax results, federal tax services and the citator should be discussed. The widespread use of Internet-based databases for tax research makes this means of tax research much more important. An effort should be made to introduce Internet-based searches to the students if at all possible. The text discusses two types of professional guidelines for CPAs in tax practice.

## Areas of Lesser Significance

In the interest of time, the following areas may be omitted:

Sample work papers and client letter (Appendix A).


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## Problem Areas for Students

The following areas may prove especially difficult to students:

1. Understanding how to use the tax services and citators.

2. Learning the authoritative value of each source of tax law.

## Highlights of Recent Tax Law Changes

- For revenue rulings (and other IRS pronouncements) issued after 1999, the full four digits of the year of issuance are provided in the title. For revenue rulings and other pronouncements issued before 2000, only the last two digits of the year of issuance are provided in the title.

- Students should become familiar with the use of Internet-based databases which have replaced the paper services.

- For changes to the IRC enacted after July 29, 1996, the Treasury is generally precluded from issuing regulations with retroactive effect. In the case of final regulations, however, a regulation can be effective on the date proposed or the date on which temporary regulations are filed with the Federal Register. Regulations issued within 18 months of the date of a change to the statute can be issued with retroactive effect.

- Both CCH and RIA provide tax-related information via the Internet. The United States Tax Reporter is also available on LexisNexis and Westlaw.

## Teaching Tips

- Example C:1-2: Use the example to emphasize to the students the importance of considering nontax objectives as well as tax objectives. p. C:1-2.

- Steps in the Tax Research Process, Paragraph 1: Walk through the steps in the tax research process. As you do this, emphasize to the students that the steps of the tax research process provide an excellent format for a written communication to a client or for a client file. You might consider going over the client communication contained in Appendix A.

- If proper citations are being stressed in the course, Table C:1-3 is a good reference.

- Illustrate to the students how to use the Internet version of one of the tax services or the LEXIS online service in an in-class demonstration.


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## Lecture Outline

### I. Overview of Tax Research.

Tax research can be conducted in a number of different settings. Tax research involves solving a specific tax-related question using a number of tax law sources as they apply to a particular situation. Sample work papers demonstrating how to document the results of a research effort are included in Appendix A. In addition, the text discusses two types of professional guidelines for CPAs in tax practice: the AICPA's guidelines for CPAs in tax practice, the Statements on Standards for Tax Services and Treasury Department Circular 230 (reproduced in Appendix E).

A. Client-oriented research is conducted by accounting and law firms for the benefit of their clients. It involves determining the tax consequences of a certain transaction for a given client. It is performed in:

1. Closed-fact or tax compliance situations. (See Example C:1-1.) p. C:1-2.
2. Open-fact or tax-planning situations. (See Example C:1-2.) p. C:1-2.

B. **Academic settings.** Tax policy research may be conducted by individuals in an academic setting (e.g., accounting programs, law schools, economics departments, etc.).

The tax advisor should always bear in mind the financial accounting implications of proposed transactions. Though interrelated, the two fields of accounting have different orientations and different objectives. Tax accounting is oriented primarily to the Internal Revenue Service. Its objectives include calculating, reporting, and predicting one's tax liability according to legal principles. Financial accounting is oriented primarily to shareholders, creditors, managers, and employees. Its objectives include determining, reporting, and predicting a business's financial position and operating results according to Generally Accepted Accounting Principles.

### II. Steps in the Tax Research Process.

When doing tax research in the context of tax planning or just in engaging in tax planning, the emphasis should be placed on the circular nature of the tax research process. It often requires the determination of different facts, restatement of the research question, or reliance on additional authorities. (Refer here to Figure C:1-1) p. C:1-4. There are, however, six basic steps to the tax research process:

A. Determine the facts.

B. Identify the issues (questions).


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C. Locate the applicable authorities.

D. Evaluate the authorities and choose those to follow where the authorities conflict.

E. Analyze the facts in terms of the applicable authorities.

F. Communicate conclusions and recommendations to the client.

A professional needs to keep a number of points in mind.

A. The objective is not to minimize taxes per se but rather to maximize the after-tax return.

B. One does not engage in unilateral transactions; thus, the tax ramifications to all parties to the contract are relevant.

C. Taxes are but one cost of doing business.

D. The time for tax planning is not restricted to when one enters into an investment, contract, or other arrangement, but rather the time extends throughout the life of the activity.

Appendix A walks students through the research process.

Tax research often involves a "gray area;" that is, one that does not have a clear-cut, unequivocally correct solution. The issue should be pursued through the use of a specifically tailored set of detailed questions. Tax research may also involve determining which issues need to be researched. It requires a fairly extensive knowledge of tax law to be able to determine which issues need to be researched.

A tax advisor should always bear in mind the financial accounting implications of proposed transactions. An answer that may be desirable from a tax perspective may not always be desirable from a financial accounting perspective. Success in any tax practice, especially at the managerial level, requires consideration of both sets of objectives and orientations.

## III. Importance of the Facts to the Tax Consequences.

The importance of a particular set of facts to the tax results should be emphasized. Three illustrations are presented for class discussion. These illustrations should naturally lead into a discussion of how a factual situation can be designed to meet the statutory requirements.

## IV. The Sources of Tax Law.

The term "tax law" generally encompasses much more than just the tax statutes as enacted by Congress. The law contains very general language that requires interpretation, both


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administrative and judicial. Administrative interpretations include Treasury Regulations, revenue rulings, and revenue procedures. Judicial interpretations consist of court decisions. Tax law also consists of committee reports issued by Congress during the legislative process.

A. **Legislative Process.** All tax legislation must originate in the House of Representatives. Tax bills are referred to the House Ways and Means Committee. After a bill is approved by the House Ways and Means Committee, it moves to the floor of the House for consideration. If approved by a majority of the House, it moves to the Senate. After consideration by the Senate Finance Committee, it moves to the Senate floor for approval. Usually the House and Senate bills will not be in complete agreement. The bill will then go to a conference committee consisting of members of both houses. A compromise will then be made between the two versions of the tax bill. The compromise is then voted on by both houses of Congress and goes on to the President for his signature or veto. Both houses of Congress generally hold extensive hearings at which time interested parties are free to testify. The U.S. Government Printing Office publishes the statements made at hearings. Committee reports explaining Congress's purpose in drafting legislation are published by the U.S. Government Printing Office in the **Cumulative Bulletin**. Committee reports are particularly useful in interpreting the law prior to issuance of Treasury regulations. (See Example C:1-4.) p. C:1-8.

B. **Internal Revenue Code.** The Internal Revenue Code is the foundation of all tax law. It was first codified in 1939. Recodified in 1954, it has now been named the Internal Revenue Code of 1986. Whenever the law is changed, old language is deleted and new language is added.

C. **Treasury Regulations.** The Treasury Department issues Treasury Regulations as interpretations of the statute. They provide examples complete with computations to assist in understanding how IRC provisions are applied. Because statutory changes occur frequently, regulations are not always updated in a timely manner. When referring to a regulation, the tax advisor should consult the introductory note in order to determine when the regulation was adopted. Treasury Regulations are first provided in proposed form and the public has an opportunity to comment and suggest changes. Proposed regulations have no more authoritative weight than the position the IRS argues for in a brief, but provide guidance on the Treasury Department's interpretation of a statute. Temporary regulations (which generally are effective upon publication) are often issued soon after a major statutory change to provide guidance on procedural and computational matters. Temporary regulations have the same authoritative value as final regulations; however, they cannot remain temporary for more than a three-year period. Temporary regulations must be issued concurrently with proposed regulations. Final regulations are drafted after the public has had time to comment on the proposed regulations. Final regulations have the same authoritative weight as the statute and generally take effect retroactive to the effective date of the statutory language they interpret.


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For changes to the IRC enacted after July 29, 1996, the Treasury is generally precluded from issuing regulations with retroactive effect. In the case of final regulations, however, a regulation can be effective on the date proposed or the date on which temporary regulations are filed with the Federal Register. Regulations issued within 18 months of the date of a change to the statute can be issued with retroactive effect.

Regulations may also be classified as either interpretative or legislative. Interpretative regulations are issued under the general authority of Sec. 7805 and make the statutory language easier to understand and apply. They provide illustrations about how to perform certain computations. Legislative regulations provide rules on highly technical matters where Congress has delegated the rulemaking to the Treasury Department (e.g., consolidated tax return issues). Both types of regulations have the same authoritative weight and will be overturned only in very limited cases such as when, in the Court's opinion, the regulations exceed the scope of power delegated to the Treasury Department, are contrary to the IRC, or are unreasonable.

Section 7805 provides that the Secretary of the Treasury has the right to prescribe regulations and to provide what extent they are to be applied retroactively. Occasionally, taxpayers can successfully argue that a regulation is invalid and, consequently, should not be followed. This will occur only if the courts find that the regulation is "unreasonable and plainly inconsistent with the revenue statutes." Some courts apply the **legislative reenactment doctrine**, which holds that regulations finalized many years earlier and not amended by Congress through changes to the statutory language have Congressional approval.

Regulations are cited as follows. Numbers before the decimal point indicate the general subject matter of the regulation. Numbers to the right of the decimal place refer to the IRC section being interpreted. Numbers to the right of that number indicate the number of the regulation. Temporary or proposed regulations are cited as Temp. Reg. Sec. or Prop. Reg. Sec. When providing a citation, the researcher should be as precise as possible. An example of this would be Reg. Sec. 1.165-5(I), Ex. 2(I), which refers to the first portion of Example 2 that is contained in the first portion of the fifth regulation interpreting Sec. 165. You may wish at this point to use the **Stop and Think** material, which illustrates the force of law certain regulations have. pp. C:1-10-C:1-11.

D. **Administrative Pronouncements.** There are a number of different means that the IRS uses for interpreting the statute. After referring to the IRC and Treasury Regulations, tax advisors are likely to refer next to IRS interpretations for further authority for answering a tax question.

1. **Revenue Rulings.** Revenue rulings are used to indicate the tax status of a specific transaction, which has wide taxpayer interest. They represent the viewpoint of the IRS and do not have as much authority as federal court


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cases or regulations. Approximately one hundred rulings are issued each year. A taxpayer does not have to follow a ruling if there is sufficient authority for different treatment. An IRS agent is, however, bound by the rulings. Rulings are published weekly in the **Internal Revenue Bulletin** (I.R.B.) and semiannually in the **Cumulative Bulletin** (C.B.) prior to 2009. Refer now to p. C:1-12 to see how revenue rulings are cited.

2. **Revenue Procedures.** Revenue procedures usually deal with procedural aspects of tax practice. They are first published in the **Internal Revenue Bulletin** and later in the **Cumulative Bulletin** until 2009. Refer now to p. C:1-12 to illustrate how revenue procedures are cited. In addition to revenue rulings and revenue procedures, the *Cumulative Bulletin* contains IRS notices, as well as the texts of proposed regulations, tax treaties, committee reports, and U.S. Supreme Court decisions. For revenue rulings issued after 2008, the Internal Revenue Bulletin is the final reference.

3. **Letter Rulings.** Letter rulings are initiated by taxpayers who ask the IRS to explain the tax consequences of a particular transaction. The IRS responds in a letter ruling that can be relied on only by the person requesting it. They provide insight into the current thinking of the IRS. CCH publishes rulings with any confidential information deleted in a separate letter ruling service. Refer to pp. C:1-12-C:1-13 to illustrate how letter rulings are cited.

4. **Technical Advice Memoranda.** When a taxpayer's return is being audited with respect to a complicated, technical matter, the taxpayer may request that the matter be referred to the IRS National Office in Washington, D.C. concerning the appropriate tax treatment. The answer is issued in the form of a Technical Advice Memoranda, which is made available in the form of a letter ruling. Refer to p. C:1-13 to illustrate how technical advice memoranda are cited.

5. **Tax Information Releases.** Tax Information releases contain information about interpretations of general interest and are released to the news media throughout the United States. Refer now to p. C:1-13 to illustrate how information releases are cited.

6. **Announcements and Notices.** Information releases that are more technical and aimed at tax practitioners are issued in the form of Announcements. Announcements are often issued before temporary or proposed regulations can be issued. The IRS is bound by announcements and notices in the same way as if contained in a revenue ruling. Notices and announcements issued prior to 2009 appear in both the Internal Revenue Bulletin and the Cumulative Bulletin. As of 2009, they appear only in the Internal Revenue Bulletin. Refer now to p. C:1-13 to illustrate how announcements are cited.


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E. **Judicial Decisions.** Judicial decisions comprise an important source of tax law. Judicial decisions in different jurisdictions are sometimes in conflict. See Figure C:1-1, p. C:1-15 for a summary of the court system.

**Overview of the Court System.** There are three trial courts - the U.S. Tax Court, the U.S. Court of Federal Claims, and the U.S. District Courts. Litigation may begin in any court, but precedent is an important factor in determining where it should begin. Cash flow also may be an important factor. Taxes must be paid before litigation begins in the U.S. Court of Federal Claims or the U.S. District Courts. After the taxes are paid, a claim for refund is filed, which will be denied by the IRS. A suit for refund is then brought and, if won, a refund with interest is obtained. A suit may be brought in the Tax Court. If lost, the deficiency plus any interest and penalties must be paid. The District Courts are the only place that a jury trial is possible. Decisions can be appealed from the Tax Court and the U.S. District Courts to the Court of Appeals in the taxpayer's circuit. Appeals from the U.S. Court of Federal Claims are taken to the Court of Appeals for the Federal Circuit. A party who loses at the appellate level can ask the Supreme Court for a **writ of certiorari**. The Supreme Court hears only about six to ten tax cases a year. (See Table C:1-1 Federal Judicial Circuits for a listing of states in the various Courts of Appeals on p. C:1-15.) (See Table C:1-2 for an overview of the court system on p. C:1-16.)

**U.S. Tax Court.** The U.S. Tax Court originated in 1942 as the successor to the Board of Tax Appeals. It is a court of national jurisdiction that hears only tax-related cases. All taxpayers, regardless of their state of residence, may litigate in the Tax Court. It has 19 judges, including one chief judge. The President, with the consent of the Senate, appoints the judges for a 15-year term and may reappoint them for an additional term. The judges, specialists in tax-related matters, periodically travel to roughly one hundred cities throughout the country to hear cases. In most instances, only one judge hears a case.

The Tax Court has a special policy in dealing with cases where the amount in question does not exceed $50,000 a year (i.e., small cases). Taxpayers can represent themselves without an attorney. The cases are heard by special commissioners instead of one of the Tax Court judges. Decisions under this procedure cannot be appealed.

The IRS has an **acquiescence policy** with regard to federal court decisions that have been decided in the taxpayer's favor. If it wishes to go on record that it agrees with a federal court decision, it acquiesces. If it wishes to disagree with a decision, it issues a nonacquiescence. This policy is not followed in all federal court decisions. An acquiescence or nonacquiescence is binding on an IRS agent. If a taxpayer is audited and has taken a position, in which the IRS has issued a nonacquiescence, litigation will likely be the only recourse for the taxpayer. IRS


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acquiescences and nonacquiescences are published in the Internal Revenue Bulletins and Cumulative Bulletins.

Regular decisions of the Tax Court are published by the U.S. Government Printing Office in a bound volume known as the **Tax Court of the United States Reports**. Soon after a decision is made public, it is also published by RIA and CCH in their loose-leaf reporters of Tax Court decisions. Refer now to Table C:1-3, p. C:1-22 to illustrate regular and memo Tax Court citations.

**U.S. District Courts.** Each state has a U.S. district court and more populous states have several district courts. Many different types of cases are heard by this court and a taxpayer may request a jury trial. District court decisions are officially reported in the **Federal Supplement** (F. Supp.) published by West. Tax decisions are also published by RIA in the **American Federal Tax Reports** (AFTR) and by CCH in the **U.S. Tax Cases** (USTC). Refer now to Table C:1-3, p. C:1-22 to illustrate a district court citation.

**U.S. Court of Federal Claims.** The U.S. Court of Federal Claims, as reorganized in 1982 and renamed in 1992, is a national court with decisions appealable to the Circuit Court of Appeals for the Federal Circuit. U.S. Court of Federal Claims decisions were published in the **Claims Court Reporter** by West Publishing Co. from 1982 to 1992. These cases are now reported in the **Federal Claims Reporter** (Fed. Cl.). In addition, the AFTR and USTC services report these tax decisions. Refer now to Table C:1-3, p. C:1-22 to illustrate this citation.

**Circuit Courts of Appeal.** Trial court decisions are appealable to a particular circuit court of appeals depending upon where the litigation originated. In the case of an individual, it depends upon the taxpayer's residence on the date of appeal. In the case of a corporation, it is the principal place of business that controls. There are 11 geographical circuits, the circuit for the District of Columbia and the Federal Circuit. (See Figure C:1-3, p. C:1-22.) New circuit court of appeals decisions are reported officially in the **Federal Reporter, Third Series** (F.3d) published by West. In addition, AFTR and USTC services report these decisions. Refer now to Table C:1-3, p. C:1-22 to illustrate this citation.

**Supreme Court.** A decision of an appellate court can be appealed to the U.S. Supreme Court. Unless the circuits are divided on the proper treatment of an issue or the issue is deemed of great significance, the Supreme Court will not grant **certiorari**. Decisions of the Supreme Court are the law of the land. If Congress does not agree with a Supreme Court decision, statutory language can be amended to reach the desired result. Supreme Court decisions are published in the **United States Supreme Court Reports** (U.S.) by the U.S. Government Printing Office, the **Supreme Court Reporter** (S.Ct.) by West, and the **United States Reports, Lawyers' Edition** (L.Ed.) by Lawyer's Co-Operative Publishing Co. In addition,


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the AFTR and USTC services report these tax decisions. Refer now to Table C:1-3, p. C:1-22 to illustrate this citation.

**Precedential Value of Various Decisions.**

1. The Tax Court will generally rule uniformly for taxpayers. It is bound by Supreme Court decisions. In 1970, the **Golsen** rule was adopted which mandates that the Tax Court will follow decisions of the court for the circuit to which a case in question is appealable.

2. U.S. district court decisions have precedential value only for subsequent cases heard in the same district. District courts must follow decisions of the Supreme Court and the court of appeals to which the case is appealable.

3. The U.S. Court of Federal Claims must rule consistently with the Supreme Court, Circuit Court of Appeals for the Federal Circuit, and its own earlier decisions.

4. A circuit court of appeals is bound by the Supreme Court and earlier decisions made by that circuit. *Green v.* US 185 F. 3d 67, 84 AFTR 2d 99-5415, 99-2 USTC ¶50,701 (3rd Cir, 1999).

   The Green Case appears on page 67, volume 185 of the *Federal Reporter, Third Series.* It is also published in volume 84, page 99-5415 on AFTR, Second Series, and in Volume 2, Paragraph 50,701 of the 199 USTC. The parenthetical information indicates that the Third Circuit decided the case in 1999 (*The Federal Reporter, Second Series* reference is found in footnote 33 of this chapter).

Because the courts are not always in agreement, a taxpayer can sometimes **forum shop** to select a court that is likely to be most favorable to the taxpayer's position. You may wish to use the **Stop and Think** materials at this point, which illustrate the importance of forum shopping. p. C:1-24.

F. **Tax Treaties.** The United States has treaties with a number of foreign countries. The treaties may pertain to tax and other matters. The provisions contained in a treaty in most cases override the rules contained in the IRC. p. C:1-24.

G. **Tax Periodicals.** Writings of tax experts in tax periodicals can provide useful insight into provisions contained in the IRC, Regulations, cases, or rulings. A list of periodicals is found on p. C:1-24. Published articles and tax service commentaries are secondary sources of authority. Primary sources of authority are the IRC and administrative and judicial interpretations. Only primary authorities should be cited.


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## V. Tax Services.

Organizationally, there are two types of tax services: first, "annotated," and second, "topical." An annotated tax service is organized by IRC section. The IRC-arranged subdivisions of this service are likely to encompass several topics. A topical tax service is organized by broad topic. The topically arranged subdivisions of this service are likely to encompass several IRC sections. The principal annotated tax services are United States Tax Reporter and Standard Federal Tax Reporter. The main topical services are Federal Tax Coordinator 2d and Tax Management Portfolios.

## VI. The Internet as a Research Tool.

Internet databases are rapidly replacing books as the principal source of tax-related information. These databases encompass not only the IRC, Treasury Regulations, court cases, state laws, and other primary authorities, but also citators and secondary sources such as tax service reporters, treatises, journals, and newsletters. The principal advantages of using Internet-based tax services are ease and speed of access. The databases can be accessed using annotations or a "key word" approach. The annotated versions are arranged by IRC section. The annotations accompany editorial commentaries and include digests and summaries of IRS pronouncements and court opinions that interpret a particular IRC section. A topical tax service is organized by broad topic, including income taxes, estate and gift taxes, and excise taxes. The topically arranged sub-divisions of this service are likely to encompass several IRC sections. Each database is updated on a timely basis. See Table C:1-4 on p. C:1-25 for a summary of the key features of tax services.

