

SHORT VERSION
S CORPORATION INCOME TAX RETURN CHECKLIST
2008 – FORM 1120S

Client Name and Number: _____

Prepared by: _____ Date: _____ Reviewed by: _____ Date: _____

	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
100) GENERAL INFORMATION			
101) Consider obtaining signed:			
.1) Engagement letter.	_____	_____	_____
.2) Engagement letter for tax advice under the CPA-client privilege provisions of § 7525.	_____	_____	_____
.3) Power of attorney in addition to “check-box” option.	_____	_____	_____
102) Review and update the S corporation and shareholders’ names, addresses, fiscal year, incorporation date, business code, identification numbers, and IRS and other tax filing addresses.	_____	_____	_____
103) Review permanent file, prior year returns, workpapers, etc.	_____	_____	_____
104) Review pro forma/organizer for accuracy.	_____	_____	_____
105) Obtain information concerning IRS, state tax audits and/or correspondence.	_____	_____	_____
106) Inquire whether the S corporation has made or received any below-market-rate loans. If so, determine imputed interest consequences.	_____	_____	_____
107) Review for adequate interest on new or modified debt instrument.	_____	_____	_____
108) If the corporation has selected an allowable fiscal tax year, determine that Forms 8716 and 8752 have been timely filed.	_____	_____	_____
109) Determine that accounting methods used are comparable to the preceding year unless changes are approved or required. (See Form 3115 instructions and current year’s revenue procedures.)	_____	_____	_____
110) If the corporation is on the cash basis, determine if the accrual basis is required.	_____	_____	_____
111) Review and update schedules for carryforward items and effect of prior tax audits.	_____	_____	_____
112) Review financial statements and footnotes for relevant information.	_____	_____	_____

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113) Consider if disaster relief provisions apply. (SBWOTA 2007, HHHHA 2008, and EESA 2008)	_____	_____	_____
114) Review Board minutes.	_____	_____	_____
115) Determine if Schedule M-3 is required.	_____	_____	_____
116) If the corporation owns a QSub include all activity on the return.	_____	_____	_____
117) Consider state and local tax filing requirements. Furnish necessary information to shareholders. (See Nexus Practice Guide.)	_____	_____	_____
118) Consider if Form(s) 926, 8621 and/or 8886 are required.	_____	_____	_____
119) Consider rule under § 1361(c)(1)(A) which treats stock owned by family members as stock owned by one shareholder.	_____	_____	_____
200) INCOME			
201) Compare sources and amounts of portfolio income with prior year.	_____	_____	_____
202) Determine that only trade or business (e.g., not portfolio or rental) income is reported on page 1 of Form 1120S.	_____	_____	_____
203) Review Forms 1099 for dividends, interest and gross sales proceeds.	_____	_____	_____
204) Segregate qualified dividends.	_____	_____	_____
205) Review dispositions of property for holding period and federal, state, AMT bases. Consider nonrecognition, gains, losses and recaptures.	_____	_____	_____
206) Consider the following:			
.1) Wash sales.	_____	_____	_____
.2) Timing differences.	_____	_____	_____
.3) Sales or exchanges between the corporation and shareholder.	_____	_____	_____
.4) Worthless securities.	_____	_____	_____
.5) Long-term contract rules. See Long-term Contract Checklist.	_____	_____	_____
.6) Installment sales and related interest charged on deferred tax. See Installment Sales Checklist.	_____	_____	_____
.7) Economic accrual of rent.	_____	_____	_____

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.8) Discharge of indebtedness. [REG-102822-08, 73 Fed. Reg. 45656 (8/6/08)]	_____	_____	_____
.9) Tax-exempt income and related investment fees and/or interest expense disallowance.	_____	_____	_____
.10) Like-kind exchanges and related party exchanges (Form 8824). See final regulations under §§ 468B(g), 1031 and 7872 regarding the taxation of qualified escrow accounts, qualified trusts or funds used during deferred like-kind exchange. [T.D. 9413 (7/19/08)] (Note restrictions on exchange of U.S. property for foreign property.)	_____	_____	_____
.11) Straddle rules and § 1092 election.	_____	_____	_____
.12) Gains on constructive sales of appreciated financial position.	_____	_____	_____
.13) Rules for involuntary conversions including Presidentially-declared disasters.	_____	_____	_____
.14) Involuntary conversions of livestock. (§ 1033(f) and Notices 2006-82 and 2007-80)	_____	_____	_____
.15) Disaster relief provisions. (HHHHA 2008 and SBWOTA 2007)	_____	_____	_____
207) Determine that deferred income and expenses for book purposes are properly reported for tax purposes.	_____	_____	_____
208) If accrual basis taxpayer, consider deferral of state or local income or franchise tax refunds.	_____	_____	_____
209) If the S corporation has passive income or losses from one or more activities, they may be required to be separately reported on the Schedule K-1. See Passive Activity Checklist.	_____	_____	_____
210) Consider appropriate income inclusion amount for leased property. See Vehicle Related Guides.	_____	_____	_____
211) Consider ordinary income on market discount bonds and deferral of related interest expense.	_____	_____	_____
212) Consider mark to market rules for “dealers in securities” under § 475 and the related § 481 adjustment.	_____	_____	_____
213) Determine proper treatment of certain advance payments.	_____	_____	_____

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300) DEDUCTIONS			
301) Ascertain officer/shareholders' compensation and review for reasonableness.	_____	_____	_____
302) Determine deductibility of vacation pay accrual.	_____	_____	_____
303) For inventories consider:			
.1) If the uniform capitalization rules apply. Note increased IRS scrutiny in this area. (See Uniform Capitalization Checklist.)	_____	_____	_____
.2) Lower of cost or market adjustments.	_____	_____	_____
.3) Writedown of subnormal inventories.	_____	_____	_____
304) Consider charitable rules, limitations and contemporaneous receipt requirements for charitable contributions of \$250 or more and quid pro quo donations in excess of \$75.	_____	_____	_____
305) Consider recordkeeping and substantiation requirements for all cash and property donations. (REG-140029-07, 8/7/08) Note limitations for deductions to organizations conducting lobbying activities.	_____	_____	_____
306) Consider enhanced deduction for contributions of food inventory. (EESA 2008)	_____	_____	_____
307) If noncash charitable contributions exceed \$500, attach Form 8283. Note:	_____	_____	_____
.1) Certain noncash donations exceeding \$500,000 in value now require the corporation to attach a qualified appraisal to its tax return for the year of the donation.	_____	_____	_____
.2) Limitations for donations of vehicles exceeding \$500.	_____	_____	_____
.3) New basis adjustment rules for donations of appreciated property. (EESA 2008)	_____	_____	_____
.4) Limits on deduction of donations of property disposed of within three years.	_____	_____	_____
.5) Limitation on partial donations of tangible personal property (e.g., art work).	_____	_____	_____
.6) Conservation and façade easement donation limitations. (HHHHA 2008)	_____	_____	_____

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308) Determine that fringe benefits (including Health Savings Accounts contributions) for more than 2% shareholders have been reported on the recipient shareholders' W-2s (usually non FICA wages) and claimed as a deduction by the S corporation.	_____	_____	_____
309) Inquire whether the S corporation can substantiate by adequate records, as required under § 274, expenses claimed for entertainment, entertainment facilities, gifts, travel and conventions. Consider optional per diem method. (Rev. Proc. 2007-63 and Rev. Rule 2008-23)	_____	_____	_____
310) Limit deduction for meals and entertainment to allowable percentage. Consider exceptions, including employer-provided meals.	_____	_____	_____
311) Consider limitations on personal use of business aircraft for officers, directors and >10% owners. (Notice 2005-45)	_____	_____	_____
312) Determine the deductibility of club dues.	_____	_____	_____
313) Determine that expenses allocable to portfolio income have not been deducted on Page 1, Form 1120S.	_____	_____	_____
314) Determine that retirement plan contributions are made timely and within allowable limits.	_____	_____	_____
315) Determine that specific charge off method (or nonaccrual experience method, when permitted) is used for bad debts.	_____	_____	_____
316) Consider rules for expensing/amortizing start-up and organizational costs. (T.D. 9411, 7/8/08; REG-164965-04, 7/8/08)	_____	_____	_____
317) Officers and shareholders:			
.1) Determine the ownership of life insurance policies and the proper treatment of related expenses.	_____	_____	_____
.2) Determine split-dollar insurance treatment. (See Reg. § 1.61-22 and Notice 2007-34.)	_____	_____	_____
.3) Identify expenses, including interest if applicable, for officers' life insurance which are nondeductible.	_____	_____	_____
.4) Determine limitation on any losses or accruals of expenses during the year between related corporations/shareholders under § 267(a)(1) and 267(a)(2).	_____	_____	_____
.5) Determine if expenses to shareholders (§ 267(e)) or other related parties on the cash basis were paid by corporation's year end.	_____	_____	_____