The most widely used Internet-based research services are RIA's Checkpoint™ (hereafter CHECKPOINT), accessible at http://checkpoint.riag.com, and the CCH Tax Research NetWork™ (hereafter CCH NETWORK), accessible at http://tax.cchgroup.com/network. Both services are updated continuously and store information in databases (called libraries). This chapter and the textbook discuss Internet-based tax services in general and focus on CHECKPOINT for illustrative purposes, but they all work in a similar manner.

## VII. Citators.

Citators serve two functions: (1) they provide a history of the case; and (2) they list other authorities that have cited the case. The citator allows the user to input the names of specific case citations, and see all related pronouncements and status changes.

## VIII. Professional Guidelines for Tax Services.

Professional guidelines for tax services are contained in both government-imposed and professional-imposed tax standards. Circular 230 sets forth rules to practice before the Internal Revenue Service and pertains to certified public accountants, attorneys, enrolled


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agents, and other persons representing taxpayers before the IRS. It presents duties and restrictions relating to such practice and prescribes sanctions and disciplinary proceedings for violating these regulations. Circular 230 also provides guidelines for written advice to taxpayers. In June 2014, these guidelines were significantly revised and eliminated the distinction between covered opinions and written advice. All rules are now governed under what is referred to as a "reasonable practitioner standard." In the case of written advice, the practitioner is now supposed to base advice under reasonable assumptions and consider the facts that are important and not base an opinion on the probability of audit.

Statements on Standards for Tax Services (SSTS), issued by the American Institute of Certified Public Accountants and reproduced in Appendix E, set forth guidelines governing ethical issues in tax practice. Although the SSTSs are not legally enforceable, they carry significant moral weight, and may be cited in a negligence lawsuit as the proper "standard of care" for tax practitioners. They also provide grounds for the termination or suspension of one's professional license. The Standards provide an ethical framework to govern the normative relationship between a tax advisor and his or her client, where, unlike an auditor, a tax advisor acts as the client's advocate.

## IX. Sample Work Papers.

Appendix A presents a set of sample work papers, including a draft of a client letter and a memo to the file. The work papers indicate the issues to be researched, the authorities addressing the issues, and the researcher's conclusions concerning the appropriate tax treatment, with rationale for its use. Formats differ from firm to firm. The sample offers general guidance concerning the content of work papers.


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## Court Case Briefs

The following court cases illustrate how the courts, through judicially enunciated doctrines, impact the interpretation of tax law.

***Hirotoshi Yamamoto v. CIR***, 73 T.C. 946 (1980), aff'd. in unpublished opinion 672 F.2d 924 (9th Cir., 1982).

Yamamoto (Y) owned 100% of the stock of P Corporation. P Corporation owned 100% of the stock of subsidiary S. S was heavily indebted to P. During 1970 and 1971, S made loans to Y. Y transferred real property to S, those transactions being recorded as sales, in exchange for cash, release of Y's indebtedness to S and assumption of Y's liabilities by S. Subsequently, S transferred this property to P at a price equal to S's book value in the property. Additionally, Y purchased stock of P in exchange for cash.

Y argued that the step-transaction theory should apply to these transactions so they should be collapsed into one transaction and qualify for tax-free treatment under IRC Sec. 351. The court rejected this argument, stating that the rules for transfers to a controlled corporation did not apply because the property transfers and stock transfer had separate legal significance. The facts were consistent with this decision. This case involves a detailed analysis of the substance over form issue.

***Evelyn F. Gregory v. Helvering***, 293 U.S. 465 (1935).

Mrs. Gregory owned all of the stock of a corporation, which owned 1,000 shares of stock of another corporation. To get these shares and to obtain more favorable tax treatment, a new corporation was organized and the 1,000 shares of stock were transferred to it by the old corporation in what was claimed to be a nontaxable reorganization. The new corporation then dissolved and distributed its only asset, the shares of stock, to its sole shareholder, Mrs. Gregory. Mrs. Gregory then sold the stock and reported capital gains tax treatment on the sale. The Supreme Court held that a nontaxable reorganization had not occurred since the new corporation had no relation to the business of the old corporation and was formed solely as part of a preconceived plan with no business purpose. Tax avoidance was held not to be a sufficient business purpose to permit a tax-free reorganization to occur.


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Melodic Musical Sales, Inc.
XX 2021019 2019 Form 1120

Notes to Instructor:
Instructors may want to simplify the tax return project by giving students some or all of the following information rather than having them calculate the items:

Current year depreciation on property placed in service before 2019:

| | |
|---|---|
| Building ($2,000,000 × 0.02564) | $ 51,280 |
| Equipment 1 ($250,000 × 0.1249 × 0.5) | 15,613 |
| Equipment 2 ($500,000 × 0.1249) | 62,450 |
| Trucks ($100,000 × 0.192) | 19,200 |
| Total | $148,543 |

Current year depreciation on equipment placed in service in 2019:

| | |
|---|---|
| Sec. 179 expensing | $600,000 |

| | |
|---|---|
| Total current-year depreciation | $748,543 |

Capital gains and losses for 2019:

| | |
|---|---|
| Short-term capital gain on sale of PDQ stock | $ 55,000 |
| Long-term capital loss on sale of JSB stock | (10,000) |

Sale of Equipment 1:

| | | |
|---|---|---|
| Selling price | | $280,000 |
| Cost | $250,000 | |
| Minus: Accumulated depreciation | (156,288) | |
| Adjusted basis | | (93,712) |
| Gain recognized | | $186,288 |
| Sec. 1245 recapture | | $156,288 |
| Sec. 1231 gain | | $ 30,000 |

Underpayment penalty:

Omit Form 2220 and just insert $3,809 penalty on Form 1120, Page 1, Line 33.

Schedule M-3:

Omit this schedule.


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Form **1120**
Department of the Treasury
Internal Revenue Service

# U.S. Corporation Income Tax Return

For calendar year 2019 or tax year beginning _____, 2019, ending _____, 20 ____

▶ Go to *www.irs.gov/Form1120* for instructions and the latest information.

OMB No. 1545-0123

**2019**

**A Check if:**
1a Consolidated return (attach Form 851) ☐
b Life/nonlife consolidated return ☐
2 Personal holding co. (attach Sch. PH) ☐
3 Personal service corp. (see instructions) ☐
4 Schedule M-3 attached ☑

**TYPE OR PRINT**

Name: Melodic Musical Sales, Inc.

Number, street, and room or suite no. If a P.O. box, see instructions.: 5500 Fourth Avenue

City or town, state or province, country, and ZIP or foreign postal code: City, ST 98765

**B** Employer identification number: XX-2021019

**C** Date incorporated: 12/31/2015

**D** Total assets (see instructions): $ 7,955,494

**E** Check if: (1) ☐ Initial return (2) ☐ Final return (3) ☐ Name change (4) ☐ Address change

| | | | | | | |
|---|---|---|---|---|---|---|
| Income | 1a | Gross receipts or sales | 1a | 10,000,000 | | |
| | b | Returns and allowances | 1b | 250,000 | | |
| | c | Balance. Subtract line 1b from line 1a | | | 1c | 9,750,000 |
| | 2 | Cost of goods sold (attach Form 1125-A) | | | 2 | 4,500,000 |
| | 3 | Gross profit. Subtract line 2 from line 1c | | | 3 | 5,250,000 |
| | 4 | Dividends and inclusions (Schedule C, line 23) | | | 4 | 12,000 |
| | 5 | Interest | | | 5 | |
| | 6 | Gross rents | | | 6 | |
| | 7 | Gross royalties | | | 7 | |
| | 8 | Capital gain net income (attach Schedule D (Form 1120)) | | | 8 | 60,000 |
| | 9 | Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797) | | | 9 | 156,288 |
| | 10 | Other income (see instructions—attach statement) | | | 10 | |
| | 11 | **Total income.** Add lines 3 through 10 ▶ | | | 11 | 5,478,288 |
| Deductions (See instructions for limitations on deductions.) | 12 | Compensation of officers (see instructions—attach Form 1125-E) ▶ | | | 12 | 650,000 |
| | 13 | Salaries and wages (less employment credits) | | | 13 | 400,000 |
| | 14 | Repairs and maintenance | | | 14 | 20,500 |
| | 15 | Bad debts | | | 15 | 40,000 |
| | 16 | Rents | | | 16 | |
| | 17 | Taxes and licenses | | | 17 | 137,000 |
| | 18 | Interest (see instructions) | | | 18 | 210,000 |
| | 19 | Charitable contributions | | | 19 | 30,000 |
| | 20 | Depreciation from Form 4562 not claimed on Form 1125-A or elsewhere on return (attach Form 4562) | | | 20 | 748,543 |
| | 21 | Depletion | | | 21 | |
| | 22 | Advertising | | | 22 | 48,000 |
| | 23 | Pension, profit-sharing, etc., plans | | | 23 | |
| | 24 | Employee benefit programs | | | 24 | |
| | 25 | Reserved for future use | | | 25 | |
| | 26 | Other deductions (attach statement) | | | 26 | 177,000 |
| | 27 | **Total deductions.** Add lines 12 through 26 ▶ | | | 27 | 2,461,043 |
| | 28 | Taxable income before net operating loss deduction and special deductions. Subtract line 27 from line 11 | | | 28 | 3,017,245 |
| | 29a | Net operating loss deduction (see instructions) | 29a | | | |
| | b | Special deductions (Schedule C, line 24) | 29b | 6,000 | | |
| | c | Add lines 29a and 29b | | | 29c | 6,000 |
| Tax, Refundable Credits, and Payments | 30 | **Taxable income.** Subtract line 29c from line 28. See instructions | | | 30 | 3,011,245 |
| | 31 | Total tax (Schedule J, Part I, line 11) | | | 31 | 632,361 |
| | 32 | 2019 net 965 tax liability paid (Schedule J, Part II, line 12) | | | 32 | |
| | 33 | Total payments, credits, and section 965 net tax liability (Schedule J, Part III, line 23) | | | 33 | 555,000 |
| | 34 | Estimated tax penalty. See instructions. Check if Form 2220 is attached ▶ ☑ | | | 34 | 3,809 |
| | 35 | **Amount owed.** If line 33 is smaller than the total of lines 31, 32, and 34, enter amount owed | | | 35 | 81,170 |
| | 36 | **Overpayment.** If line 33 is larger than the total of lines 31, 32, and 34, enter amount overpaid | | | 36 | |
| | 37 | Enter amount from line 36 you want: **Credited to 2020 estimated tax** ▶ | | **Refunded** ▶ | 37 | |

**Sign Here**

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

▶ Mary Travis — Signature of officer | 4/14/20 — Date | ▶ President — Title

May the IRS discuss this return with the preparer shown below? See instructions. ☐ Yes ☐ No

**Paid Preparer Use Only**

| Print/Type preparer's name | Preparer's signature | Date | Check ☐ if self-employed | PTIN |
|---|---|---|---|---|
| | | | | |

Firm's name ▶ | Firm's EIN ▶
Firm's address ▶ | Phone no.

**For Paperwork Reduction Act Notice, see separate instructions.** Cat. No. 11450Q Form **1120** (2019)


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| Schedule C | Dividends, Inclusions, and Special Deductions (see instructions) | (a) Dividends and inclusions | (b) % | (c) Special deductions (a) × (b) |
|---|---|---|---|---|
| 1 | Dividends from less-than-20%-owned domestic corporations (other than debt-financed stock) | 12,000 | 50 | 6,000 |
| 2 | Dividends from 20%-or-more-owned domestic corporations (other than debt-financed stock) | | 65 | |
| 3 | Dividends on certain debt-financed stock of domestic and foreign corporations | | see instructions | |
| 4 | Dividends on certain preferred stock of less-than-20%-owned public utilities | | 23.3 | |
| 5 | Dividends on certain preferred stock of 20%-or-more-owned public utilities | | 26.7 | |
| 6 | Dividends from less-than-20%-owned foreign corporations and certain FSCs | | 50 | |
| 7 | Dividends from 20%-or-more-owned foreign corporations and certain FSCs | | 65 | |
| 8 | Dividends from wholly owned foreign subsidiaries | | 100 | |
| 9 | **Subtotal.** Add lines 1 through 8. See instructions for limitations | 12,000 | see instructions | 6,000 |
| 10 | Dividends from domestic corporations received by a small business investment company operating under the Small Business Investment Act of 1958 | | 100 | |
| 11 | Dividends from affiliated group members | | 100 | |
| 12 | Dividends from certain FSCs | | 100 | |
| 13 | Foreign-source portion of dividends received from a specified 10%-owned foreign corporation (excluding hybrid divisions) (see instructions) | | 100 | |
| 14 | Dividends from foreign corporations not included on line 3, 6, 7, 8, 11, 12, or 13 (including any hybrid divisions) | | | |
| 15 | Section 965(a) inclusion | | see instructions | |
| 16a | Subpart F inclusions derived from the sale by a controlled foreign corporation (CFC) of the stock of a lower-tier foreign corporation treated as a dividend (attach Form(s) 5471) (see instructions) | | 100 | |
| b | Subpart F inclusions derived from hybrid dividends of tiered corporations (attach Form(s) 5471) (see instructions) | | | |
| c | Other inclusions from CFCs under subpart F not included on line 15, 16a, 16b, or 17 (attach Form(s) 5471) (see instructions) | | | |
| 17 | Global Intangible Low-Taxed Income (GILTI) (attach Form(s) 5471 and Form 8992) | | | |
| 18 | Gross-up for foreign taxes deemed paid | | | |
| 19 | IC-DISC and former DISC dividends not included on line 1, 2, or 3 | | | |
| 20 | Other dividends | | | |
| 21 | Deduction for dividends paid on certain preferred stock of public utilities | | | |
| 22 | Section 250 deduction (attach Form 8993) | | | |
| 23 | **Total dividends and inclusions.** Add column (a), lines 9 through 20. Enter here and on page 1, line 4 ▶ | 12,000 | | |
| 24 | **Total special deductions.** Add column (c), lines 9 through 22. Enter here and on page 1, line 29b ▶ | | | 6,000 |





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## Schedule J Tax Computation and Payment (see instructions)

### Part I–Tax Computation

| | | | | | |
|---|---|---|---|---|---|
| 1 | Check if the corporation is a member of a controlled group (attach Schedule O (Form 1120)). See instructions ▶ ☐ | | | | |
| 2 | Income tax. See instructions ▶ ☐ | | | 2 | 632,361 |
| 3 | Base erosion minimum tax amount (attach Form 8991) | | | 3 | |
| 4 | Add lines 2 and 3 | | | 4 | 632,361 |
| 5a | Foreign tax credit (attach Form 1118) | 5a | | | |
| b | Credit from Form 8834 (see instructions) | 5b | | | |
| c | General business credit (attach Form 3800) | 5c | | | |
| d | Credit for prior year minimum tax (attach Form 8827) | 5d | | | |
| e | Bond credits from Form 8912 | 5e | | | |
| 6 | **Total credits.** Add lines 5a through 5e | | | 6 | |
| 7 | Subtract line 6 from line 4 | | | 7 | 632,361 |
| 8 | Personal holding company tax (attach Schedule PH (Form 1120)) | | | 8 | |
| 9a | Recapture of investment credit (attach Form 4255) | 9a | | | |
| b | Recapture of low-income housing credit (attach Form 8611) | 9b | | | |
| c | Interest due under the look-back method—completed long-term contracts (attach Form 8697) | 9c | | | |
| d | Interest due under the look-back method—income forecast method (attach Form 8866) | 9d | | | |
| e | Alternative tax on qualifying shipping activities (attach Form 8902) | 9e | | | |
| f | Other (see instructions—attach statement) | 9f | | | |
| 10 | **Total.** Add lines 9a through 9f | | | 10 | |
| 11 | **Total tax.** Add lines 7, 8, and 10. Enter here and on page 1, line 31 | | | 11 | 632,361 |

### Part II–Section 965 Payments (see instructions)

| | | | |
|---|---|---|---|
| 12 | 2019 net 965 tax liability paid from Form 965-B, Part II, column (k), line 3. Enter here and on page 1, line 32 | 12 | |

### Part III–Payments, Refundable Credits, and Section 965 Net Tax Liability

| | | | | | |
|---|---|---|---|---|---|
| 13 | 2018 overpayment credited to 2019 | | | 13 | |
| 14 | 2019 estimated tax payments | | | 14 | 555,000 |
| 15 | 2019 refund applied for on Form 4466 | | | 15 | ( ) |
| 16 | Combine lines 13, 14, and 15 | | | 16 | 555,000 |
| 17 | Tax deposited with Form 7004 | | | 17 | |
| 18 | Withholding (see instructions) | | | 18 | |
| 19 | **Total payments.** Add lines 16, 17, and 18 | | | 19 | 555,000 |
| 20 | Refundable credits from: | | | | |
| a | Form 2439 | 20a | | | |
| b | Form 4136 | 20b | | | |
| c | Form 8827, line 5c | 20c | | | |
| d | Other (attach statement—see instructions) | 20d | | | |
| 21 | **Total credits.** Add lines 20a through 20d | | | 21 | |
| 22 | 2019 net 965 tax liability from Form 965-B, Part I, column (d), line 3. See instructions | | | 22 | |
| 23 | **Total payments, credits, and section 965 net tax liability.** Add lines 19, 21, and 22. Enter here and on page 1, line 33 | | | 23 | 555,000 |





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**Schedule K** **Other Information** (see instructions)

| | | Yes | No |
|---|---|---|---|
| 1 | Check accounting method: a ☐ Cash b ☑ Accrual c ☐ Other (specify) ▶ | | |
| 2 | See the instructions and enter the: | | |
| a | Business activity code no. ▶ 451140 | | |
| b | Business activity ▶ Retail sales | | |
| c | Product or service ▶ Musical instruments | | |
| 3 | Is the corporation a subsidiary in an affiliated group or a parent-subsidiary controlled group? If "Yes," enter name and EIN of the parent corporation ▶ | | ✓ |
| 4 | At the end of the tax year: | | |
| a | Did any foreign or domestic corporation, partnership (including any entity treated as a partnership), trust, or tax-exempt organization own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of the corporation's stock entitled to vote? If "Yes," complete Part I of Schedule G (Form 1120) (attach Schedule G) | | ✓ |
| b | Did any individual or estate own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of the corporation's stock entitled to vote? If "Yes," complete Part II of Schedule G (Form 1120) (attach Schedule G)* | ✓ | |
| 5 | At the end of the tax year, did the corporation: | | |
| a | Own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of stock entitled to vote of any foreign or domestic corporation not included on **Form 851,** Affiliations Schedule? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (iv) below. | | ✓ |

| (i) Name of Corporation | (ii) Employer Identification Number (if any) | (iii) Country of Incorporation | (iv) Percentage Owned in Voting Stock |
|---|---|---|---|
| | | | |
| | | | |
| | | | |

| | | | |
|---|---|---|---|
| b | Own directly an interest of 20% or more, or own, directly or indirectly, an interest of 50% or more in any foreign or domestic partnership (including an entity treated as a partnership) or in the beneficial interest of a trust? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (iv) below. | | ✓ |

| (i) Name of Entity | (ii) Employer Identification Number (if any) | (iii) Country of Organization | (iv) Maximum Percentage Owned in Profit, Loss, or Capital |
|---|---|---|---|
| | | | |
| | | | |
| | | | |

| | | | |
|---|---|---|---|
| 6 | During this tax year, did the corporation pay dividends (other than stock dividends and distributions in exchange for stock) in excess of the corporation's current and accumulated earnings and profits? See sections 301 and 316 | | ✓ |
| | If "Yes," file **Form 5452,** Corporate Report of Nondividend Distributions. See the instructions for Form 5452. If this is a consolidated return, answer here for the parent corporation and on Form 851 for each subsidiary. | | |
| 7 | At any time during the tax year, did one foreign person own, directly or indirectly, at least 25% of the total voting power of all classes of the corporation's stock entitled to vote or at least 25% of the total value of all classes of the corporation's stock? | | ✓ |
| | For rules of attribution, see section 318. If "Yes," enter: **(a)** Percentage owned ▶ and **(b)** Owner's country ▶ | | |
| | **(c)** The corporation may have to file **Form 5472,** Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business. Enter the number of Forms 5472 attached ▶ | | |
| 8 | Check this box if the corporation issued publicly offered debt instruments with original issue discount ▶ ☐ If checked, the corporation may have to file **Form 8281,** Information Return for Publicly Offered Original Issue Discount Instruments. | | |
| 9 | Enter the amount of tax-exempt interest received or accrued during the tax year ▶ $ 5,000 | | |
| 10 | Enter the number of shareholders at the end of the tax year (if 100 or fewer) ▶ 3 | | |
| 11 | If the corporation has an NOL for the tax year and is electing to forego the carryback period, check here (see instructions) ▶ ☐ If the corporation is filing a consolidated return, the statement required by Regulations section 1.1502-21(b)(3) must be attached or the election will not be valid. | | |
| 12 | Enter the available NOL carryover from prior tax years (do not reduce it by any deduction reported on page 1, line 29a.) ▶ $ N/A | | |

*Schedule G is not attached. If attached, with these facts, it would show the same information as shown on Form 1125-E.