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.6) Consider reasonableness of compensation to shareholders who perform substantial services.	_____	_____	_____
.7) Review documentation of shareholder loans and adequate interest rate.	_____	_____	_____
318) Determine if compensation deductions are allowable with respect to qualified and nonqualified stock options.	_____	_____	_____
319) Determine if compensation deductions are allowable if a § 83(b) election is made.	_____	_____	_____
320) Determine applicability of 2½ month deferred compensation rule for nonshareholder employees and independent contractors.	_____	_____	_____
321) Determine if § 409A deferred compensation applies to compensation arrangements. See Final Reg. §§ 1.409A-1 through 1.409A-6 and T.D. 9321, (4/10/07), corrected 7/13/07, effective 1/1/09. (Notice 2007-34 for split-dollar arrangements.) See also EESA 2008)	_____	_____	_____
322) Verify that the proper allocations have been made dividing interest expense among various types of expenditures.	_____	_____	_____
323) Determine if interest deduction limitations apply to interest incurred to purchase or carry market discount bonds or short-term debt obligations.	_____	_____	_____
324) Consider capitalization of carrying charges on nonproductive property. (§266) (CCA 2007 21615, 1/6/07)	_____	_____	_____
325) Consider deductibility of state and local income taxes. Note deduction is limited to actual liability.	_____	_____	_____
326) Consider deduction for energy-efficient commercial building property for property placed in service after 12/31/05 and before 1/1/14. (EESA 2008)	_____	_____	_____
327) Consider limitations of deductibility of lobbying expenses/association dues.	_____	_____	_____
328) Consider economic performance requirements, including recurring item exceptions and 3½ month rule.	_____	_____	_____
329) Determine casualty loss limit.	_____	_____	_____
330) Determine passive activity reporting for activities distributed to shareholders.	_____	_____	_____

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	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
331) For accrual basis taxpayers, determine proper state tax deduction.	_____	_____	_____

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	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
332) Determine the proper treatment of costs incurred to acquire, create, or enhance tangible assets. (Prop. Regs. REG-168745-03, 3/10/08, corrected 4/9/08)	_____	_____	_____
333) Determine the proper treatment of costs incurred to acquire, create, or enhance intangible assets. [Final Regs. §§ 1.263(a)-4, 1.263(a)-5 and 1.167(a)-3(b) (T.D. 9107)]	_____	_____	_____
334) Consider expensing for certain demolition and clean-up costs in the Kansas disaster area (HHHHA 2008) and Midwestern and Hurricane Ike disaster areas (EESA 2008).	_____	_____	_____
335) Consider expensing environmental remediation costs (including clean up of certain petroleum products) incurred before 1/1/10 for qualified contaminated sites. (EESA 2008) (Note extended dates for GOZone area, Midwestern disaster area and other federally-declared disaster areas. (EESA 2008))	_____	_____	_____
336) Consider deduction for domestic production activities. (EESA 2008) (Form 8903) See final regs for calculating W-2 wages, T.D. 9381, 2/14/08, corrected 3/17/08. Note increased IRS scrutiny in this area.	_____	_____	_____
400) DEPRECIATION/AMORTIZATION			
401) Consider all depreciation requirements and options including:			
.1) § 179 election, including “off the shelf” software. Note expanded allowable amounts and limitations. (SBWOTA 2007, ESA 2008 and HHHHA 2008)	_____	_____	_____
.2) § 179A election to expense qualifying clean-fuel vehicles.	_____	_____	_____
.3) § 179D election to expense energy-efficient commercial building property placed in service after 12/31/05 and before 1/1/14. (EESA 2008)	_____	_____	_____
.4) Additional first-year depreciation for qualified property placed in service in 2008. (ESA 2008, HATA 2008 and EESA 2008)	_____	_____	_____
.5) Enhanced depreciation rules for property placed in service in the GOZone and Kansas disaster areas. (SBWOTA 2007, HHHHA 2008 and HATA 2008) (Notices 2007-36 and 2008-67 and Rev. Procs. 2008-52 and 2008-54) See also EESA 2008 for enhanced depreciation for qualified disaster property placed in service in the Midwestern disaster area and other federally-declared disaster areas.	_____	_____	_____

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	<u>DONE</u>	<u>N/A</u>	<u>COMMENTS OR EXPLANATION</u>
.6) Methods and lives. (Note accelerated depreciation for business property on Indian reservations.) (EESA 2008) Note new accelerated depreciation for racehorses placed in service after 12/31/08 and before 1/1/14. (HHHHA 2008)	_____	_____	_____
.7) Limitations relating to listed property. Note exceptions for vehicles with GVW of more than 6,000 lbs. and qualified non-personal use trucks and vans. (Reg. § 1.280F-6(c)(3)(iii) and Rev. Proc. 2008-22)	_____	_____	_____
.8) For business vehicles, consider the limitations for trucks and vans rated at 14,000 lbs. GVW or less.	_____	_____	_____
.9) Special 15-year straight-line depreciation for qualified leasehold improvements and qualified restaurant property. (EESA 2008)	_____	_____	_____
.10) Depreciation of property received in a like-kind exchange or involuntary conversion. (T.D. 9314, 2/26/07)	_____	_____	_____
.11) Capitalization of leased property.	_____	_____	_____
.12) 36-month amortization rules for software.	_____	_____	_____
.13) Election of 150% DB method for 200% DB method personal property.	_____	_____	_____
.14) Reduced depreciable lives for real estate improvements and special structures.	_____	_____	_____
.15) Cost segregation analysis for building components.	_____	_____	_____
.16) Change in accounting method for like-kind exchange property under Reg. § 1.168(k)-1(g)(4)(ii).	_____	_____	_____
.17) Depreciation of realty and tangible property in the GOZone area (Notice 2007-36) and the Kansas disaster area (HHHHA 2008).	_____	_____	_____
402) Consider amending returns for tax years beginning after 2002 to make and/or revoke a § 179 election. (SBWOTA 2007)	_____	_____	_____
403) Consider AMT depreciation.	_____	_____	_____
404) Determine that amortizable items, including goodwill, are written off over the correct periods. Note recapture rules for § 197 intangibles.	_____	_____	_____
405) Compute state depreciation, if different.	_____	_____	_____

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406) Consider change in accounting method under Rev. Proc. 2002-9 to correct MACRS lives, methods, etc.	_____	_____	_____
407) Consider final and temporary Regs for changes in computing depreciation and amortization (T.D. 9307, 12/22/06). See Rev. Proc. 2007-16.	_____	_____	_____
500) TAX COMPUTATION AND CREDITS			
501) Consider tax on excess net passive income. Note for tax years beginning after May 25, 2007, capital gains from sale or exchange of stock securities will no longer be considered passive investment income (SBWOTA 2007).	_____	_____	_____
502) Consider tax on built-in gain. (See Final Regs. T.D. 9180, 70 Fed. Reg. 8727, 2/3/05 and final Reg. T.D. 9236.)	_____	_____	_____
503) Consider C Corporation available carryovers.	_____	_____	_____
504) Consider credit recapture.	_____	_____	_____
505) Claim current year estimated tax payments, prior year overpayments applied and extension payments.	_____	_____	_____
506) Consider requirement for estimated tax payments. (EFTPS)	_____	_____	_____
507) Consider tax credits. (SBWOTA2007, HHHHA 2008, HEARTA 2008, HATA 2008 and EESA 2008) Note increased IRS scrutiny of R&D credit.	_____	_____	_____
508) If member of a controlled group, attach apportionment schedules. (Schedule O)	_____	_____	_____
600) SHAREHOLDER INFORMATION (See final Regs. §§ 1.1366-1 through 5, Regs. 1.1367-1 through 3 and 1.1368-1 through 4.)			
601) Shareholder allocation/limitation:			
.1) Determine that items of income, deductions, credits, etc., are allocated to the shareholders on a per-share, per-day basis.	_____	_____	_____
.2) If stock transfers occurred during the year resulting in a termination of a shareholder's interest, consider allocations based on time of actual occurrence. Attach the affected shareholder's and corporation's statement of election.	_____	_____	_____
.3) Consider transfer of attributes in a divorce property settlement.	_____	_____	_____

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602) Shareholder distribution/basis computations:			
.1) Determine that equity increases and decreases (Schedule M-2) are properly segregated between:			
(a) Accumulated adjustment account. See Rev. Rul. 2008-42 for treatment of premiums on key man life insurance.	_____	_____	_____
(b) Other adjustments account.	_____	_____	_____
(c) Shareholders' undistributed PTI.	_____	_____	_____
.2) Determine that distributions exceeding accumulated adjustment account for S corporations with earnings and profits from C years are reported (Form 1099-DIV) to shareholders as dividends to the extent of accumulated earnings and profits. Note current year net reductions are disregarded in this computation.	_____	_____	_____
.3) Consider electing distributions out of accumulated earnings and profits (AEP). For tax years beginning after May 25, 2007, exclude pre-83 AEP–SBWOTA2007).	_____	_____	_____
.4) For distributions of appreciated property, determine that gain is recognized and allocated to each shareholder and reduced for any tax (federal and state) on built-in-gain.	_____	_____	_____
.5) If corporation is bankrupt or insolvent, determine that basis is not increased for cancellation of debt that is not treated as an income item.	_____	_____	_____
.6) Consider Shareholder Basis Practice Guide.	_____	_____	_____
.7) Determine whether election to take losses and deductions against basis before nondeductible items has been made. (Reg. 1.1367-1(g))	_____	_____	_____
.8) Consider suspended losses triggered by a basis increase during post-termination transition period.	_____	_____	_____
.9) Consider distributions from accumulated adjustment account during post-termination period. (Form 5452 required)	_____	_____	_____
.10) Determine that shareholder loans will be treated as economic investment. See Final Reg. for determining basis and gain from reduced basis debt repayment on open account debt. (T.D. 9428, 10/20/08)	_____	_____	_____