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**Schedule K** **Other Information** *(continued from page 4)*

| | | Yes | No |
|---|---|---|---|
| 13 | Are the corporation's total receipts (page 1, line 1a, plus lines 4 through 10) for the tax year **and** its total assets at the end of the tax year less than $250,000? | | ✓ |
| | If "Yes," the corporation is not required to complete Schedules L, M-1, and M-2. Instead, enter the total amount of cash distributions and the book value of property distributions (other than cash) made during the tax year ►$ | | |
| 14 | Is the corporation required to file Schedule UTP (Form 1120), Uncertain Tax Position Statement? See instructions | | ✓ |
| | If "Yes," complete and attach Schedule UTP. | | |
| 15a | Did the corporation make any payments in 2019 that would require it to file Form(s) 1099? | | ✓ |
| b | If "Yes," did or will the corporation file required Form(s) 1099? | | |
| 16 | During this tax year, did the corporation have an 80% or more change in ownership, including a change due to redemption of its own stock? | | ✓ |
| 17 | During or subsequent to this tax year, but before the filing of this return, did the corporation dispose of more than 65% (by value) of its assets in a taxable, non-taxable, or tax deferred transaction? | | ✓ |
| 18 | Did the corporation receive assets in a section 351 transfer in which any of the transferred assets had a fair market basis or fair market value of more than $1 million? | | ✓ |
| 19 | During the corporation's tax year, did the corporation make any payments that would require it to file Forms 1042 and 1042-S under chapter 3 (sections 1441 through 1464) or chapter 4 (sections 1471 through 1474) of the Code? | | ✓ |
| 20 | Is the corporation operating on a cooperative basis? | | ✓ |
| 21 | During the tax year, did the corporation pay or accrue any interest or royalty for which the deduction is not allowed under section 267A? See instructions | | ✓ |
| | If "Yes," enter the total amount of the disallowed deductions ►$ | | |
| 22 | Does the corporation have gross receipts of at least $500 million in any of the 3 preceding tax years? (See sections 59A(e)(2) and (3)) | | ✓ |
| | If "Yes," complete and attach Form 8991. | | |
| 23 | Did the corporation have an election under section 163(j) for any real property trade or business or any farming business in effect during the tax year? See instructions | | ✓ |
| 24 | Does the corporation satisfy one or more of the following? See instructions | | ✓ |
| a | The corporation owns a pass-through entity with current, or prior year carryover, excess business interest expense. | | |
| b | The corporation's aggregate average annual gross receipts (determined under section 448(c)) for the 3 tax years preceding the current tax year are more than $26 million and the corporation has business interest expense. | | |
| c | The corporation is a tax shelter and the corporation has business interest expense. | | |
| | If "Yes," to any, complete and attach Form 8990. | | |
| 25 | Is the corporation attaching Form 8996 to certify as a Qualified Opportunity Fund? | | ✓ |
| | If "Yes," enter amount from Form 8996, line 14 ►$ | | |





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**Schedule L Balance Sheets per Books**

| | | Beginning of tax year (a) | Beginning of tax year (b) | End of tax year (c) | End of tax year (d) |
|---|---|---|---|---|---|
| | **Assets** | | | | |
| 1 | Cash | | 516,774 | | 815,494 |
| 2a | Trade notes and accounts receivable | 400,000 | | 500,000 | |
| b | Less allowance for bad debts | ( 20,000 ) | 380,000 | ( 25,000 ) | 475,000 |
| 3 | Inventories | | 2,500,000 | | 3,500,000 |
| 4 | U.S. government obligations | | | | |
| 5 | Tax-exempt securities (see instructions) | | 30,000 | | 30,000 |
| 6 | Other current assets (attach statement) | | | | |
| 7 | Loans to shareholders | | | | |
| 8 | Mortgage and real estate loans | | | | |
| 9 | Other investments (attach statement) | | 260,000 | | 50,000 |
| 10a | Buildings and other depreciable assets | 2,850,000 | | 3,200,000 | |
| b | Less accumulated depreciation | ( 317,500 ) | 2,532,500 | ( 395,000 ) | 2,805,000 |
| 11a | Depletable assets | | | | |
| b | Less accumulated depletion | ( ) | | ( ) | |
| 12 | Land (net of any amortization) | | 200,000 | | 200,000 |
| 13a | Intangible assets (amortizable only) | | | | |
| b | Less accumulated amortization | ( ) | | ( ) | |
| 14 | Other assets (attach statement) | | 60,000 | | 80,000 |
| 15 | Total assets | | 6,479,274 | | 7,955,494 |
| | **Liabilities and Shareholders' Equity** | | | | |
| 16 | Accounts payable | | 300,000 | | 270,000 |
| 17 | Mortgages, notes, bonds payable in less than 1 year | | 800,000 | | 640,000 |
| 18 | Other current liabilities (attach statement) | | 21,880 | | 103,461 |
| 19 | Loans from shareholders | | | | |
| 20 | Mortgages, notes, bonds payable in 1 year or more | | 1,800,000 | | 600,000 |
| 21 | Other liabilities (attach statement) | | 57,394 | | 167,593 |
| 22 | Capital stock: a Preferred stock | | | | |
| | b Common stock | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 |
| 23 | Additional paid-in capital | | | | |
| 24 | Retained earnings—Appropriated (attach statement) | | | | |
| 25 | Retained earnings—Unappropriated | | 2,000,000 | | 4,674,440 |
| 26 | Adjustments to shareholders' equity (attach statement) | | | | |
| 27 | Less cost of treasury stock | | ( ) | | ( ) |
| 28 | Total liabilities and shareholders' equity | | 6,479,274 | | 7,955,494 |

**Schedule M-1 Reconciliation of Income (Loss) per Books With Income per Return**

**Note:** The corporation may be required to file Schedule M-3. See instructions.

| | | | | | |
|---|---|---|---|---|---|
| 1 | Net income (loss) per books | 2,774,440 | 7 | Income recorded on books this year not included on this return (itemize): Tax-exempt interest $ 5,000 | 5,000 |
| 2 | Federal income tax per books | 742,560 | | | |
| 3 | Excess of capital losses over capital gains | | | | |
| 4 | Income subject to tax not recorded on books this year (itemize): Gain on equip. (186,288 – 105,000) | 81,288 | 8 | Deductions on this return not charged against book income this year (itemize): a Depreciation $ 596,043; b Charitable contributions $ Cap.loss C/O 15,000 | 611,043 |
| 5 | Expenses recorded on books this year not deducted on this return (itemize): a Depreciation $; b Charitable contributions $; c Travel and entertainment $ See schedule | 35,000 | 9 | Add lines 7 and 8 | 616,043 |
| 6 | Add lines 1 through 5 | 3,633,288 | 10 | Income (page 1, line 28)—line 6 less line 9 | 3,017,245 |

**Schedule M-2 Analysis of Unappropriated Retained Earnings per Books (Line 25, Schedule L)**

| | | | | | |
|---|---|---|---|---|---|
| 1 | Balance at beginning of year | 2,000,000 | 5 | Distributions: a Cash | 100,000 |
| 2 | Net income (loss) per books | 2,774,440 | | b Stock | |
| 3 | Other increases (itemize): | | | c Property | |
| | | | 6 | Other decreases (itemize): | |
| | | | 7 | Add lines 5 and 6 | 100,000 |
| 4 | Add lines 1, 2, and 3 | 4,774,440 | 8 | Balance at end of year (line 4 less line 7) | 4,674,440 |





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**SCHEDULE D (Form 1120)**

Department of the Treasury
Internal Revenue Service

# Capital Gains and Losses

▶ Attach to Form 1120, 1120-C, 1120-F, 1120-FSC, 1120-H, 1120-IC-DISC, 1120-L, 1120-ND, 1120-PC, 1120-POL, 1120-REIT, 1120-RIC, 1120-SF, or certain Forms 990-T.

▶ Go to *www.irs.gov/Form1120* for instructions and the latest information.

OMB No. 1545-0123

**2019**

Name: Melodic Musical Sales, Inc.

Employer identification number: XX-2021019

Did the corporation dispose of any investment(s) in a qualified opportunity fund during the tax year? . . . . ▶ ☐ Yes ☐ No

If "Yes," attach Form 8949 and see its instructions for additional requirements for reporting your gain or loss.

## Part I Short-Term Capital Gains and Losses (See instructions.)

| See instructions for how to figure the amounts to enter on the lines below. This form may be easier to complete if you round off cents to whole dollars. | (d) Proceeds (sales price) | (e) Cost (or other basis) | (g) Adjustments to gain or loss from Form(s) 8949, Part I, line 2, column (g) | (h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g) |
|---|---|---|---|---|
| 1a Totals for all short-term transactions reported on Form 1099-B for which basis was reported to the IRS and for which you have no adjustments (see instructions). However, if you choose to report all these transactions on Form 8949, leave this line blank and go to line 1b | | | | |
| 1b Totals for all transactions reported on Form(s) 8949 with **Box A** checked | | | | |
| 2 Totals for all transactions reported on Form(s) 8949 with **Box B** checked | | | | |
| 3 Totals for all transactions reported on Form(s) 8949 with **Box C** checked | 145,000 | 90,000 | | 55,000 |

| | | |
|---|---|---|
| 4 Short-term capital gain from installment sales from Form 6252, line 26 or 37 | 4 | |
| 5 Short-term capital gain or (loss) from like-kind exchanges from Form 8824 | 5 | |
| 6 Unused capital loss carryover (attach computation) | 6 | ( 15,000 ) |
| 7 Net short-term capital gain or (loss). Combine lines 1a through 6 in column h | 7 | 40,000 |

## Part II Long-Term Capital Gains and Losses (See instructions.)

| See instructions for how to figure the amounts to enter on the lines below. This form may be easier to complete if you round off cents to whole dollars. | (d) Proceeds (sales price) | (e) Cost (or other basis) | (g) Adjustments to gain or loss from Form(s) 8949, Part II, line 2, column (g) | (h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g) |
|---|---|---|---|---|
| 8a Totals for all long-term transactions reported on Form 1099-B for which basis was reported to the IRS and for which you have no adjustments (see instructions). However, if you choose to report all these transactions on Form 8949, leave this line blank and go to line 8b | | | | |
| 8b Totals for all transactions reported on Form(s) 8949 with **Box D** checked | | | | |
| 9 Totals for all transactions reported on Form(s) 8949 with **Box E** checked | | | | |
| 10 Totals for all transactions reported on Form(s) 8949 with **Box F** checked | 110,000 | 120,000 | | (10,000) |

| | | |
|---|---|---|
| 11 Enter gain from Form 4797, line 7 or 9 | 11 | 30,000 |
| 12 Long-term capital gain from installment sales from Form 6252, line 26 or 37 | 12 | |
| 13 Long-term capital gain or (loss) from like-kind exchanges from Form 8824 | 13 | |
| 14 Capital gain distributions (see instructions) | 14 | |
| 15 Net long-term capital gain or (loss). Combine lines 8a through 14 in column h | 15 | 20,000 |

## Part III Summary of Parts I and II

| | | |
|---|---|---|
| 16 Enter excess of net short-term capital gain (line 7) over net long-term capital loss (line 15) | 16 | 40,000 |
| 17 Net capital gain. Enter excess of net long-term capital gain (line 15) over net short-term capital loss (line 7) | 17 | 20,000 |
| 18 Add lines 16 and 17. Enter here and on Form 1120, page 1, line 8, or the proper line on other returns | 18 | 60,000 |

**Note:** If losses exceed gains, see *Capital Losses* in the instructions.

**For Paperwork Reduction Act Notice, see the Instructions for Form 1120.** Cat. No. 11460M **Schedule D (Form 1120) 2019**



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Form **8949**

Department of the Treasury
Internal Revenue Service

# Sales and Other Dispositions of Capital Assets

▶ Go to *www.irs.gov/Form8949* for instructions and the latest information.

▶ File with your Schedule D to list your transactions for lines 1b, 2, 3, 8b, 9, and 10 of Schedule D.

OMB No. 1545-0074

2019

Attachment Sequence No. **12A**

Name(s) shown on return: Melodic Musical Sales, Inc.

Social security number or taxpayer identification number: XX-2021019

*Before you check Box A, B, or C below, see whether you received any Form(s) 1099-B or substitute statement(s) from your broker. A substitute statement will have the same information as Form 1099-B. Either will show whether your basis (usually your cost) was reported to the IRS by your broker and may even tell you which box to check.*

**Part I** **Short-Term.** Transactions involving capital assets you held 1 year or less are generally short-term (see instructions). For long-term transactions, see page 2.

**Note:** You may aggregate all short-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS and for which no adjustments or codes are required. Enter the totals directly on Schedule D, line 1a; you aren't required to report these transactions on Form 8949 (see instructions).

**You *must* check Box A, B, *or* C below. Check only one box.** If more than one box applies for your short-term transactions, complete a separate Form 8949, page 1, for each applicable box. If you have more short-term transactions than will fit on this page for one or more of the boxes, complete as many forms with the same box checked as you need.

- ☐ **(A)** Short-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS (see **Note** above)
- ☐ **(B)** Short-term transactions reported on Form(s) 1099-B showing basis **wasn't** reported to the IRS
- ☑ **(C)** Short-term transactions not reported to you on Form 1099-B

| 1 (a) Description of property (Example: 100 sh. XYZ Co.) | (b) Date acquired (Mo., day, yr.) | (c) Date sold or disposed of (Mo., day, yr.) | (d) Proceeds (sales price) (see instructions) | (e) Cost or other basis. See the **Note** below and see *Column (e)* in the separate instructions | Adjustment, if any, to gain or loss. If you enter an amount in column (g), enter a code in column (f). **See the separate instructions.** (f) Code(s) from instructions | (g) Amount of adjustment | (h) **Gain or (loss).** Subtract column (e) from column (d) and combine the result with column (g) |
|---|---|---|---|---|---|---|---|
| 100 shares PDQ Corp. | 12/14/18 | 10/8/19 | 145,000 | 90,000 | | | 55,000 |
| | | | | | | | |
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| | | | | | | | |
| **2 Totals.** Add the amounts in columns (d), (e), (g), and (h) (subtract negative amounts). Enter each total here and include on your Schedule D, **line 1b** (if **Box A** above is checked), **line 2** (if **Box B** above is checked), or **line 3** (if **Box C** above is checked) ▶ | | | 145,000 | 90,000 | | | 55,000 |

**Note:** If you checked Box A above but the basis reported to the IRS was incorrect, enter in column (e) the basis as reported to the IRS, and enter an adjustment in column (g) to correct the basis. See *Column (g)* in the separate instructions for how to figure the amount of the adjustment.

**For Paperwork Reduction Act Notice, see your tax return instructions.** Cat. No. 37768Z Form **8949** (2019)



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Form 8949 (2019) Attachment Sequence No. **12A** Page **2**

Name(s) shown on return. Name and SSN or taxpayer identification no. not required if shown on other side: Melodic Musical Sales, Inc.

**Social security number or taxpayer identification number**: XX-2021019

*Before you check Box D, E, or F below, see whether you received any Form(s) 1099-B or substitute statement(s) from your broker. A substitute statement will have the same information as Form 1099-B. Either will show whether your basis (usually your cost) was reported to the IRS by your broker and may even tell you which box to check.*

**Part II** **Long-Term.** Transactions involving capital assets you held more than 1 year are generally long-term (see instructions). For short-term transactions, see page 1.

**Note:** You may aggregate all long-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS and for which no adjustments or codes are required. Enter the totals directly on Schedule D, line 8a; you aren't required to report these transactions on Form 8949 (see instructions).

**You *must* check Box D, E, *or* F below. Check only one box.** If more than one box applies for your long-term transactions, complete a separate Form 8949, page 2, for each applicable box. If you have more long-term transactions than will fit on this page for one or more of the boxes, complete as many forms with the same box checked as you need.

- ☐ **(D)** Long-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS (see **Note** above)
- ☐ **(E)** Long-term transactions reported on Form(s) 1099-B showing basis **wasn't** reported to the IRS
- ☑ **(F)** Long-term transactions not reported to you on Form 1099-B

| 1 (a) Description of property (Example: 100 sh. XYZ Co.) | (b) Date acquired (Mo., day, yr.) | (c) Date sold or disposed of (Mo., day, yr.) | (d) Proceeds (sales price) (see instructions) | (e) Cost or other basis. See the **Note** below and see *Column (e)* in the separate instructions | Adjustment, if any, to gain or loss. If you enter an amount in column (g), enter a code in column (f). See the separate instructions. (f) Code(s) from instructions | (g) Amount of adjustment | (h) Gain or (loss). Subtract column (e) from column (d) and combine the result with column (g) |
|---|---|---|---|---|---|---|---|
| 75 shares JSB Corp. | 9/18/17 | 6/18/19 | 110,000 | 120,000 | | | (10,000) |
| | | | | | | | |
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| **2 Totals.** Add the amounts in columns (d), (e), (g), and (h) (subtract negative amounts). Enter each total here and include on your Schedule D, **line 8b** (if **Box D** above is checked), **line 9** (if **Box E** above is checked), or **line 10** (if **Box F** above is checked) ▶ | | | 110,000 | 120,000 | | | (10,000) |

**Note:** If you checked Box D above but the basis reported to the IRS was incorrect, enter in column (e) the basis as reported to the IRS, and enter an adjustment in column (g) to correct the basis. See *Column (g)* in the separate instructions for how to figure the amount of the adjustment.

Form **8949** (2019)



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**SCHEDULE M-3 (Form 1120)**
(Rev. December 2019)
Department of the Treasury
Internal Revenue Service

# Net Income (Loss) Reconciliation for Corporations With Total Assets of $10 Million or More

▶ Attach to Form 1120 or 1120-C.
▶ Go to *www.irs.gov/Form1120* for instructions and the latest information.

OMB No. 1545-0123

Name of corporation (common parent, if consolidated return): Melodic Musical Sales, Inc.

Employer identification number: XX-2021019

Check applicable box(es): (1) ☑ Non-consolidated return (2) ☐ Consolidated return (Form 1120 only)
(3) ☐ Mixed 1120/L/PC group (4) ☐ Dormant subsidiaries schedule attached

## Part I Financial Information and Net Income (Loss) Reconciliation (see instructions)

**1a** Did the corporation file SEC Form 10-K for its income statement period ending with or within this tax year?
☐ **Yes.** Skip lines 1b and 1c and complete lines 2a through 11 with respect to that SEC Form 10-K.
☑ **No.** Go to line 1b. See instructions if multiple non-tax-basis income statements are prepared.

**b** Did the corporation prepare a certified audited non-tax-basis income statement for that period?
☐ **Yes.** Skip line 1c and complete lines 2a through 11 with respect to that income statement.
☑ **No.** Go to line 1c.

**c** Did the corporation prepare a non-tax-basis income statement for that period?
☑ **Yes.** Complete lines 2a through 11 with respect to that income statement.
☐ **No.** Skip lines 2a through 3c and enter the corporation's net income (loss) per its books and records on line 4a.

**2a** Enter the income statement period: Beginning 01/01/2019 Ending 12/31/2019

**b** Has the corporation's income statement been restated for the income statement period on line 2a?
☐ **Yes.** (If "Yes," attach an explanation and the amount of each item restated.)
☑ **No.**

**c** Has the corporation's income statement been restated for any of the five income statement periods immediately preceding the period on line 2a?
☐ **Yes.** (If "Yes," attach an explanation and the amount of each item restated.)
☑ **No.**

**3a** Is any of the corporation's voting common stock publicly traded?
☐ **Yes.**
☑ **No.** If "No," go to line 4a.

**b** Enter the symbol of the corporation's primary U.S. publicly traded voting common stock . . . . . ☐☐☐☐☐

**c** Enter the nine-digit CUSIP number of the corporation's primary publicly traded voting common stock . . . . . ☐☐☐☐☐☐☐☐☐

| | | | |
|---|---|---|---|
| **4a** | Worldwide consolidated net income (loss) from income statement source identified in Part I, line 1 | 4a | 2,774,440 |
| **b** | Indicate accounting standard used for line 4a (see instructions): (1) ☑ GAAP (2) ☐ IFRS (3) ☐ Statutory (4) ☐ Tax-basis (5) ☐ Other (specify) | | |
| **5a** | Net income from nonincludible foreign entities (attach statement) | 5a | ( ) |
| **b** | Net loss from nonincludible foreign entities (attach statement and enter as a positive amount) | 5b | |
| **6a** | Net income from nonincludible U.S. entities (attach statement) | 6a | ( ) |
| **b** | Net loss from nonincludible U.S. entities (attach statement and enter as a positive amount) | 6b | |
| **7a** | Net income (loss) of other includible foreign disregarded entities (attach statement) | 7a | |
| **b** | Net income (loss) of other includible U.S. disregarded entities (attach statement) | 7b | |
| **c** | Net income (loss) of other includible entities (attach statement) | 7c | |
| **8** | Adjustment to eliminations of transactions between includible entities and nonincludible entities (attach statement) | 8 | |
| **9** | Adjustment to reconcile income statement period to tax year (attach statement) | 9 | |
| **10a** | Intercompany dividend adjustments to reconcile to line 11 (attach statement) | 10a | |
| **b** | Other statutory accounting adjustments to reconcile to line 11 (attach statement) | 10b | |
| **c** | Other adjustments to reconcile to amount on line 11 (attach statement) | 10c | |
| **11** | **Net income (loss) per income statement of includible corporations.** Combine lines 4 through 10 | 11 | 2,774,440 |

**Note:** Part I, line 11, must equal Part II, line 30, column (a) or Schedule M-1, line 1 (see instructions).

**12** Enter the total amount (not just the corporation's share) of the assets and liabilities of all entities included or removed on the following lines.

| | | Total Assets | Total Liabilities |
|---|---|---|---|
| **a** | Included on Part I, line 4 ▶ | 7,995,494 | 1,781,054 |
| **b** | Removed on Part I, line 5 ▶ | | |
| **c** | Removed on Part I, line 6 ▶ | | |
| **d** | Included on Part I, line 7 ▶ | | |

**For Paperwork Reduction Act Notice, see the Instructions for Form 1120.** Cat. No. 37961C **Schedule M-3 (Form 1120) (Rev. 12-2019)**


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Schedule M-3 (Form 1120) (Rev. 12-2019) Page **2**

Name of corporation (common parent, if consolidated return): Melodic Musical Sales, Inc.

Employer identification number: XX-2021019

Check applicable box(es): (1) ☐ Consolidated group (2) ☐ Parent corp (3) ☐ Consolidated eliminations (4) ☐ Subsidiary corp (5) ☐ Mixed 1120/L/PC group

Check if a sub-consolidated: (6) ☐ 1120 group (7) ☐ 1120 eliminations

Name of subsidiary (if consolidated return)

Employer identification number

**Part II** **Reconciliation of Net Income (Loss) per Income Statement of Includible Corporations With Taxable Income per Return** (see instructions)

| Income (Loss) Items (Attach statements for lines 1 through 12) | (a) Income (Loss) per Income Statement | (b) Temporary Difference | (c) Permanent Difference | (d) Income (Loss) per Tax Return |
|---|---|---|---|---|
| 1 Income (loss) from equity method foreign corporations | | | | |
| 2 Gross foreign dividends not previously taxed | | | | |
| 3 Subpart F, QEF, and similar income inclusions | | | | |
| 4 Gross-up for foreign taxes deemed paid | | | | |
| 5 Gross foreign distributions previously taxed | | | | |
| 6 Income (loss) from equity method U.S. corporations | | | | |
| 7 U.S. dividends not eliminated in tax consolidation | 12,000 | | | 12,000 |
| 8 Minority interest for includible corporations | | | | |
| 9 Income (loss) from U.S. partnerships | | | | |
| 10 Income (loss) from foreign partnerships | | | | |
| 11 Income (loss) from other pass-through entities | | | | |
| 12 Items relating to reportable transactions | | | | |
| 13 Interest income (see instructions) | 5,000[a] | | (5,000) | -0- |
| 14 Total accrual to cash adjustment | | | | |
| 15 Hedging transactions | | | | |
| 16 Mark-to-market income (loss) | | | | |
| 17 Cost of goods sold (see instructions) | (4,500,000) | | | (4,500,000) |
| 18 Sale versus lease (for sellers and/or lessors) | | | | |
| 19 Section 481(a) adjustments | | | | |
| 20 Unearned/deferred revenue | | | | |
| 21 Income recognition from long-term contracts | | | | |
| 22 Original issue discount and other imputed interest | | | | |
| 23a Income statement gain/loss on sale, exchange, abandonment, worthlessness, or other disposition of assets other than inventory and pass-through entities | 150,000[b] | (150,000) | | |
| b Gross capital gains from Schedule D, excluding amounts from pass-through entities | | 85,000 | | 85,000 |
| c Gross capital losses from Schedule D, excluding amounts from pass-through entities, abandonment losses, and worthless stock losses | | (10,000) | | (10,000) |
| d Net gain/loss reported on Form 4797, line 17, excluding amounts from pass-through entities, abandonment losses, and worthless stock losses | | 156,288 | | 156,288 |
| e Abandonment losses | | | | |
| f Worthless stock losses (attach statement) | | | | |
| g Other gain/loss on disposition of assets other than inventory | | | | |
| 24 Capital loss limitation and carryforward used | | (15,000) | | (15,000) |
| 25 Other income (loss) items with differences (attach statement) | | | | |
| 26 **Total income (loss) items.** Combine lines 1 through 25 | (4,333,000) | 66,288 | (5,000) | (4,271,712) |
| 27 **Total expense/deduction items** (from Part III, line 39) | (1,285,060) | (591,043) | 772,560 | (1,103,543) |
| 28 Other items with no differences ** | 8,392,500 | | | 8,392,500 |
| 29a Mixed groups, see instructions. All others, combine lines 26 through 28 | 2,774,440 | (524,755) | 767,560 | 3,017,245 |
| b PC insurance subgroup reconciliation totals | | | | |
| c Life insurance subgroup reconciliation totals | | | | |
| 30 **Reconciliation totals.** Combine lines 29a through 29c | 2,774,440 | (524,755) | 767,560 | 3,017,245 |

**Note:** Line 30, column (a), must equal Part I, line 11, and column (d) must equal Form 1120, page 1, line 28.

**Schedule M-3 (Form 1120) (Rev. 12-2019)**

[a]Tax-exempt interest.

[b]$105,000 equipment gain + $45,000 net stock gain.



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Schedule M-3 (Form 1120) (Rev. 12-2019) Page 3

Name of corporation (common parent, if consolidated return): Melodic Musical Sales, Inc.

Employer identification number: XX-2021019

Check applicable box(es): (1) ☐ Consolidated group (2) ☐ Parent corp (3) ☐ Consolidated eliminations (4) ☐ Subsidiary corp (5) ☐ Mixed 1120/L/PC group

Check if a sub-consolidated: (6) ☐ 1120 group (7) ☐ 1120 eliminations

Name of subsidiary (if consolidated return)

Employer identification number

**Part III** **Reconciliation of Net Income (Loss) per Income Statement of Includible Corporations With Taxable Income per Return—Expense/Deduction Items** (see instructions)

| Expense/Deduction Items | (a) Expense per Income Statement | (b) Temporary Difference | (c) Permanent Difference | (d) Deduction per Tax Return |
|---|---|---|---|---|
| 1 U.S. current income tax expense | 632,361 | | (632,361) | |
| 2 U.S. deferred income tax expense * | 110,199 | | (110,199) | |
| 3 State and local current income tax expense | 75,000 | | | 75,000 |
| 4 State and local deferred income tax expense | | | | |
| 5 Foreign current income tax expense (other than foreign withholding taxes) | | | | |
| 6 Foreign deferred income tax expense | | | | |
| 7 Foreign withholding taxes | | | | |
| 8 Interest expense (see instructions) | 210,000 | | | 210,000 |
| 9 Stock option expense | | | | |
| 10 Other equity-based compensation | | | | |
| 11 Meals and entertainment | | | | |
| 12 Fines and penalties | | | | |
| 13 Judgments, damages, awards, and similar costs | | | | |
| 14 Parachute payments | | | | |
| 15 Compensation with section 162(m) limitation | | | | |
| 16 Pension and profit-sharing | | | | |
| 17 Other post-retirement benefits | | | | |
| 18 Deferred compensation | | | | |
| 19 Charitable contribution of cash and tangible property | 30,000 | | | 30,000 |
| 20 Charitable contribution of intangible property | | | | |
| 21 Charitable contribution limitation/carryforward | | | | |
| 22 Domestic production activities deduction (see instructions) | | | | |
| 23 Current year acquisition or reorganization investment banking fees | | | | |
| 24 Current year acquisition or reorganization legal and accounting fees | | | | |
| 25 Current year acquisition/reorganization other costs | | | | |
| 26 Amortization/impairment of goodwill | | | | |
| 27 Amortization of acquisition, reorganization, and start-up costs | | | | |
| 28 Other amortization or impairment write-offs | | | | |
| 29 Reserved | | | | |
| 30 Depletion | | | | |
| 31 Depreciation | 152,500 | 596,043 | | 748,543 |
| 32 Bad debt expense | 45,000 | (5,000) | | 40,000 |
| 33 Corporate owned life insurance premiums | 30,000 | | (30,000) | -0- |
| 34 Purchase versus lease (for purchasers and/or lessees) | | | | |
| 35 Research and development costs | | | | |
| 36 Section 118 exclusion (attach statement) | | | | |
| 37 Section 162(r)—FDIC premiums paid by certain large financial institutions (see instructions) | | | | |
| 38 Other expense/deduction items with differences (attach statement) | | | | |
| 39 **Total expense/deduction items.** Combine lines 1 through 38. Enter here and on Part II, line 27, reporting positive amounts as negative and negative amounts as positive | 1,285,060 | 591,043 | (772,560) | 1,103,543 |

Schedule M-3 (Form 1120) (Rev. 12-2019)

*$742,560 FIT expense per books - $632,361 federal tax liability (ignoring penalty)



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Form **1125-A**

(Rev. November 2018)

Department of the Treasury
Internal Revenue Service

# Cost of Goods Sold

▶ Attach to Form 1120, 1120-C, 1120-F, 1120S, or 1065.
▶ Go to *www.irs.gov/Form1125A* for the latest information.

OMB No. 1545-0123

Name: Melodic Musical Sales, Inc.

Employer identification number: XX-2021019

| | | | |
|---|---|---|---|
| 1 | Inventory at beginning of year | 1 | 2,500,000 |
| 2 | Purchases | 2 | 5,500,000 |
| 3 | Cost of labor | 3 | |
| 4 | Additional section 263A costs (attach schedule) | 4 | |
| 5 | Other costs (attach schedule) | 5 | |
| 6 | **Total.** Add lines 1 through 5 | 6 | 8,000,000 |
| 7 | Inventory at end of year | 7 | 3,500,000 |
| 8 | **Cost of goods sold.** Subtract line 7 from line 6. Enter here and on Form 1120, page 1, line 2 or the appropriate line of your tax return. See instructions | 8 | 4,500,000 |

**9a** Check all methods used for valuing closing inventory:
- *(i)* ☐ Cost
- *(ii)* ☑ Lower of cost or market
- *(iii)* ☐ Other (Specify method used and attach explanation.) ▶

**b** Check if there was a writedown of subnormal goods ▶ ☐

**c** Check if the LIFO inventory method was adopted this tax year for any goods (if checked, attach Form 970) ▶ ☐

**d** If the LIFO inventory method was used for this tax year, enter amount of closing inventory computed under LIFO **9d**

**e** If property is produced or acquired for resale, do the rules of section 263A apply to the entity? See instructions ☐ Yes ☑ No

**f** Was there any change in determining quantities, cost, or valuations between opening and closing inventory? If "Yes," attach explanation ☐ Yes ☑ No

Section references are to the Internal Revenue Code unless otherwise noted.

## What's New

**Small business taxpayers.** For tax years beginning after December 31, 2017, the following apply.

- A small business taxpayer (defined below), may use a method of accounting for inventories that either: (1) treats inventories as nonincidental materials and supplies, or (2) conforms to the taxpayer's financial accounting treatment of inventories.
- A small business taxpayer is not required to capitalize costs under section 263A.

## General Instructions

### Purpose of Form

Use Form 1125-A to calculate and deduct cost of goods sold for certain entities.

### Who Must File

Filers of Form 1120, 1120-C, 1120-F, 1120S, or 1065, must complete and attach Form 1125-A if the applicable entity reports a deduction for cost of goods sold.

### Inventories

Generally, inventories are required at the beginning and end of each tax year if the production, purchase, or sale of merchandise is an income-producing factor. See Regulations section 1.471-1. If inventories are required, you generally must use an accrual method of accounting for sales and purchases of inventory items.

**Exception for certain taxpayers.** A small business taxpayer (defined below) can adopt or change its accounting method to account for inventories in the same manner as material and supplies that are non-incidental, or conform to its treatment of inventories in an applicable financial statement (as defined in section 451(b)(3)), or if it does not have an applicable financial statement, the method of accounting used in its books and records prepared in accordance with its accounting procedures. See section 471(c)(3).

A small business taxpayer claiming exemption from the requirement to keep inventories is changing its method of accounting for purposes of section 481. For additional guidance on this method of accounting, see Pub. 538, Accounting Periods and Methods. For guidance on changing to this method of accounting, see Form 3115 and the Instructions for Form 3115.

***Small business taxpayer.*** A small business taxpayer is a taxpayer that (a) has average annual gross receipts of $25 million or less (indexed for inflation) for the 3 prior tax years, and (b) is not a tax shelter (as defined in section 448(d)(3)). See Pub. 538.

**Uniform capitalization rules.** The uniform capitalization rules of section 263A generally require you to capitalize, or include in inventory, certain costs incurred in connection with the following.

- The production of real property and tangible personal property held in inventory or held for sale in the ordinary course of business.
- Real property or personal property (tangible and intangible) acquired for resale.
- The production of real property and tangible personal property for use in its trade or business or in an activity engaged in for profit.

A small business taxpayer (defined above) is not required to capitalize costs under section 263A. See section 263A(i).

See the discussion on section 263A uniform capitalization rules in the instructions for your tax return before completing Form 1125-A. Also see Regulations sections 1.263A-1 through 1.263A-3. See Regulations section 1.263A-4 for rules for property produced in a farming business.

**For Paperwork Reduction Act Notice, see instructions.** Cat. No. 55988R Form **1125-A** (Rev. 11-2018)


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Form **1125-E**
(Rev. October 2016)
Department of the Treasury
Internal Revenue Service

# Compensation of Officers

▶ Attach to Form 1120, 1120-C, 1120-F, 1120-REIT, 1120-RIC, or 1120S.
▶ Information about Form 1125-E and its separate instructions is at *www.irs.gov/form1125e*.

OMB No. 1545-0123

Name: Melodic Musical Sales, Inc.

Employer identification number: XX-2021019

**Note:** Complete Form 1125-E only if total receipts are $500,000 or more. See instructions for definition of total receipts.

| (a) Name of officer | (b) Social security number (see instructions) | (c) Percent of time devoted to business | Percent of stock owned (d) Common | Percent of stock owned (e) Preferred | (f) Amount of compensation |
|---|---|---|---|---|---|
| 1 Mary Travis | XXX-XX-XXXX | 100 % | 50 % | % | 290,000 |
| John Willis | XXX-XX-XXXX | 100 % | 25 % | % | 180,000 |
| Chris Parker | XXX-XX-XXXX | 100 % | 25 % | % | 180,000 |
| | | % | % | % | |
| | | % | % | % | |
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| | | % | % | % | |

| | | | |
|---|---|---|---|
| 2 | Total compensation of officers | 2 | 650,000 |
| 3 | Compensation of officers claimed on Form 1125-A or elsewhere on return | 3 | |
| 4 | Subtract line 3 from line 2. Enter the result here and on Form 1120, page 1, line 12 or the appropriate line of your tax return | 4 | 650,000 |

**For Paperwork Reduction Act Notice, see separate instructions.** Cat. No. 55989C Form **1125-E** (Rev. 10-2016)


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Form **2220**

Department of the Treasury
Internal Revenue Service

# Underpayment of Estimated Tax by Corporations

▶ Attach to the corporation's tax return.
▶ Go to *www.irs.gov/Form2220* for instructions and the latest information.

OMB No. 1545-0123

**2019**

Name: Melodic Musical Sales, Inc.

Employer identification number: XX-2021019

**Note:** Generally, the corporation is not required to file Form 2220 (see Part II below for exceptions) because the IRS will figure any penalty owed and bill the corporation. However, the corporation may still use Form 2220 to figure the penalty. If so, enter the amount from page 2, line 38 on the estimated tax penalty line of the corporation's income tax return, but **do not** attach Form 2220.

## Part I Required Annual Payment

| | | | | | |
|---|---|---|---|---|---|
| 1 | Total tax (see instructions) | | | 1 | 632,361 |
| 2a | Personal holding company tax (Schedule PH (Form 1120), line 26) included on line 1 | 2a | | | |
| b | Look-back interest included on line 1 under section 460(b)(2) for completed long-term contracts or section 167(g) for depreciation under the income forecast method | 2b | | | |
| c | Credit for federal tax paid on fuels (see instructions) | 2c | | | |
| d | **Total.** Add lines 2a through 2c | | | 2d | |
| 3 | Subtract line 2d from line 1. If the result is less than $500, **do not** complete or file this form. The corporation does not owe the penalty | | | 3 | 632,361 |
| 4 | Enter the tax shown on the corporation's 2018 income tax return. See instructions. **Caution: If the tax is zero or the tax year was for less than 12 months, skip this line and enter the amount from line 3 on line 5** | | | 4 | 252,000 |
| 5 | **Required annual payment.** Enter the **smaller** of line 3 or line 4. If the corporation is required to skip line 4, enter the amount from line 3 | | | 5 | 252,000 |

## Part II Reasons for Filing—Check the boxes below that apply. If any boxes are checked, the corporation **must** file Form 2220 even if it does not owe a penalty. See instructions.

6 ☐ The corporation is using the adjusted seasonal installment method.

7 ☐ The corporation is using the annualized income installment method.

8 ☑ The corporation is a "large corporation" figuring its first required installment based on the prior year's tax.

## Part III Figuring the Underpayment

| | | | (a) | (b) | (c) | (d) |
|---|---|---|---|---|---|---|
| 9 | **Installment due dates.** Enter in columns (a) through (d) the 15th day of the 4th (***Form 990-PF filers:*** Use 5th month), 6th, 9th, and 12th months of the corporation's tax year* | 9 | 4/15/19 | 6/15/19 | 9/15/19 | 12/15/19 |
| 10 | **Required installments.** If the box on line 6 and/or line 7 above is checked, enter the amounts from Schedule A, line 38. If the box on line 8 (but not 6 or 7) is checked, see instructions for the amounts to enter. If none of these boxes are checked, enter 25% (0.25) of line 5 above in each column | 10 | 63,000 | 253,181 | 158,090 | 158,090 |
| 11 | Estimated tax paid or credited for each period. For column (a) only, enter the amount from line 11 on line 15. See instructions. | 11 | 35,000 | 190,000 | 165,000 | 165,000 |
| | ***Complete lines 12 through 18 of one column before going to the next column.*** | | | | | |
| 12 | Enter amount, if any, from line 18 of the preceding column | 12 | | | | |
| 13 | Add lines 11 and 12 | 13 | | 190,000 | 165,000 | 165,000 |
| 14 | Add amounts on lines 16 and 17 of the preceding column | 14 | | 28,000 | 91,181 | 84,271 |
| 15 | Subtract line 14 from line 13. If zero or less, enter -0- | 15 | 35,000 | 162,000 | 73,819 | 80,729 |
| 16 | If the amount on line 15 is zero, subtract line 13 from line 14. Otherwise, enter -0- | 16 | | -0- | -0- | |
| 17 | **Underpayment.** If line 15 is less than or equal to line 10, subtract line 15 from line 10. Then go to line 12 of the next column. Otherwise, go to line 18 | 17 | 28,000 | 91,181 | 84,271 | 77,361 |
| 18 | **Overpayment.** If line 10 is less than line 15, subtract line 10 from line 15. Then go to line 12 of the next column | 18 | | | | |

***Go to Part IV on page 2 to figure the penalty. Do not go to Part IV if there are no entries on line 17—no penalty is owed.***

**For Paperwork Reduction Act Notice, see separate instructions.** Cat. No. 11746L Form **2220** (2019)

*Even though some of the dates on this form fall on a weekend, the form nevertheless uses the fifteenth based on the following language in the instructions to Form 2220. If an installment is due on a Saturday, Sunday, or legal holiday, payments made on the next day that is not a Saturday, Sunday, or legal holiday are considered made on the due date to the extent the payment is applied against that required installment.


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## Part IV Figuring the Penalty

| | | | (a) | (b) | (c) | (d) |
|---|---|---|---|---|---|---|
| 19 | Enter the date of payment or the 15th day of the 4th month after the close of the tax year, whichever is earlier. (***C Corporations with tax years ending June 30 and S corporations:*** Use 3rd month instead of 4th month. ***Form 990-PF and Form 990-T filers:*** Use 5th month instead of 4th month.) See instructions | 19 | 6/15/19 | 9/15/19 | 12/15/19 | 4/15/20 |
| 20 | Number of days from due date of installment on line 9 to the date shown on line 19 | 20 | 61 | 92 | 91 | 122 |
| 21 | Number of days on line 20 after 4/15/2019 and before 7/1/2019 | 21 | 61 | 15 | | |
| 22 | Underpayment on line 17 × Number of days on line 21 / 365 × 6% (0.06) | 22 | $ 281 | $ 225 | $ | $ |
| 23 | Number of days on line 20 after 6/30/2019 and before 10/1/2019 | 23 | | 77 | 15 | |
| 24 | Underpayment on line 17 × Number of days on line 23 / 365 × 5% (0.05) | 24 | $ | $ 962 | $ 173 | $ |
| 25 | Number of days on line 20 after 9/30/2019 and before 1/1/2020 | 25 | | | 76 | 16 |
| 26 | Underpayment on line 17 × Number of days on line 25 / 365 × 5% (0.05) | 26 | $ | $ | $ 877 | $ 170 |
| 27 | Number of days on line 20 after 12/31/2019 and before 4/1/2020 | 27 | | | | 91 |
| 28 | Underpayment on line 17 × Number of days on line 27 / 366 × 5% (0.05) | 28 | $ | $ | $ | $ 962 |
| 29 | Number of days on line 20 after 3/31/2020 and before 7/1/2020 | 29 | | | | 15 |
| 30 | Underpayment on line 17 × Number of days on line 29 / 366 × 5*% | 30 | $ | $ | $ | $ 159 |
| 31 | Number of days on line 20 after 6/30/2020 and before 10/1/2020 | 31 | | | | |
| 32 | Underpayment on line 17 × Number of days on line 31 / 366 × *% | 32 | $ | $ | $ | $ |
| 33 | Number of days on line 20 after 9/30/2020 and before 1/1/2021 | 33 | | | | |
| 34 | Underpayment on line 17 × Number of days on line 33 / 366 × *% | 34 | $ | $ | $ | $ |
| 35 | Number of days on line 20 after 12/31/2020 and before 3/16/2021 | 35 | | | | |
| 36 | Underpayment on line 17 × Number of days on line 35 / 365 × *% | 36 | $ | $ | $ | $ |
| 37 | Add lines 22, 24, 26, 28, 30, 32, 34, and 36 | 37 | $ 281 | $ 1,187 | $ 1,050 | $ 1,291 |
| 38 | **Penalty.** Add columns (a) through (d) of line 37. Enter the total here and on Form 1120, line 34; or the comparable line for other income tax returns | 38 | $ 3,809 | | | |

*Use the penalty interest rate for each calendar quarter, which the IRS will determine during the first month in the preceding quarter. These rates are published quarterly in an IRS News Release and in a revenue ruling in the Internal Revenue Bulletin. To obtain this information on the Internet, access the IRS website at ***www.irs.gov.*** You can also call 1-800-829-4933 to get interest rate information.



*Assumes rate for Line 30 remains at 5%.



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Form **4562**

Department of the Treasury
Internal Revenue Service (99)

# Depreciation and Amortization
## (Including Information on Listed Property)

▶ Attach to your tax return.
▶ Go to *www.irs.gov/Form4562* for instructions and the latest information.

OMB No. 1545-0172
**2019**
Attachment Sequence No. **179**

| Name(s) shown on return | Business or activity to which this form relates | Identifying number |
|---|---|---|
| Melodic Musical Sales, Inc. | Retail Sales | XX-2021019 |

**Part I** **Election To Expense Certain Property Under Section 179**
**Note:** If you have any listed property, complete Part V before you complete Part I.

| | | | |
|---|---|---|---|
| 1 | Maximum amount (see instructions) | 1 | 600,000* |
| 2 | Total cost of section 179 property placed in service (see instructions) | 2 | 600,000 |
| 3 | Threshold cost of section 179 property before reduction in limitation (see instructions) | 3 | 2,550,000 |
| 4 | Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0- | 4 | -0- |
| 5 | Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0-. If married filing separately, see instructions | 5 | 600,000 |

| 6 | (a) Description of property | (b) Cost (business use only) | (c) Elected cost |
|---|---|---|---|
| | Equipment | 600,000 | 600,000 |
| | | | |

| | | | |
|---|---|---|---|
| 7 | Listed property. Enter the amount from line 29 | 7 | |
| 8 | Total elected cost of section 179 property. Add amounts in column (c), lines 6 and 7 | 8 | 600,000 |
| 9 | Tentative deduction. Enter the **smaller** of line 5 or line 8 | 9 | 600,000 |
| 10 | Carryover of disallowed deduction from line 13 of your 2018 Form 4562 | 10 | |
| 11 | Business income limitation. Enter the smaller of business income (not less than zero) or line 5. See instructions | 11 | 600,000 |
| 12 | Section 179 expense deduction. Add lines 9 and 10, but don't enter more than line 11 | 12 | 600,000 |
| 13 | Carryover of disallowed deduction to 2020. Add lines 9 and 10, less line 12 ▶ | 13 | |

**Note:** Don't use Part II or Part III below for listed property. Instead, use Part V.

**Part II** **Special Depreciation Allowance and Other Depreciation (Don't** include listed property. See instructions.)

| | | | |
|---|---|---|---|
| 14 | Special depreciation allowance for qualified property (other than listed property) placed in service during the tax year. See instructions | 14 | |
| 15 | Property subject to section 168(f)(1) election | 15 | |
| 16 | Other depreciation (including ACRS) | 16 | |

**Part III** **MACRS Depreciation (Don't** include listed property. See instructions.)

**Section A**

| | | | |
|---|---|---|---|
| 17 | MACRS deductions for assets placed in service in tax years beginning before 2019 | 17 | 148,543 |
| 18 | If you are electing to group any assets placed in service during the tax year into one or more general asset accounts, check here ▶ ☐ | | |

**Section B—Assets Placed in Service During 2019 Tax Year Using the General Depreciation System**

| (a) Classification of property | (b) Month and year placed in service | (c) Basis for depreciation (business/investment use only—see instructions) | (d) Recovery period | (e) Convention | (f) Method | (g) Depreciation deduction |
|---|---|---|---|---|---|---|
| 19a 3-year property | | | | | | |
| b 5-year property | | | | | | |
| c 7-year property | | | | | | |
| d 10-year property | | | | | | |
| e 15-year property | | | | | | |
| f 20-year property | | | | | | |
| g 25-year property | | | 25 yrs. | | S/L | |
| h Residential rental property | | | 27.5 yrs. | MM | S/L | |
| | | | 27.5 yrs. | MM | S/L | |
| i Nonresidential real property | | | 39 yrs. | MM | S/L | |
| | | | | MM | S/L | |

**Section C—Assets Placed in Service During 2019 Tax Year Using the Alternative Depreciation System**

| | | | | | | |
|---|---|---|---|---|---|---|
| 20a Class life | | | | | S/L | |
| b 12-year | | | 12 yrs. | | S/L | |
| c 30-year | | | 30 yrs. | MM | S/L | |
| d 40-year | | | 40 yrs. | MM | S/L | |

**Part IV** **Summary** (See instructions.)

| | | | |
|---|---|---|---|
| 21 | Listed property. Enter amount from line 28 | 21 | |
| 22 | **Total.** Add amounts from line 12, lines 14 through 17, lines 19 and 20 in column (g), and line 21. Enter here and on the appropriate lines of your return. Partnerships and S corporations—see instructions | 22 | 748,543 |
| 23 | For assets shown above and placed in service during the current year, enter the portion of the basis attributable to section 263A costs | 23 | |

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*Per the worksheet in the instructions for Form 4562, Line 1 should be the lesser of the maximum Sec. 179 deduction ($1,020,000 in 2019) or the total cost of Sec. 179 property.


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Form **4797**

Department of the Treasury
Internal Revenue Service

# Sales of Business Property

**(Also Involuntary Conversions and Recapture Amounts Under Sections 179 and 280F(b)(2))**

▶ Attach to your tax return.
▶ Go to *www.irs.gov/Form4797* for instructions and the latest information.

OMB No. 1545-0184

**2019**

Attachment Sequence No. **27**

Name(s) shown on return: Melodic Musical Sales, Inc.

Identifying number: XX-2021019

1 Enter the gross proceeds from sales or exchanges reported to you for 2019 on Form(s) 1099-B or 1099-S (or substitute statement) that you are including on line 2, 10, or 20. See instructions . . . . . 1

## Part I Sales or Exchanges of Property Used in a Trade or Business and Involuntary Conversions From Other Than Casualty or Theft—Most Property Held More Than 1 Year (see instructions)

| 2 (a) Description of property | (b) Date acquired (mo., day, yr.) | (c) Date sold (mo., day, yr.) | (d) Gross sales price | (e) Depreciation allowed or allowable since acquisition | (f) Cost or other basis, plus improvements and expense of sale | (g) Gain or (loss) Subtract (f) from the sum of (d) and (e) |
|---|---|---|---|---|---|---|
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |

| | | |
|---|---|---|
| 3 | Gain, if any, from Form 4684, line 39 | 3 |
| 4 | Section 1231 gain from installment sales from Form 6252, line 26 or 37 | 4 |
| 5 | Section 1231 gain or (loss) from like-kind exchanges from Form 8824 | 5 |
| 6 | Gain, if any, from line 32, from other than casualty or theft. | 6 30,000 |
| 7 | Combine lines 2 through 6. Enter the gain or (loss) here and on the appropriate line as follows | 7 30,000 |

**Partnerships and S corporations.** Report the gain or (loss) following the instructions for Form 1065, Schedule K, line 10, or Form 1120-S, Schedule K, line 9. Skip lines 8, 9, 11, and 12 below.

**Individuals, partners, S corporation shareholders, and all others.** If line 7 is zero or a loss, enter the amount from line 7 on line 11 below and skip lines 8 and 9. If line 7 is a gain and you didn't have any prior year section 1231 losses, or they were recaptured in an earlier year, enter the gain from line 7 as a long-term capital gain on the Schedule D filed with your return and skip lines 8, 9, 11, and 12 below.

| | | |
|---|---|---|
| 8 | Nonrecaptured net section 1231 losses from prior years. See instructions | 8 |
| 9 | Subtract line 8 from line 7. If zero or less, enter -0-. If line 9 is zero, enter the gain from line 7 on line 12 below. If line 9 is more than zero, enter the amount from line 8 on line 12 below and enter the gain from line 9 as a long-term capital gain on the Schedule D filed with your return. See instructions | 9 |

## Part II Ordinary Gains and Losses (see instructions)

10 Ordinary gains and losses not included on lines 11 through 16 (include property held 1 year or less):

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |

| | | |
|---|---|---|
| 11 | Loss, if any, from line 7 | 11 ( ) |
| 12 | Gain, if any, from line 7 or amount from line 8, if applicable | 12 |
| 13 | Gain, if any, from line 31 | 13 156,288 |
| 14 | Net gain or (loss) from Form 4684, lines 31 and 38a | 14 |
| 15 | Ordinary gain from installment sales from Form 6252, line 25 or 36 | 15 |
| 16 | Ordinary gain or (loss) from like-kind exchanges from Form 8824. | 16 |
| 17 | Combine lines 10 through 16 | 17 156,288 |
| 18 | For all except individual returns, enter the amount from line 17 on the appropriate line of your return and skip lines a and b below. For individual returns, complete lines a and b below. | |
| a | If the loss on line 11 includes a loss from Form 4684, line 35, column (b)(ii), enter that part of the loss here. Enter the loss from income-producing property on Schedule A (Form 1040 or Form 1040-SR), line 16. (Do not include any loss on property used as an employee.) Identify as from "Form 4797, line 18a." See instructions | 18a |
| b | Redetermine the gain or (loss) on line 17 excluding the loss, if any, on line 18a. Enter here and on Schedule 1 (Form 1040 or Form 1040-SR), Part I, line 4 | 18b |

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**Part III** **Gain From Disposition of Property Under Sections 1245, 1250, 1252, 1254, and 1255** (see instructions)

| 19 (a) Description of section 1245, 1250, 1252, 1254, or 1255 property: | (b) Date acquired (mo., day, yr.) | (c) Date sold (mo., day, yr.) |
|---|---|---|
| A Equipment 1 | 1/2/16 | 10/16/19 |
| B | | |
| C | | |
| D | | |

| These columns relate to the properties on lines 19A through 19D. ▶ | | Property A | Property B | Property C | Property D |
|---|---|---|---|---|---|
| 20 Gross sales price (**Note:** *See line 1 before completing.*) | 20 | 280,000 | | | |
| 21 Cost or other basis plus expense of sale | 21 | 250,000 | | | |
| 22 Depreciation (or depletion) allowed or allowable | 22 | 156,288 | | | |
| 23 Adjusted basis. Subtract line 22 from line 21 | 23 | 93,712 | | | |
| 24 Total gain. Subtract line 23 from line 20 | 24 | 186,288 | | | |
| 25 **If section 1245 property:** | | | | | |
| a Depreciation allowed or allowable from line 22 | 25a | 156,288 | | | |
| b Enter the **smaller** of line 24 or 25a | 25b | 156,288 | | | |
| 26 **If section 1250 property:** If straight line depreciation was used, enter -0- on line 26g, except for a corporation subject to section 291. | | | | | |
| a Additional depreciation after 1975. See instructions | 26a | | | | |
| b Applicable percentage multiplied by the **smaller** of line 24 or line 26a. See instructions | 26b | | | | |
| c Subtract line 26a from line 24. If residential rental property **or** line 24 isn't more than line 26a, skip lines 26d and 26e | 26c | | | | |
| d Additional depreciation after 1969 and before 1976 | 26d | | | | |
| e Enter the **smaller** of line 26c or 26d | 26e | | | | |
| f Section 291 amount (corporations only) | 26f | | | | |
| g Add lines 26b, 26e, and 26f | 26g | | | | |
| 27 **If section 1252 property:** Skip this section if you didn't dispose of farmland or if this form is being completed for a partnership | | | | | |
| a Soil, water, and land clearing expenses | 27a | | | | |
| b Line 27a multiplied by applicable percentage. See instructions | 27b | | | | |
| c Enter the **smaller** of line 24 or 27b | 27c | | | | |
| 28 **If section 1254 property:** | | | | | |
| a Intangible drilling and development costs, expenditures for development of mines and other natural deposits, mining exploration costs, and depletion. See instructions | 28a | | | | |
| b Enter the **smaller** of line 24 or 28a | 28b | | | | |
| 29 **If section 1255 property:** | | | | | |
| a Applicable percentage of payments excluded from income under section 126. See instructions | 29a | | | | |
| b Enter the **smaller** of line 24 or 29a. See instructions | 29b | | | | |

**Summary of Part III Gains.** Complete property columns A through D through line 29b before going to line 30.

| | | |
|---|---|---|
| 30 Total gains for all properties. Add property columns A through D, line 24 | 30 | 186,288 |
| 31 Add property columns A through D, lines 25b, 26g, 27c, 28b, and 29b. Enter here and on line 13 | 31 | 156,288 |
| 32 Subtract line 31 from line 30. Enter the portion from casualty or theft on Form 4684, line 33. Enter the portion from other than casualty or theft on Form 4797, line 6 | 32 | 30,000 |

**Part IV** **Recapture Amounts Under Sections 179 and 280F(b)(2) When Business Use Drops to 50% or Less** (see instructions)

| | | (a) Section 179 | (b) Section 280F(b)(2) |
|---|---|---|---|
| 33 Section 179 expense deduction or depreciation allowable in prior years | 33 | | |
| 34 Recomputed depreciation. See instructions | 34 | | |
| 35 Recapture amount. Subtract line 34 from line 33. See the instructions for where to report | 35 | | |





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Melodic Musical Sales, Inc.

XX-2021019 2019 Form 1120

Page 1, Line 17 - Taxes and licenses:

| | |
|---|---|
| Payroll taxes | $ 62,000 |
| State income tax | 75,000 |
| Total | $137,000 |

Page 1, Line 26 - Other deductions:

| | |
|---|---|
| General insurance | $ 55,000 |
| Utilities | 72,000 |
| Legal and accounting fees | 50,000 |
| Total | $177,000 |

| Schedule L, Line 14 - Other assets: | **Beginning** | **Ending** |
|---|---|---|
| Cash surrender value | $60,000 | $ 80,000 |

| Schedule L, Line 18 - Other current liabilities: | **Beginning** | **Ending** |
|---|---|---|
| Accrued payroll taxes | $14,880 | $ 18,600 |
| Accrued state income taxes | 4,500 | 7,500 |
| Accrued federal income taxes | 2,500 | 77,361 |
| Total | $21,880 | $103,461 |

| Schedule L, Line 21 - Other liabilities: | **Beginning** | **Ending** |
|---|---|---|
| Net deferred tax liability | $57,394 | $167,593 |

Schedule M-1, Line 5 - Expenses recorded on books, not deducted:

| | |
|---|---|
| Premiums - Officers' life insurance | $30,000 |
| Bad debt expense ($45,000 – $40,000) | 5,000 |
| Total | $35,000 |

Form 4562, Part III, Line 17 - MACRS deductions for property placed in service before 2019:

| | |
|---|---|
| Building ($2,000,000 × 0.02564) | $ 51,280 |
| Equipment 1 ($250,000 × 0.1249 x 0.5) | 15,613 |
| Equipment 2 ($500,000 × 0.1249) | 62,450 |
| Trucks ($100,000 × 0.192) | 19,200 |
| Total | $148,543 |


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Form **1120**
Department of the Treasury
Internal Revenue Service

# U.S. Corporation Income Tax Return

For calendar year 2018 or tax year beginning _____, 2018, ending _____, 20 ____

▶ Go to *www.irs.gov/Form1120* for instructions and the latest information.

OMB No. 1545-0123

**2018**

**A Check if:**
1a Consolidated return (attach Form 851) ☐
b Life/nonlife consolidated return ☐
2 Personal holding co. (attach Sch. PH) ☐
3 Personal service corp. (see instructions) ☐
4 Schedule M-3 attached ☑

**TYPE OR PRINT**

Name: Permtemp Corporation

Number, street, and room or suite no. If a P.O. box, see instructions.

City or town, state, or province, country, and ZIP or foreign postal code

**B Employer identification number**: XX-1234567

**C** Date incorporated: 2018

**D** Total assets (see instructions): $ 16,629,150

**E** Check if: (1) ☑ Initial return (2) ☐ Final return (3) ☐ Name change (4) ☐ Address change

| | | | | | | |
|---|---|---|---|---|---|---|
| Income | 1a | Gross receipts or sales | 1a | 20,000,000 | | |
| | b | Returns and allowances | 1b | | | |
| | c | Balance. Subtract line 1b from line 1a | | | 1c | 20,000,000 |
| | 2 | Cost of goods sold (attach Form 1125-A) | | | 2 | 15,000,000 |
| | 3 | Gross profit. Subtract line 2 from line 1c | | | 3 | 5,000,000 |
| | 4 | Dividends and inclusions (Schedule C, line 23, column (a)) | | | 4 | 50,000 |
| | 5 | Interest | | | 5 | |
| | 6 | Gross rents | | | 6 | |
| | 7 | Gross royalties | | | 7 | |
| | 8 | Capital gain net income (attach Schedule D (Form 1120)) | | | 8 | |
| | 9 | Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797) | | | 9 | |
| | 10 | Other income (see instructions—attach statement) | | | 10 | |
| | 11 | **Total income.** Add lines 3 through 10 ▶ | | | 11 | 5,050,000 |
| Deductions (See instructions for limitations on deductions.) | 12 | Compensation of officers (see instructions—attach Form 1125-E) ▶ | | | 12 | |
| | 13 | Salaries and wages (less employment credits) | | | 13 | |
| | 14 | Repairs and maintenance | | | 14 | |
| | 15 | Bad debts | | | 15 | 150,000 |
| | 16 | Rents | | | 16 | |
| | 17 | Taxes and licenses | | | 17 | |
| | 18 | Interest (see instructions) | | | 18 | 475,000 |
| | 19 | Charitable contributions | | | 19 | |
| | 20 | Depreciation from Form 4562 not claimed on Form 1125-A or elsewhere on return (attach Form 4562) | | | 20 | 1,400,000 |
| | 21 | Depletion | | | 21 | |
| | 22 | Advertising | | | 22 | |
| | 23 | Pension, profit-sharing, etc., plans | | | 23 | |
| | 24 | Employee benefit programs | | | 24 | |
| | 25 | Reserved for future use | | | 25 | |
| | 26 | Other deductions (attach statement) Other $3,855,000 + Meals $10,000 | | | 26 | 3,865,000 |
| | 27 | **Total deductions.** Add lines 12 through 26 ▶ | | | 27 | 5,890,000 |
| | 28 | Taxable income before net operating loss deduction and special deductions. Subtract line 27 from line 11 | | | 28 | (840,000) |
| | 29a | Net operating loss deduction (see instructions) | 29a | | | |
| | b | Special deductions (Schedule C, line 24, column (c)) | 29b | 25,000 | | |
| | c | Add lines 29a and 29b | | | 29c | 25,000 |
| Tax, Refundable Credits, and Payments | 30 | **Taxable income.** Subtract line 29c from line 28. See instructions | | | 30 | (865,000) |
| | 31 | Total tax (Schedule J, Part I, line 11) | | | 31 | -0- |
| | 32 | 2018 net 965 tax liability paid (Schedule J, Part II, line 12) | | | 32 | |
| | 33 | Total payments, credits, and section 965 net tax liability (Schedule J, Part III, line 23) | | | 33 | |
| | 34 | Estimated tax penalty. See instructions. Check if Form 2220 is attached ▶ ☐ | | | 34 | |
| | 35 | **Amount owed.** If line 33 is smaller than the total of lines 31, 32, and 34, enter amount owed | | | 35 | |
| | 36 | **Overpayment.** If line 33 is larger than the total of lines 31, 32, and 34, enter amount overpaid | | | 36 | |
| | 37 | Enter amount from line 36 you want: **Credited to 2019 estimated tax** ▶ | | **Refunded** ▶ | | |

**Sign Here**

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

▶ Signature of officer _____ Date _____ ▶ Title _____

May the IRS discuss this return with the preparer shown below? See instructions. ☐ **Yes** ☐ **No**

**Paid Preparer Use Only**

| Print/Type preparer's name | Preparer's signature | Date | Check ☐ if self-employed | PTIN |
|---|---|---|---|---|
| | | | | |

Firm's name ▶ | Firm's EIN ▶
Firm's address ▶ | Phone no.

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**Schedule L Balance Sheets per Books**

| | | Beginning of tax year (a) | Beginning of tax year (b) | End of tax year (c) | End of tax year (d) |
|---|---|---|---|---|---|
| | **Assets** | | | | |
| 1 | Cash | | | | 500,000 |
| 2a | Trade notes and accounts receivable | | | 2,000,000 | |
| b | Less allowance for bad debts | ( ) | | ( 250,000 ) | 1,750,000 |
| 3 | Inventories | | | | 4,000,000 |
| 4 | U.S. government obligations | | | | |
| 5 | Tax-exempt securities (see instructions) | | | | 50,000 |
| 6 | Other current assets (attach statement) Net DTA* | | | | 129,150 |
| 7 | Loans to shareholders | | | | |
| 8 | Mortgage and real estate loans | | | | |
| 9 | Other investments (attach statement) | | | | 1,000,000 |
| 10a | Buildings and other depreciable assets | | | 10,000,000 | |
| b | Less accumulated depreciation | ( ) | | ( 800,000 ) | 9,200,000 |
| 11a | Depletable assets | | | | |
| b | Less accumulated depletion | ( ) | | ( ) | |
| 12 | Land (net of any amortization) | | | | |
| 13a | Intangible assets (amortizable only) | | | | |
| b | Less accumulated amortization | ( ) | | ( ) | |
| 14 | Other assets (attach statement) | | | | |
| 15 | Total assets | | | | 16,629,150 |
| | **Liabilities and Shareholders' Equity** | | | | |
| 16 | Accounts payable | | | | 2,610,000 |
| 17 | Mortgages, notes, bonds payable in less than 1 year | | | | |
| 18 | Other current liabilities (attach statement) | | | | |
| 19 | Loans from shareholders | | | | |
| 20 | Mortgages, notes, bonds payable in 1 year or more | | | | 8,500,000 |
| 21 | Other liabilities (attach statement) | | | | |
| 22 | Capital stock: a Preferred stock | | | | |
| | b Common stock | | | 6,000,000 | 6,000,000 |
| 23 | Additional paid-in capital | | | | |
| 24 | Retained earnings—Appropriated (attach statement) | | | | |
| 25 | Retained earnings—Unappropriated | | | | (480,850) |
| 26 | Adjustments to shareholders' equity (attach statement) | | | | |
| 27 | Less cost of treasury stock | | ( ) | | ( ) |
| 28 | Total liabilities and shareholders' equity | | | | 16,629,150 |

**Schedule M-1 Reconciliation of Income (Loss) per Books With Income per Return**

**Note:** The corporation may be required to file Schedule M-3. See instructions.

| | | | | | |
|---|---|---|---|---|---|
| 1 | Net income (loss) per books See Schedule M-3 | | 7 | Income recorded on books this year not included on this return (itemize): Tax-exempt interest $ | |
| 2 | Federal income tax per books | | | | |
| 3 | Excess of capital losses over capital gains | | | | |
| 4 | Income subject to tax not recorded on books this year (itemize): | | 8 | Deductions on this return not charged against book income this year (itemize): | |
| 5 | Expenses recorded on books this year not deducted on this return (itemize): | | | a Depreciation $ | |
| a | Depreciation $ | | | b Charitable contributions $ | |
| b | Charitable contributions $ | | | | |
| c | Travel and entertainment $ | | 9 | Add lines 7 and 8 | |
| 6 | Add lines 1 through 5 | | 10 | Income (page 1, line 28)—line 6 less line 9 | |

**Schedule M-2 Analysis of Unappropriated Retained Earnings per Books (Line 25, Schedule L)**

| | | | | | |
|---|---|---|---|---|---|
| 1 | Balance at beginning of year | -0- | 5 | Distributions: a Cash | |
| 2 | Net income (loss) per books | (480,850) | | b Stock | |
| 3 | Other increases (itemize): | | | c Property | |
| | | | 6 | Other decreases (itemize): | |
| | | | 7 | Add lines 5 and 6 | -0- |
| 4 | Add lines 1, 2, and 3 | (480,850) | 8 | Balance at end of year (line 4 less line 7) | (480,850) |

Form **1120** (2018)

* $255,150 DTA – $126,000 DTL.



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**SCHEDULE M-3 (Form 1120)**

Department of the Treasury
Internal Revenue Service

# Net Income (Loss) Reconciliation for Corporations With Total Assets of $10 Million or More

▶ Attach to Form 1120 or 1120-C.
▶ Go to *www.irs.gov/Form1120* for instructions and the latest information.

OMB No. 1545-0123

Name of corporation (common parent, if consolidated return): Permtemp Corporation

Employer identification number: XX-1234567

Check applicable box(es): (1) ☑ Non-consolidated return (2) ☐ Consolidated return (Form 1120 only)
(3) ☐ Mixed 1120/L/PC group (4) ☐ Dormant subsidiaries schedule attached

## Part I Financial Information and Net Income (Loss) Reconciliation (see instructions)

**1a** Did the corporation file SEC Form 10-K for its income statement period ending with or within this tax year?
☐ **Yes.** Skip lines 1b and 1c and complete lines 2a through 11 with respect to that SEC Form 10-K.
☑ **No.** Go to line 1b. See instructions if multiple non-tax-basis income statements are prepared.

**b** Did the corporation prepare a certified audited non-tax-basis income statement for that period?
☐ **Yes.** Skip line 1c and complete lines 2a through 11 with respect to that income statement.
☑ **No.** Go to line 1c.

**c** Did the corporation prepare a non-tax-basis income statement for that period?
☑ **Yes.** Complete lines 2a through 11 with respect to that income statement.
☐ **No.** Skip lines 2a through 3c and enter the corporation's net income (loss) per its books and records on line 4a.

**2a** Enter the income statement period: Beginning 01/01/2018 Ending 12/31/2018

**b** Has the corporation's income statement been restated for the income statement period on line 2a?
☐ **Yes.** (If "Yes," attach an explanation and the amount of each item restated.)
☑ **No.**

**c** Has the corporation's income statement been restated for any of the five income statement periods immediately preceding the period on line 2a?
☐ **Yes.** (If "Yes," attach an explanation and the amount of each item restated.)
☑ **No.**

**3a** Is any of the corporation's voting common stock publicly traded?
☐ **Yes.**
☑ **No.** If "No," go to line 4a.

**b** Enter the symbol of the corporation's primary U.S. publicly traded voting common stock . . . . . .

**c** Enter the nine-digit CUSIP number of the corporation's primary publicly traded voting common stock . . . . . .

| | | | |
|---|---|---|---|
| **4a** | Worldwide consolidated net income (loss) from income statement source identified in Part I, line 1 . | **4a** | (480,850) |
| **b** | Indicate accounting standard used for line 4a (see instructions): (1) ☑ GAAP (2) ☐ IFRS (3) ☐ Statutory (4) ☐ Tax-basis (5) ☐ Other (specify) | | |
| **5a** | Net income from nonincludible foreign entities (attach statement) . . . . . | **5a** | ( ) |
| **b** | Net loss from nonincludible foreign entities (attach statement and enter as a positive amount) . . . | **5b** | |
| **6a** | Net income from nonincludible U.S. entities (attach statement) . . . . . | **6a** | ( ) |
| **b** | Net loss from nonincludible U.S. entities (attach statement and enter as a positive amount) . . . . | **6b** | |
| **7a** | Net income (loss) of other includible foreign disregarded entities (attach statement) . . . . . | **7a** | |
| **b** | Net income (loss) of other includible U.S. disregarded entities (attach statement) . . . . . | **7b** | |
| **c** | Net income (loss) of other includible entities (attach statement) . . . . . | **7c** | |
| **8** | Adjustment to eliminations of transactions between includible entities and nonincludible entities (attach statement) . . . . . | **8** | |
| **9** | Adjustment to reconcile income statement period to tax year (attach statement) . . . . . | **9** | |
| **10a** | Intercompany dividend adjustments to reconcile to line 11 (attach statement) . . . . . | **10a** | |
| **b** | Other statutory accounting adjustments to reconcile to line 11 (attach statement) . . . . . | **10b** | |
| **c** | Other adjustments to reconcile to amount on line 11 (attach statement) . . . . . | **10c** | |
| **11** | **Net income (loss) per income statement of includible corporations.** Combine lines 4 through 10 . | **11** | (480,850) |

**Note:** Part I, line 11, must equal Part II, line 30, column (a) or Schedule M-1, line 1 (see instructions).

**12** Enter the total amount (not just the corporation's share) of the assets and liabilities of all entities included or removed on the following lines.

| | | Total Assets | Total Liabilities |
|---|---|---|---|
| **a** | Included on Part I, line 4 . . . . . ▶ | 16,629,150 | 11,110,000 |
| **b** | Removed on Part I, line 5 . . . . . ▶ | | |
| **c** | Removed on Part I, line 6 . . . . . ▶ | | |
| **d** | Included on Part I, line 7 . . . . . ▶ | | |

**For Paperwork Reduction Act Notice, see the Instructions for Form 1120.** Cat. No. 37961C **Schedule M-3 (Form 1120) 2018**


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Schedule M-3 (Form 1120) 2018 Page **2**

Name of corporation (common parent, if consolidated return): Permtemp Corporation

Employer identification number: XX-1234567

Check applicable box(es): (1) ☐ Consolidated group (2) ☐ Parent corp (3) ☐ Consolidated eliminations (4) ☐ Subsidiary corp (5) ☐ Mixed 1120/L/PC group

Check if a sub-consolidated: (6) ☐ 1120 group (7) ☐ 1120 eliminations

Name of subsidiary (if consolidated return)

Employer identification number

**Part II** **Reconciliation of Net Income (Loss) per Income Statement of Includible Corporations With Taxable Income per Return** (see instructions)

| Income (Loss) Items (Attach statements for lines 1 through 12) | (a) Income (Loss) per Income Statement | (b) Temporary Difference | (c) Permanent Difference | (d) Income (Loss) per Tax Return |
|---|---|---|---|---|
| 1 Income (loss) from equity method foreign corporations | | | | |
| 2 Gross foreign dividends not previously taxed | | | | |
| 3 Subpart F, QEF, and similar income inclusions | | | | |
| 4 Gross-up for foreign taxes deemed paid | | | | |
| 5 Gross foreign distributions previously taxed | | | | |
| 6 Income (loss) from equity method U.S. corporations | | | | |
| 7 U.S. dividends not eliminated in tax consolidation | 50,000 | | | 50,000 |
| 8 Minority interest for includible corporations | | | | |
| 9 Income (loss) from U.S. partnerships | | | | |
| 10 Income (loss) from foreign partnerships | | | | |
| 11 Income (loss) from other pass-through entities | | | | |
| 12 Items relating to reportable transactions | | | | |
| 13 Interest income (see instructions) T-E interest | 15,000 | | (15,000) | -0- |
| 14 Total accrual to cash adjustment | | | | |
| 15 Hedging transactions | | | | |
| 16 Mark-to-market income (loss) | | | | |
| 17 Cost of goods sold (see instructions) | (15,000,000) | | | (15,000,000) |
| 18 Sale versus lease (for sellers and/or lessors) | | | | |
| 19 Section 481(a) adjustments | | | | |
| 20 Unearned/deferred revenue | | | | |
| 21 Income recognition from long-term contracts | | | | |
| 22 Original issue discount and other imputed interest | | | | |
| 23a Income statement gain/loss on sale, exchange, abandonment, worthlessness, or other disposition of assets other than inventory and pass-through entities | | | | |
| b Gross capital gains from Schedule D, excluding amounts from pass-through entities | | | | |
| c Gross capital losses from Schedule D, excluding amounts from pass-through entities, abandonment losses, and worthless stock losses | | | | |
| d Net gain/loss reported on Form 4797, line 17, excluding amounts from pass-through entities, abandonment losses, and worthless stock losses | | | | |
| e Abandonment losses | | | | |
| f Worthless stock losses (attach statement) | | | | |
| g Other gain/loss on disposition of assets other than inventory | | | | |
| 24 Capital loss limitation and carryforward used | | | | |
| 25 Other income (loss) items with differences (attach statement) | | | | |
| 26 **Total income (loss) items.** Combine lines 1 through 25 | (14,935,000) | | (15,000) | (14,950,000) |
| 27 **Total expense/deduction items** (from Part III, line 39) | (1,690,850) | (250,000) | (94,150) | (2,035,000) |
| 28 Other items with no differences* | 16,145,000 | | | 16,145,000 |
| 29a Mixed groups, see instructions. All others, combine lines 26 through 28 | (480,850) | (250,000) | (109,150) | (840,000) |
| b PC insurance subgroup reconciliation totals | | | | |
| c Life insurance subgroup reconciliation totals | | | | |
| 30 **Reconciliation totals.** Combine lines 29a through 29c | (480,850) | (250,000) | (109,150) | (840,000) |

**Note:** Line 30, column (a), must equal Part I, line 11, and column (d) must equal Form 1120, page 1, line 28.

*Sales $20,000,000 - Other expenses $3,855,000

Schedule M-3 (Form 1120) 2018



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Schedule M-3 (Form 1120) 2018 Page 3

Name of corporation (common parent, if consolidated return): Permtemp Corporation

Employer identification number: XX-1234567

Check applicable box(es): (1) ☐ Consolidated group (2) ☐ Parent corp (3) ☐ Consolidated eliminations (4) ☐ Subsidiary corp (5) ☐ Mixed 1120/L/PC group

Check if a sub-consolidated: (6) ☐ 1120 group (7) ☐ 1120 eliminations

Name of subsidiary (if consolidated return)

Employer identification number

**Part III** **Reconciliation of Net Income (Loss) per Income Statement of Includible Corporations With Taxable Income per Return—Expense/Deduction Items** (see instructions)

| Expense/Deduction Items | (a) Expense per Income Statement | (b) Temporary Difference | (c) Permanent Difference | (d) Deduction per Tax Return |
|---|---|---|---|---|
| 1 U.S. current income tax expense | | | | |
| 2 U.S. deferred income tax expense | (129,150) | | 129,150 | |
| 3 State and local current income tax expense | | | | |
| 4 State and local deferred income tax expense | | | | |
| 5 Foreign current income tax expense (other than foreign withholding taxes) | | | | |
| 6 Foreign deferred income tax expense | | | | |
| 7 Foreign withholding taxes | | | | |
| 8 Interest expense (see instructions) | 475,000 | | | 475,000 |
| 9 Stock option expense | | | | |
| 10 Other equity-based compensation | | | | |
| 11 Meals and entertainment | 45,000 | | (35,000) | 10,000 |
| 12 Fines and penalties | | | | |
| 13 Judgments, damages, awards, and similar costs | | | | |
| 14 Parachute payments | | | | |
| 15 Compensation with section 162(m) limitation | | | | |
| 16 Pension and profit-sharing | | | | |
| 17 Other post-retirement benefits | | | | |
| 18 Deferred compensation | | | | |
| 19 Charitable contribution of cash and tangible property | 100,000 | (100,000) | | -0- |
| 20 Charitable contribution of intangible property | | | | |
| 21 Charitable contribution limitation/carryforward | | | | |
| 22 Domestic production activities deduction (see instructions) | | | | |
| 23 Current year acquisition or reorganization investment banking fees | | | | |
| 24 Current year acquisition or reorganization legal and accounting fees | | | | |
| 25 Current year acquisition/reorganization other costs | | | | |
| 26 Amortization/impairment of goodwill | | | | |
| 27 Amortization of acquisition, reorganization, and start-up costs | | | | |
| 28 Other amortization or impairment write-offs | | | | |
| 29 Reserved | | | | |
| 30 Depletion | | | | |
| 31 Depreciation | 800,000 | 600,000 | | 1,400,000 |
| 32 Bad debt expense | 400,000 | (250,000) | | 150,000 |
| 33 Corporate owned life insurance premiums | | | | |
| 34 Purchase versus lease (for purchasers and/or lessees) | | | | |
| 35 Research and development costs | | | | |
| 36 Section 118 exclusion (attach statement) | | | | |
| 37 Section 162(r)—FDIC premiums paid by certain large financial institutions (see instructions) | | | | |
| 38 Other expense/deduction items with differences (attach statement) | | | | |
| 39 **Total expense/deduction items.** Combine lines 1 through 38. Enter here and on Part II, line 27, reporting positive amounts as negative and negative amounts as positive | 1,690,850 | 250,000 | 94,150 | 2,035,000 |

Schedule M-3 (Form 1120) 2018



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Permtemp Corporation
Deferred Tax Accounting 2018

| Deferred Tax Assets | End of 2018 |
|---|---|
| Net operating loss | $ 865,000 |
| Charitable contributions carryover* | 100,000 |
| Net accounts receivable** | 250,000 |
| Total deductible temporary difference | $1,215,000 |
| Times: Tax rate | 0.21 |
| Deferred tax asset | $ 255,150 |

*Charitable contributions not deductible this year because of limitation

**$2,000,000 tax basis – $1,750,000 book basis

Deferred Tax Liability:

| | |
|---|---|
| Net fixed assets* | $600,000 |
| Times: Tax rate | 0.21 |
| Deferred tax liability | $126,000 |

*$9,200,000 book basis – $8,600,000 tax basis

Journal Entry:

| | | |
|---|---|---|
| Deferred tax asset | 255,150 | |
| Deferred tax liability | | 126,000 |
| Federal income tax benefit | | 129,150 |

Adjusted Income Statement (Partial):

| | |
|---|---|
| Net loss before federal income benefit | $(610,000) |
| Plus: Federal income tax benefit | 129,150 |
| Net loss per books | $(480,850) |
| Effective tax rate [$(129,150)/$(610,000)] | 21.172% |

Tax Rate Reconciliation:

| | |
|---|---|
| Statutory tax rate | 21.000% |
| Nondeductible M&E expense [$35,000/($(610,000) × 21%)] | (1.205)% |
| Tax-exempt income [$(15,000)/$(610,000) × 21%] | 0.516% |
| Dividends-received deduction [$(25,000)/$(610,000) × 21%] | 0.861% |
| Effective tax rate | 21.172% |


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Permtemp Corporation
Deferred Tax Accounting 2018

Provision Reconciliation:

| | |
|---|---|
| Net loss before federal income taxes | $ (610,000) |
| Permanent differences: | |
| Nondeductible M&E expense | 35,000 |
| Tax-exempt income | (15,000) |
| Dividends-received deduction | (25,000) |
| Net loss after permanent differences | $ (615,000) |
| Temporary differences: | |
| Bad debt expense | 250,000 |
| Charitable contribution deduction | 100,000 |
| Depreciation | (600,000) |
| Net operating loss | $ (865,000) |

Adjusted Book Balance Sheet:

| | | |
|---|---|---|
| Cash | | $ 500,000 |
| Accounts receivable | $ 2,000,000 | |
| Minus: Allowance for doubtful accounts | (250,000) | 1,750,000 |
| Inventory | | 4,000,000 |
| Net deferred tax asset ($255,150 – $126,000) | | 129,150 |
| Fixed assets | $10,000,000 | |
| Minus: Accumulated depreciation | (800,000) | 9,200,000 |
| Investment in corporate stock | | 1,000,000 |
| Investment in tax-exempt bonds | | 50,000 |
| Total assets | | $16,629,150 |
| | | |
| Accounts payable | | $ 2,610,000 |
| Long-term debt | | 8,500,000 |
| Common stock | | 6,000,000 |
| Retained earnings | | (480,850) |
| Total liabilities and equity | | $16,629,150 |


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Form **1120**
Department of the Treasury
Internal Revenue Service

# U.S. Corporation Income Tax Return

For calendar year 2019 or tax year beginning _____, 2019, ending _____, 20 ____

▶ Go to *www.irs.gov/Form1120* for instructions and the latest information.

OMB No. 1545-0123

**2019**

**A Check if:**
1a Consolidated return (attach Form 851) ☐
b Life/nonlife consolidated return ☐
2 Personal holding co. (attach Sch. PH) ☐
3 Personal service corp. (see instructions) ☐
4 Schedule M-3 attached ☑

**TYPE OR PRINT**

Name: Permtemp Corporation

Number, street, and room or suite no. If a P.O. box, see instructions.

City or town, state or province, country, and ZIP or foreign postal code

**B** Employer identification number: XX-1234567

**C** Date incorporated: 2018

**D** Total assets (see instructions): $ 20,425,000

**E** Check if: (1) ☐ Initial return (2) ☐ Final return (3) ☐ Name change (4) ☐ Address change

| | | | | | | |
|---|---|---|---|---|---|---|
| Income | 1a | Gross receipts or sales | 1a | 33,000,000 | | |
| | b | Returns and allowances | 1b | | | |
| | c | Balance. Subtract line 1b from line 1a | | | 1c | 33,000,000 |
| | 2 | Cost of goods sold (attach Form 1125-A) | | | 2 | 22,000,000 |
| | 3 | Gross profit. Subtract line 2 from line 1c | | | 3 | 11,000,000 |
| | 4 | Dividends and inclusions (Schedule C, line 23) | | | 4 | 55,000 |
| | 5 | Interest | | | 5 | |
| | 6 | Gross rents | | | 6 | |
| | 7 | Gross royalties | | | 7 | |
| | 8 | Capital gain net income (attach Schedule D (Form 1120)) | | | 8 | |
| | 9 | Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797) | | | 9 | |
| | 10 | Other income (see instructions—attach statement) | | | 10 | |
| | 11 | **Total income.** Add lines 3 through 10 ▶ | | | 11 | 11,055,000 |
| Deductions (See instructions for limitations on deductions.) | 12 | Compensation of officers (see instructions—attach Form 1125-E) ▶ | | | 12 | |
| | 13 | Salaries and wages (less employment credits) | | | 13 | |
| | 14 | Repairs and maintenance | | | 14 | |
| | 15 | Bad debts | | | 15 | 425,000 |
| | 16 | Rents | | | 16 | |
| | 17 | Taxes and licenses | | | 17 | |
| | 18 | Interest (see instructions) | | | 18 | 455,000 |
| | 19 | Charitable contributions | | | 19 | 140,000 |
| | 20 | Depreciation from Form 4562 not claimed on Form 1125-A or elsewhere on return (attach Form 4562) | | | 20 | 2,450,000 |
| | 21 | Depletion | | | 21 | |
| | 22 | Advertising | | | 22 | |
| | 23 | Pension, profit-sharing, etc., plans | | | 23 | |
| | 24 | Employee benefit programs | | | 24 | |
| | 25 | Reserved for future use | | | 25 | |
| | 26 | Other deductions (attach statement) Other $4,675,000 + meals $10,000 | | | 26 | 4,685,000 |
| | 27 | **Total deductions.** Add lines 12 through 26 ▶ | | | 27 | 8,155,000 |
| | 28 | Taxable income before net operating loss deduction and special deductions. Subtract line 27 from line 11 | | | 28 | 2,900,000 |
| | 29a | Net operating loss deduction (see instructions) | 29a | 865,000 | | |
| | b | Special deductions (Schedule C, line 24) | 29b | 27,500 | | |
| | c | Add lines 29a and 29b | | | 29c | 892,500 |
| Tax, Refundable Credits, and Payments | 30 | **Taxable income.** Subtract line 29c from line 28. See instructions | | | 30 | 2,007,500 |
| | 31 | Total tax (Schedule J, Part I, line 11) | | | 31 | 421,575 |
| | 32 | 2019 net 965 tax liability paid (Schedule J, Part II, line 12) | | | 32 | |
| | 33 | Total payments, credits, and section 965 net tax liability (Schedule J, Part III, line 23) | | | 33 | |
| | 34 | Estimated tax penalty. See instructions. Check if Form 2220 is attached ▶ ☐ | | | 34 | |
| | 35 | **Amount owed.** If line 33 is smaller than the total of lines 31, 32, and 34, enter amount owed | | | 35 | |
| | 36 | **Overpayment.** If line 33 is larger than the total of lines 31, 32, and 34, enter amount overpaid | | | 36 | |
| | 37 | Enter amount from line 36 you want: **Credited to 2020 estimated tax** ▶ | | **Refunded** ▶ | | |

**Sign Here**

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

▶ Signature of officer _____ Date _____ ▶ Title _____

May the IRS discuss this return with the preparer shown below? See instructions. ☐ **Yes** ☐ **No**

**Paid Preparer Use Only**

| Print/Type preparer's name | Preparer's signature | Date | Check ☐ if self-employed | PTIN |
|---|---|---|---|---|
| | | | | |

Firm's name ▶ | Firm's EIN ▶
Firm's address ▶ | Phone no.

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**Schedule L Balance Sheets per Books**

| | | Beginning of tax year (a) | Beginning of tax year (b) | End of tax year (c) | End of tax year (d) |
|---|---|---|---|---|---|
| | **Assets** | | | | |
| 1 | Cash | | 500,000 | | 2,125,000 |
| 2a | Trade notes and accounts receivable | 2,000,000 | | 3,300,000 | |
| b | Less allowance for bad debts | ( 250,000 ) | 1,750,000 | ( 450,000 ) | 2,850,000 |
| 3 | Inventories | | 4,000,000 | | 6,000,000 |
| 4 | U.S. government obligations | | | | |
| 5 | Tax-exempt securities (see instructions) | | 50,000 | | 50,000 |
| 6 | Other current assets (attach statement) Net DTA[a] | | 129,150 | | |
| 7 | Loans to shareholders | | | | |
| 8 | Mortgage and real estate loans | | | | |
| 9 | Other investments (attach statement) | | 1,000,000 | | 1,000,000 |
| 10a | Buildings and other depreciable assets | 10,000,000 | | 10,000,000 | |
| b | Less accumulated depreciation | ( 800,000 ) | 9,200,000 | ( 1,600,000 ) | 8,400,000 |
| 11a | Depletable assets | | | | |
| b | Less accumulated depletion | ( ) | | ( ) | |
| 12 | Land (net of any amortization) | | | | |
| 13a | Intangible assets (amortizable only) | | | | |
| b | Less accumulated amortization | ( ) | | ( ) | |
| 14 | Other assets (attach statement) | | | | |
| 15 | Total assets | | 16,629,150 | | 20,425,000 |
| | **Liabilities and Shareholders' Equity** | | | | |
| 16 | Accounts payable | | 2,610,000 | | 2,120,000 |
| 17 | Mortgages, notes, bonds payable in less than 1 year | | | | |
| 18 | Other current liabilities (attach statement) Taxes payable | | | | 421,575 |
| 19 | Loans from shareholders | | | | |
| 20 | Mortgages, notes, bonds payable in 1 year or more | | 8,500,000 | | 8,500,000 |
| 21 | Other liabilities (attach statement) Net DTL[b] | | | | 378,000 |
| 22 | Capital stock: a Preferred stock | | | | |
| | b Common stock | 6,000,000 | 6,000,000 | 6,000,000 | 6,000,000 |
| 23 | Additional paid-in capital | | | | |
| 24 | Retained earnings—Appropriated (attach statement) | | | | |
| 25 | Retained earnings—Unappropriated | | (480,850) | | 3,005,425 |
| 26 | Adjustments to shareholders' equity (attach statement) | | | | |
| 27 | Less cost of treasury stock | | ( ) | | ( ) |
| 28 | Total liabilities and shareholders' equity | | 16,629,150 | | 20,425,000 |

**Schedule M-1 Reconciliation of Income (Loss) per Books With Income per Return**

**Note:** The corporation may be required to file Schedule M-3. See instructions.

| | | | | | |
|---|---|---|---|---|---|
| 1 | Net income (loss) per books See Schedule M-3 | | 7 | Income recorded on books this year not included on this return (itemize): Tax-exempt interest $ | |
| 2 | Federal income tax per books | | | | |
| 3 | Excess of capital losses over capital gains | | | | |
| 4 | Income subject to tax not recorded on books this year (itemize): | | 8 | Deductions on this return not charged against book income this year (itemize): | |
| 5 | Expenses recorded on books this year not deducted on this return (itemize): | | a | Depreciation $ | |
| a | Depreciation $ | | b | Charitable contributions $ | |
| b | Charitable contributions $ | | | | |
| c | Travel and entertainment $ | | 9 | Add lines 7 and 8 | |
| 6 | Add lines 1 through 5 | | 10 | Income (page 1, line 28)—line 6 less line 9 | |

**Schedule M-2 Analysis of Unappropriated Retained Earnings per Books (Line 25, Schedule L)**

| | | | | | |
|---|---|---|---|---|---|
| 1 | Balance at beginning of year | (480,850) | 5 | Distributions: a Cash | |
| 2 | Net income (loss) per books | 3,486,275 | | b Stock | |
| 3 | Other increases (itemize): | | | c Property | |
| | | | 6 | Other decreases (itemize): | |
| | | | 7 | Add lines 5 and 6 | -0- |
| 4 | Add lines 1, 2, and 3 | 3,005,425 | 8 | Balance at end of year (line 4 less line 7) | 3,005,425 |



[a] $255,150 DTA - $126,000 DTL.
[b] $472,500 DTL - $94,500 DTA.



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**SCHEDULE M-3 (Form 1120)**
(Rev. December 2019)
Department of the Treasury
Internal Revenue Service

# Net Income (Loss) Reconciliation for Corporations With Total Assets of $10 Million or More

▶ Attach to Form 1120 or 1120-C.
▶ Go to *www.irs.gov/Form1120* for instructions and the latest information.

OMB No. 1545-0123

Name of corporation (common parent, if consolidated return): Permtemp Corporation

Employer identification number: XX-1234567

Check applicable box(es): (1) ☑ Non-consolidated return (2) ☐ Consolidated return (Form 1120 only)
(3) ☐ Mixed 1120/L/PC group (4) ☐ Dormant subsidiaries schedule attached

## Part I Financial Information and Net Income (Loss) Reconciliation (see instructions)

**1a** Did the corporation file SEC Form 10-K for its income statement period ending with or within this tax year?
☐ **Yes.** Skip lines 1b and 1c and complete lines 2a through 11 with respect to that SEC Form 10-K.
☑ **No.** Go to line 1b. See instructions if multiple non-tax-basis income statements are prepared.

**b** Did the corporation prepare a certified audited non-tax-basis income statement for that period?
☐ **Yes.** Skip line 1c and complete lines 2a through 11 with respect to that income statement.
☑ **No.** Go to line 1c.

**c** Did the corporation prepare a non-tax-basis income statement for that period?
☑ **Yes.** Complete lines 2a through 11 with respect to that income statement.
☐ **No.** Skip lines 2a through 3c and enter the corporation's net income (loss) per its books and records on line 4a.

**2a** Enter the income statement period: Beginning 01/01/2019 Ending 12/31/2019

**b** Has the corporation's income statement been restated for the income statement period on line 2a?
☐ **Yes.** (If "Yes," attach an explanation and the amount of each item restated.)
☑ **No.**

**c** Has the corporation's income statement been restated for any of the five income statement periods immediately preceding the period on line 2a?
☐ **Yes.** (If "Yes," attach an explanation and the amount of each item restated.)
☑ **No.**

**3a** Is any of the corporation's voting common stock publicly traded?
☐ **Yes.**
☑ **No.** If "No," go to line 4a.

**b** Enter the symbol of the corporation's primary U.S. publicly traded voting common stock . . . . . .

**c** Enter the nine-digit CUSIP number of the corporation's primary publicly traded voting common stock . . . . . .

| | | | |
|---|---|---|---|
| **4a** | Worldwide consolidated net income (loss) from income statement source identified in Part I, line 1 . | **4a** | 3,486,275 |
| **b** | Indicate accounting standard used for line 4a (see instructions): (1) ☑ GAAP (2) ☐ IFRS (3) ☐ Statutory (4) ☐ Tax-basis (5) ☐ Other (specify) | | |
| **5a** | Net income from nonincludible foreign entities (attach statement) . . . . . | **5a** | ( ) |
| **b** | Net loss from nonincludible foreign entities (attach statement and enter as a positive amount) . . . | **5b** | |
| **6a** | Net income from nonincludible U.S. entities (attach statement) . . . . . | **6a** | ( ) |
| **b** | Net loss from nonincludible U.S. entities (attach statement and enter as a positive amount) . . . . | **6b** | |
| **7a** | Net income (loss) of other includible foreign disregarded entities (attach statement) . . . . . | **7a** | |
| **b** | Net income (loss) of other includible U.S. disregarded entities (attach statement) . . . . . | **7b** | |
| **c** | Net income (loss) of other includible entities (attach statement) . . . . . | **7c** | |
| **8** | Adjustment to eliminations of transactions between includible entities and nonincludible entities (attach statement) . . . . . | **8** | |
| **9** | Adjustment to reconcile income statement period to tax year (attach statement) . . . . . | **9** | |
| **10a** | Intercompany dividend adjustments to reconcile to line 11 (attach statement) . . . . . | **10a** | |
| **b** | Other statutory accounting adjustments to reconcile to line 11 (attach statement) . . . . . | **10b** | |
| **c** | Other adjustments to reconcile to amount on line 11 (attach statement) . . . . . | **10c** | |
| **11** | **Net income (loss) per income statement of includible corporations.** Combine lines 4 through 10 . | **11** | 3,486,275 |

**Note:** Part I, line 11, must equal Part II, line 30, column (a) or Schedule M-1, line 1 (see instructions).

**12** Enter the total amount (not just the corporation's share) of the assets and liabilities of all entities included or removed on the following lines.

| | Total Assets | Total Liabilities |
|---|---|---|
| **a** Included on Part I, line 4 . . . . . ▶ | 20,425,000 | 11,419,575 |
| **b** Removed on Part I, line 5 . . . . . ▶ | | |
| **c** Removed on Part I, line 6 . . . . . ▶ | | |
| **d** Included on Part I, line 7 . . . . . ▶ | | |

**For Paperwork Reduction Act Notice, see the Instructions for Form 1120.** Cat. No. 37961C **Schedule M-3 (Form 1120) (Rev. 12-2019)**


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Schedule M-3 (Form 1120) (Rev. 12-2019) Page **2**

Name of corporation (common parent, if consolidated return): Permtemp Corporation

Employer identification number: XX-1234567

Check applicable box(es): (1) ☐ Consolidated group (2) ☐ Parent corp (3) ☐ Consolidated eliminations (4) ☐ Subsidiary corp (5) ☐ Mixed 1120/L/PC group

Check if a sub-consolidated: (6) ☐ 1120 group (7) ☐ 1120 eliminations

Name of subsidiary (if consolidated return)

Employer identification number

**Part II** **Reconciliation of Net Income (Loss) per Income Statement of Includible Corporations With Taxable Income per Return** (see instructions)

| Income (Loss) Items (Attach statements for lines 1 through 12) | (a) Income (Loss) per Income Statement | (b) Temporary Difference | (c) Permanent Difference | (d) Income (Loss) per Tax Return |
|---|---|---|---|---|
| 1 Income (loss) from equity method foreign corporations | | | | |
| 2 Gross foreign dividends not previously taxed | | | | |
| 3 Subpart F, QEF, and similar income inclusions | | | | |
| 4 Gross-up for foreign taxes deemed paid | | | | |
| 5 Gross foreign distributions previously taxed | | | | |
| 6 Income (loss) from equity method U.S. corporations | | | | |
| 7 U.S. dividends not eliminated in tax consolidation | 55,000 | | | 55,000 |
| 8 Minority interest for includible corporations | | | | |
| 9 Income (loss) from U.S. partnerships | | | | |
| 10 Income (loss) from foreign partnerships | | | | |
| 11 Income (loss) from other pass-through entities | | | | |
| 12 Items relating to reportable transactions | | | | |
| 13 Interest income (see instructions) T-E. interest | 15,000 | | 15,000 | -0- |
| 14 Total accrual to cash adjustment | | | | |
| 15 Hedging transactions | | | | |
| 16 Mark-to-market income (loss) | | | | |
| 17 Cost of goods sold (see instructions) | (22,000,000) | | | (22,000,000) |
| 18 Sale versus lease (for sellers and/or lessors) | | | | |
| 19 Section 481(a) adjustments | | | | |
| 20 Unearned/deferred revenue | | | | |
| 21 Income recognition from long-term contracts | | | | |
| 22 Original issue discount and other imputed interest | | | | |
| 23a Income statement gain/loss on sale, exchange, abandonment, worthlessness, or other disposition of assets other than inventory and pass-through entities | | | | |
| b Gross capital gains from Schedule D, excluding amounts from pass-through entities | | | | |
| c Gross capital losses from Schedule D, excluding amounts from pass-through entities, abandonment losses, and worthless stock losses | | | | |
| d Net gain/loss reported on Form 4797, line 17, excluding amounts from pass-through entities, abandonment losses, and worthless stock losses | | | | |
| e Abandonment losses | | | | |
| f Worthless stock losses (attach statement) | | | | |
| g Other gain/loss on disposition of assets other than inventory | | | | |
| 24 Capital loss limitation and carryforward used | | | | |
| 25 Other income (loss) items with differences (attach statement) | | | | |
| 26 **Total income (loss) items.** Combine lines 1 through 25 | (21,930,000) | -0- | (15,000) | (21,945,000) |
| 27 **Total expense/deduction items** (from Part III, line 39) | (2,908,725) | (1,550,000) | 978,725 | (3,480,000) |
| 28 Other items with no differences *. | 28,325,000 | | | 28,325,000 |
| 29a Mixed groups, see instructions. All others, combine lines 26 through 28 | 3,486,275 | (1,550,000) | 963,725 | 2,900,000 |
| b PC insurance subgroup reconciliation totals | | | | |
| c Life insurance subgroup reconciliation totals | | | | |
| 30 **Reconciliation totals.** Combine lines 29a through 29c | 3,486,275 | (1,550,000) | 963,725 | 2,900,000 |

**Note:** Line 30, column (a), must equal Part I, line 11, and column (d) must equal Form 1120, page 1, line 28.

*$33,000,000 sales-$4,675,000 other expenses.





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Name of corporation (common parent, if consolidated return): Permtemp Corporation

Employer identification number: XX-1234567

Check applicable box(es): (1) ☐ Consolidated group (2) ☐ Parent corp (3) ☐ Consolidated eliminations (4) ☐ Subsidiary corp (5) ☐ Mixed 1120/L/PC group

Check if a sub-consolidated: (6) ☐ 1120 group (7) ☐ 1120 eliminations

Name of subsidiary (if consolidated return)

Employer identification number

**Part III** **Reconciliation of Net Income (Loss) per Income Statement of Includible Corporations With Taxable Income per Return—Expense/Deduction Items** (see instructions)

| Expense/Deduction Items | (a) Expense per Income Statement | (b) Temporary Difference | (c) Permanent Difference | (d) Deduction per Tax Return |
|---|---|---|---|---|
| 1 U.S. current income tax expense | 421,575 | | (421,575) | |
| 2 U.S. deferred income tax expense | 507,150 | | (507,150) | |
| 3 State and local current income tax expense | | | | |
| 4 State and local deferred income tax expense | | | | |
| 5 Foreign current income tax expense (other than foreign withholding taxes) | | | | |
| 6 Foreign deferred income tax expense | | | | |
| 7 Foreign withholding taxes | | | | |
| 8 Interest expense (see instructions) | 455,000 | | | 455,000 |
| 9 Stock option expense | | | | |
| 10 Other equity-based compensation | | | | |
| 11 Meals and entertainment | 60,000 | | (50,000) | 10,000 |
| 12 Fines and penalties | | | | |
| 13 Judgments, damages, awards, and similar costs | | | | |
| 14 Parachute payments | | | | |
| 15 Compensation with section 162(m) limitation | | | | |
| 16 Pension and profit-sharing | | | | |
| 17 Other post-retirement benefits | | | | |
| 18 Deferred compensation | | | | |
| 19 Charitable contribution of cash and tangible property | 40,000 | | | 40,000 |
| 20 Charitable contribution of intangible property | | | | |
| 21 Charitable contribution limitation/carryforward | | 100,000 | | 100,000 |
| 22 Domestic production activities deduction (see instructions) | | | | |
| 23 Current year acquisition or reorganization investment banking fees | | | | |
| 24 Current year acquisition or reorganization legal and accounting fees | | | | |
| 25 Current year acquisition/reorganization other costs | | | | |
| 26 Amortization/impairment of goodwill | | | | |
| 27 Amortization of acquisition, reorganization, and start-up costs | | | | |
| 28 Other amortization or impairment write-offs | | | | |
| 29 Reserved | | | | |
| 30 Depletion | | | | |
| 31 Depreciation | 800,000 | 1,650,000 | | 2,450,000 |
| 32 Bad debt expense | 625,000 | (200,000) | | 425,000 |
| 33 Corporate owned life insurance premiums | | | | |
| 34 Purchase versus lease (for purchasers and/or lessees) | | | | |
| 35 Research and development costs | | | | |
| 36 Section 118 exclusion (attach statement) | | | | |
| 37 Section 162(r)—FDIC premiums paid by certain large financial institutions (see instructions) | | | | |
| 38 Other expense/deduction items with differences (attach statement) | | | | |
| 39 **Total expense/deduction items.** Combine lines 1 through 38. Enter here and on Part II, line 27, reporting positive amounts as negative and negative amounts as positive | 2,908,725 | 1,550,000 | (978,725) | 3,480,000 |





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Permtemp Corporation
Deferred Tax Accounting 2019

Deferred Tax Assets:

| | Beg. of 2019 | End of 2019 | Change |
|---|---|---|---|
| Net operating loss | $ 865,000 | $ -0- | $(865,000) |
| Charitable contributions carryover | 100,000 | -0- | (100,000) |
| Net accounts receivable | 250,000 | 450,000* | 200,000 |
| Total deductible temp. diff. | $1,215,000 | $450,000 | $(765,000) |
| Times: Tax rate | 0.21 | 0.21 | |
| Deferred tax asset | $ 255,150 | $ 94,500 | $(160,650) |

*$3,300,000 tax basis – $2,850,000 book basis

Deferred Tax Liability:

| | Beg. of 2019 | End of 2019 | Change |
|---|---|---|---|
| Net fixed assets | $600,000 | $2,250,000* | $1,650,000 |
| Times: Tax rate | 0.21 | 0.21 | |
| Deferred tax liability | $126,000 | $ 472,500 | $ 346,500 |

*$8,400,000 book basis – $6,150,000 tax basis

Journal Entry:

| | | |
|---|---|---|
| Current federal income tax expense | 421,575 | |
| Deferred federal income tax expense | 507,150 | |
| Deferred tax asset | | 160,650 |
| Deferred tax liability | | 346,500 |
| Federal income tax payable | | 421,575 |

Adjusted Income Statement (Partial):

| | |
|---|---|
| Net income before federal income taxes | $4,415,000 |
| Minus: Federal income tax expense ($421,575 + $507,150) | (928,725) |
| Net income per books | $3,486,275 |
| Effective tax rate [$928,725/$4,415,000] | 21.036% |

Tax Rate Reconciliation:

| | |
|---|---|
| Statutory tax rate | 21.000% |
| Nondeductible M&E expense [$50,000/$4,415,000 × 21%] | 0.238% |
| Tax-exempt income [$(15,000)/$4,415,000 × 21%] | (0.071)% |
| Dividends-received ded. [$(27,500)/$4,415,000 × 21%] | (0.131)% |
| Effective tax rate | 21.036% |


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Permtemp Corporation

Deferred Tax Accounting 2019

Provision Reconciliation:

| | |
|---|---|
| Net income before federal income taxes | $ 4,415,000 |
| Permanent differences: | |
| Nondeductible M&E expense | 50,000 |
| Tax-exempt income | (15,000) |
| Dividends-received deduction | (27,500) |
| Net income after permanent differences | $ 4,422,500 |
| Temporary differences: | |
| Bad debt expense | 200,000 |
| Charitable contribution deduction | (100,000) |
| Depreciation | (1,650,000) |
| Net operating loss deduction | (865,000) |
| Taxable income | $ 2,007,500 |

Adjusted Balance Sheet:

| | | |
|---|---|---|
| Cash | | $ 2,125,000 |
| Accounts receivable | $ 3,300,000 | |
| Minus: Allowance for doubtful accounts | (450,000) | 2,850,000 |
| Inventory | | 6,000,000 |
| Fixed assets | $10,000,000 | |
| Minus: Accumulated depreciation | (1,600,000) | 8,400,000 |
| Investment in corporate stock | | 1,000,000 |
| Investment in tax-exempt bonds | | 50,000 |
| Total assets | | $20,425,000 |

| | |
|---|---|
| Accounts payable | $ 2,120,000 |
| Federal income tax payable | 421,575 |
| Long-term debt | 8,500,000 |
| Net deferred tax liability ($472,500 – $94,500) | 378,000 |
| Common stock | 6,000,000 |
| Retained earnings [$(480,850) + $3,486,275] | 3,005,425 |
| Total liabilities and equity | $20,425,000 |


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Alpha Corporation

Form 1120 (2019) Page **6**

**Schedule L Balance Sheets per Books**

| | | Beginning of tax year (a) | Beginning of tax year (b) | End of tax year (c) | End of tax year (d) |
|---|---|---|---|---|---|
| | **Assets** | | | | |
| 1 | Cash | | | | |
| 2a | Trade notes and accounts receivable | | | | |
| b | Less allowance for bad debts | ( ) | | ( ) | |
| 3 | Inventories | | | | |
| 4 | U.S. government obligations | | | | |
| 5 | Tax-exempt securities (see instructions) | | | | |
| 6 | Other current assets (attach statement) | | | | |
| 7 | Loans to shareholders | | | | |
| 8 | Mortgage and real estate loans | | | | |
| 9 | Other investments (attach statement) | | | | |
| 10a | Buildings and other depreciable assets | | | | |
| b | Less accumulated depreciation | ( ) | | ( ) | |
| 11a | Depletable assets | | | | |
| b | Less accumulated depletion | ( ) | | ( ) | |
| 12 | Land (net of any amortization) | | | | |
| 13a | Intangible assets (amortizable only) | | | | |
| b | Less accumulated amortization | ( ) | | ( ) | |
| 14 | Other assets (attach statement) | | | | |
| 15 | Total assets | | | | |
| | **Liabilities and Shareholders' Equity** | | | | |
| 16 | Accounts payable | | | | |
| 17 | Mortgages, notes, bonds payable in less than 1 year | | | | |
| 18 | Other current liabilities (attach statement) | | | | |
| 19 | Loans from shareholders | | | | |
| 20 | Mortgages, notes, bonds payable in 1 year or more | | | | |
| 21 | Other liabilities (attach statement) | | | | |
| 22 | Capital stock: a Preferred stock | | | | |
| | b Common stock | | | | |
| 23 | Additional paid-in capital | | | | |
| 24 | Retained earnings—Appropriated (attach statement) | | | | |
| 25 | Retained earnings—Unappropriated | | | | |
| 26 | Adjustments to shareholders' equity (attach statement) | | | | |
| 27 | Less cost of treasury stock | | ( ) | | ( ) |
| 28 | Total liabilities and shareholders' equity | | | | |

**Schedule M-1 Reconciliation of Income (Loss) per Books With Income per Return**

**Note:** The corporation may be required to file Schedule M-3. See instructions.

| | | | | | |
|---|---|---|---|---|---|
| 1 | Net income (loss) per books | 581,760 | 7 | Income recorded on books this year not included on this return (itemize): Tax-exempt interest $ 10,000 | 10,000 |
| 2 | Federal income tax per books | 156,240 | | | |
| 3 | Excess of capital losses over capital gains | 8,000 | | | |
| 4 | Income subject to tax not recorded on books this year (itemize): | | 8 | Deductions on this return not charged against book income this year (itemize): | |
| 5 | Expenses recorded on books this year not deducted on this return (itemize): | | a | Depreciation $ 40,000 | |
| a | Depreciation $ | | b | Charitable contributions $ | |
| b | Charitable contributions $ 4,000 | | | | 40,000 |
| c | Travel and entertainment $ *16,000 | 20,000 | 9 | Add lines 7 and 8 | 50,000 |
| 6 | Add lines 1 through 5 | 766,000 | 10 | Income (page 1, line 28)—line 6 less line 9 | 716,000 |

**Schedule M-2 Analysis of Unappropriated Retained Earnings per Books (Line 25, Schedule L)**

| | | | | | |
|---|---|---|---|---|---|
| 1 | Balance at beginning of year | | 5 | Distributions: a Cash | |
| 2 | Net income (loss) per books | | | b Stock | |
| 3 | Other increases (itemize): | | | c Property | |
| | | | 6 | Other decreases (itemize): | |
| | | | 7 | Add lines 5 and 6 | |
| 4 | Add lines 1, 2, and 3 | | 8 | Balance at end of year (line 4 less line 7) | |

*$7,000 interest on loan for T-E bonds + $9,000 insurance premium

Form **1120** (2019)



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**SCHEDULE M-3 (Form 1120)**
(Rev. December 2019)
Department of the Treasury
Internal Revenue Service

# Net Income (Loss) Reconciliation for Corporations With Total Assets of $10 Million or More

▶ Attach to Form 1120 or 1120-C.
▶ Go to *www.irs.gov/Form1120* for instructions and the latest information.

OMB No. 1545-0123

Name of corporation (common parent, if consolidated return): Omega Corporation

Employer identification number: XX-1234321

Check applicable box(es): (1) ☑ Non-consolidated return (2) ☐ Consolidated return (Form 1120 only)
(3) ☐ Mixed 1120/L/PC group (4) ☐ Dormant subsidiaries schedule attached

## Part I Financial Information and Net Income (Loss) Reconciliation (see instructions)

**1a** Did the corporation file SEC Form 10-K for its income statement period ending with or within this tax year?
☐ **Yes.** Skip lines 1b and 1c and complete lines 2a through 11 with respect to that SEC Form 10-K.
☑ **No.** Go to line 1b. See instructions if multiple non-tax-basis income statements are prepared.

**b** Did the corporation prepare a certified audited non-tax-basis income statement for that period?
☐ **Yes.** Skip line 1c and complete lines 2a through 11 with respect to that income statement.
☑ **No.** Go to line 1c.

**c** Did the corporation prepare a non-tax-basis income statement for that period?
☑ **Yes.** Complete lines 2a through 11 with respect to that income statement.
☐ **No.** Skip lines 2a through 3c and enter the corporation's net income (loss) per its books and records on line 4a.

**2a** Enter the income statement period: Beginning 01/01/2019 Ending 12/31/2019

**b** Has the corporation's income statement been restated for the income statement period on line 2a?
☐ **Yes.** (If "Yes," attach an explanation and the amount of each item restated.)
☑ **No.**

**c** Has the corporation's income statement been restated for any of the five income statement periods immediately preceding the period on line 2a?
☐ **Yes.** (If "Yes," attach an explanation and the amount of each item restated.)
☑ **No.**

**3a** Is any of the corporation's voting common stock publicly traded?
☐ **Yes.**
☑ **No.** If "No," go to line 4a.

**b** Enter the symbol of the corporation's primary U.S. publicly traded voting common stock . . . . . .

**c** Enter the nine-digit CUSIP number of the corporation's primary publicly traded voting common stock . . . . . .

| | | | |
|---|---|---|---|
| **4a** | Worldwide consolidated net income (loss) from income statement source identified in Part I, line 1 . | **4a** | 331,860 |
| **b** | Indicate accounting standard used for line 4a (see instructions): (1) ☑ GAAP (2) ☐ IFRS (3) ☐ Statutory (4) ☐ Tax-basis (5) ☐ Other (specify) | | |
| **5a** | Net income from nonincludible foreign entities (attach statement) . . . . . | **5a** | ( ) |
| **b** | Net loss from nonincludible foreign entities (attach statement and enter as a positive amount) . . . | **5b** | |
| **6a** | Net income from nonincludible U.S. entities (attach statement) . . . . . | **6a** | ( ) |
| **b** | Net loss from nonincludible U.S. entities (attach statement and enter as a positive amount) . . . . | **6b** | |
| **7a** | Net income (loss) of other includible foreign disregarded entities (attach statement) . . . . . | **7a** | |
| **b** | Net income (loss) of other includible U.S. disregarded entities (attach statement) . . . . . | **7b** | |
| **c** | Net income (loss) of other includible entities (attach statement) . . . . . | **7c** | |
| **8** | Adjustment to eliminations of transactions between includible entities and nonincludible entities (attach statement) . . . . . | **8** | |
| **9** | Adjustment to reconcile income statement period to tax year (attach statement) . . . . . | **9** | |
| **10a** | Intercompany dividend adjustments to reconcile to line 11 (attach statement) . . . . . | **10a** | |
| **b** | Other statutory accounting adjustments to reconcile to line 11 (attach statement) . . . . . | **10b** | |
| **c** | Other adjustments to reconcile to amount on line 11 (attach statement) . . . . . | **10c** | |
| **11** | **Net income (loss) per income statement of includible corporations.** Combine lines 4 through 10 . | **11** | 331,860 |

**Note:** Part I, line 11, must equal Part II, line 30, column (a) or Schedule M-1, line 1 (see instructions).

**12** Enter the total amount (not just the corporation's share) of the assets and liabilities of all entities included or removed on the following lines.

| | | Total Assets | Total Liabilities |
|---|---|---|---|
| **a** | Included on Part I, line 4 . . . . . ▶ | * | * |
| **b** | Removed on Part I, line 5 . . . . . ▶ | | |
| **c** | Removed on Part I, line 6 . . . . . ▶ | | |
| **d** | Included on Part I, line 7 . . . . . ▶ | | |

**For Paperwork Reduction Act Notice, see the Instructions for Form 1120.** Cat. No. 37961C **Schedule M-3 (Form 1120) (Rev. 12-2019)**

*Information not provided.


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Schedule M-3 (Form 1120) (Rev. 12-2019) Page **2**

Name of corporation (common parent, if consolidated return): Omega Corporation

Employer identification number: XX-1234321

Check applicable box(es): **(1)** ☐ Consolidated group **(2)** ☐ Parent corp **(3)** ☐ Consolidated eliminations **(4)** ☐ Subsidiary corp **(5)** ☐ Mixed 1120/L/PC group

Check if a sub-consolidated: **(6)** ☐ 1120 group **(7)** ☐ 1120 eliminations

Name of subsidiary (if consolidated return)

Employer identification number

**Part II** **Reconciliation of Net Income (Loss) per Income Statement of Includible Corporations With Taxable Income per Return** (see instructions)

| Income (Loss) Items (Attach statements for lines 1 through 12) | (a) Income (Loss) per Income Statement | (b) Temporary Difference | (c) Permanent Difference | (d) Income (Loss) per Tax Return |
|---|---|---|---|---|
| 1 Income (loss) from equity method foreign corporations | | | | |
| 2 Gross foreign dividends not previously taxed | | | | |
| 3 Subpart F, QEF, and similar income inclusions | | | | |
| 4 Gross-up for foreign taxes deemed paid | | | | |
| 5 Gross foreign distributions previously taxed | | | | |
| 6 Income (loss) from equity method U.S. corporations | | | | |
| 7 U.S. dividends not eliminated in tax consolidation | | | | |
| 8 Minority interest for includible corporations | | | | |
| 9 Income (loss) from U.S. partnerships | | | | |
| 10 Income (loss) from foreign partnerships | | | | |
| 11 Income (loss) from other pass-through entities | | | | |
| 12 Items relating to reportable transactions | | | | |
| 13 Interest income (see instructions) | 1,000 | | (1,000) | -0- |
| 14 Total accrual to cash adjustment | | | | |
| 15 Hedging transactions | | | | |
| 16 Mark-to-market income (loss) | | | | |
| 17 Cost of goods sold (see instructions) | ( 1,100,000 ) | | | ( 1,100,000 ) |
| 18 Sale versus lease (for sellers and/or lessors) | | | | |
| 19 Section 481(a) adjustments | | | | |
| 20 Unearned/deferred revenue | | | | |
| 21 Income recognition from long-term contracts | | | | |
| 22 Original issue discount and other imputed interest | | | | |
| 23a Income statement gain/loss on sale, exchange, abandonment, worthlessness, or other disposition of assets other than inventory and pass-through entities | (11,000)[a] | 11,000 | | |
| b Gross capital gains from Schedule D, excluding amounts from pass-through entities | | 18,000 | | 18,000 |
| c Gross capital losses from Schedule D, excluding amounts from pass-through entities, abandonment losses, and worthless stock losses | | (38,000) | | (38,000) |
| d Net gain/loss reported on Form 4797, line 17, excluding amounts from pass-through entities, abandonment losses, and worthless stock losses | | | | |
| e Abandonment losses | | | | |
| f Worthless stock losses (attach statement) | | | | |
| g Other gain/loss on disposition of assets other than inventory | | | | |
| 24 Capital loss limitation and carryforward used | | 20,000 | | 20,000 |
| 25 Other income (loss) items with differences (attach statement) | | (15,000)[b] | | (15,000) |
| 26 **Total income (loss) items.** Combine lines 1 through 25 | (1,110,000) | (4,000) | (1,000) | (1,115,000) |
| 27 **Total expense/deduction items** (from Part III, line 39) | (238,140) | (36,000) | 103,140 | (171,000) |
| 28 Other items with no differences | 1,680,000[c] | | | 1,680,000 |
| 29a Mixed groups, see instructions. All others, combine lines 26 through 28 | 331,860 | (40,000) | 102,140 | 394,000 |
| b PC insurance subgroup reconciliation totals | | | | |
| c Life insurance subgroup reconciliation totals | | | | |
| 30 **Reconciliation totals.** Combine lines 29a through 29c | 331,860 | (40,000) | 102,140 | 394,000 |

**Note:** Line 30, column (a), must equal Part I, line 11, and column (d) must equal Form 1120, page 1, line 28.

**Schedule M-3 (Form 1120) (Rev. 12-2019)**

[a] $9,000 installment income – $20,000 loss on stock sales.

[b] NOL carryover.

[c] $1,900,000 sales – $220,000 other business expenses.



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Schedule M-3 (Form 1120) (Rev. 12-2019) Page 3

Name of corporation (common parent, if consolidated return): Omega Corporation

Employer identification number: XX-1234321

Check applicable box(es): (1) ☐ Consolidated group (2) ☐ Parent corp (3) ☐ Consolidated eliminations (4) ☐ Subsidiary corp (5) ☐ Mixed 1120/L/PC group

Check if a sub-consolidated: (6) ☐ 1120 group (7) ☐ 1120 eliminations

Name of subsidiary (if consolidated return):

Employer identification number:

**Part III** **Reconciliation of Net Income (Loss) per Income Statement of Includible Corporations With Taxable Income per Return—Expense/Deduction Items** (see instructions)

| Expense/Deduction Items | (a) Expense per Income Statement | (b) Temporary Difference | (c) Permanent Difference | (d) Deduction per Tax Return |
|---|---|---|---|---|
| 1 U.S. current income tax expense | 82,740 | | (82,740) | |
| 2 U.S. deferred income tax expense | 8,400 | | (8,400) | |
| 3 State and local current income tax expense | 27,000 | | | 27,000 |
| 4 State and local deferred income tax expense | | | | |
| 5 Foreign current income tax expense (other than foreign withholding taxes) | | | | |
| 6 Foreign deferred income tax expense | | | | |
| 7 Foreign withholding taxes | | | | |
| 8 Interest expense (see instructions) | 18,000 | | (2,000) | 16,000 |
| 9 Stock option expense | | | | |
| 10 Other equity-based compensation | | | | |
| 11 Meals and entertainment | | | | |
| 12 Fines and penalties | 10,000 | | (10,000) | -0- |
| 13 Judgments, damages, awards, and similar costs | | | | |
| 14 Parachute payments | | | | |
| 15 Compensation with section 162(m) limitation | | | | |
| 16 Pension and profit-sharing | | | | |
| 17 Other post-retirement benefits | | | | |
| 18 Deferred compensation | | | | |
| 19 Charitable contribution of cash and tangible property | | | | |
| 20 Charitable contribution of intangible property | | | | |
| 21 Charitable contribution limitation/carryforward | | | | |
| 22 Domestic production activities deduction (see instructions) | | | | |
| 23 Current year acquisition or reorganization investment banking fees | | | | |
| 24 Current year acquisition or reorganization legal and accounting fees | | | | |
| 25 Current year acquisition/reorganization other costs | | | | |
| 26 Amortization/impairment of goodwill | | | | |
| 27 Amortization of acquisition, reorganization, and start-up costs | | | | |
| 28 Other amortization or impairment write-offs | | | | |
| 29 Reserved | | | | |
| 30 Depletion | | | | |
| 31 Depreciation | 80,000 | 48,000 | | 128,000 |
| 32 Bad debt expense | | | | |
| 33 Corporate owned life insurance premiums | | | | |
| 34 Purchase versus lease (for purchasers and/or lessees) | | | | |
| 35 Research and development costs | | | | |
| 36 Section 118 exclusion (attach statement) | | | | |
| 37 Section 162(r)—FDIC premiums paid by certain large financial institutions (see instructions) | | | | |
| 38 Other expense/deduction items with differences (attach statement) Warr. exp. | 12,000 | (12,000) | | -0- |
| 39 **Total expense/deduction items.** Combine lines 1 through 38. Enter here and on Part II, line 27, reporting positive amounts as negative and negative amounts as positive | 238,140 | 36,000 | 103,140 | 171,000 |

Schedule M-3 (Form 1120) (Rev. 12-2019)



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