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.11) Consider new calculation of basis adjustment due to contributions of appreciated property. (PPA 2006) (EESA 2008)	_____	_____	_____
700) K-1 INFORMATION			
701) Verify correctness of shareholders' names, addresses and identification numbers.	_____	_____	_____
702) Determine that proper reporting has been provided for all items on Schedule K-1 that affect shareholder's tax liability. Note:	_____	_____	_____
.1) Reporting requirements for different types of ordinary dividends.	_____	_____	_____
.2) Reporting requirements for domestic production activities.	_____	_____	_____
703) Provide information about nontaxable income and nondeductible expenses to enable shareholders to make adjustments to basis of their stock.	_____	_____	_____
704) Segregate all tax preference and adjustment items and report on the appropriate lines.	_____	_____	_____
705) Determine that information relating to interest expense of debt-financed distributions to shareholders has been provided. (Notice 89-35)	_____	_____	_____
706) Consider interest paid or accrued on debt to acquire stock in an S Corporation in determining the taxable income of an electing small business trust (SBWOTA 2007).	_____	_____	_____
800) OTHER REQUIREMENTS			
801) Compare taxable income to projections.	_____	_____	_____
802) Consider elections such as:			
.1) Cash vs. accrual method of accounting.	_____	_____	_____
.2) Expensing/amortization of organization expense. (T.D. 9411, 73 Fed. Reg. 38910 (7/8/08); REG-164965-04, 73 Fed. Reg. 38940 (7/8/08))	_____	_____	_____
.3) Expense intangible drilling costs.	_____	_____	_____
.4) Method for valuation of inventory.	_____	_____	_____
.5) Method of calculating § 263A adjustment.	_____	_____	_____

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.6) Change in accounting method application approval. (Rev. Proc. 2008-52) (See Form 3115 instructions and note requirement to file copy with National Office, as well as with return.)	_____	_____	_____
.7) Ratable accrual of real property taxes (first year only).	_____	_____	_____
.8) Expensing/amortization of business start-up costs. (Reg. § 1.195-1) (T.D. 9411, 73 Fed. Reg. 38910 (7/8/08); REG-164965-04, 73 Fed. Reg. 38940 (7/8/08))	_____	_____	_____
.9) Research and experimental cost.	_____	_____	_____
.10) Exception from economic performance for recurring items (first year only).	_____	_____	_____
.11) Taking losses and deductions against basis before nondeductible items. (Reg. 1.1367-1(g))	_____	_____	_____
803) Consider e-filing requirements for corporations that have assets of \$10 million or more and file at least 250 returns annually. (IR-2006-40, 3/8/06)	_____	_____	_____
804) Complete and attach Form 5452 to report nondividend distributions (i.e., distributions in excess of earnings and profits and accumulated adjustment account). For years beginning after May 25, 2007, exclude pre-1983 accumulated earnings and profits.	_____	_____	_____
805) If the corporation was a party to an “applicable asset acquisition,” determine that the reporting requirements have been met. (Form 8594)	_____	_____	_____
806) Advise the client that any unpaid retirement plan contribution must be made before the due date of the return. Note contributions to defined benefit plans may have earlier due dates.	_____	_____	_____
807) Reconcile income and expenses per books with return.	_____	_____	_____
808) Prepare Schedule M-3 and form 8916A, if applicable.	_____	_____	_____
809) Consider § 6662 accuracy-related penalty.	_____	_____	_____
.1) Determine if disclosure is adequate.	_____	_____	_____
.2) Consider advising the taxpayer, in writing, of the penalty.	_____	_____	_____
810) Consider new § 6699 penalty for failure to file timely the S corporation return or failure to contain information required under § 6037.	_____	_____	_____

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811) Note updated disclosure rules for outsourcing and the use and disclosure of taxpayer information. (Rev. Proc. 2008-35)	_____	_____	_____
812) Consider partial payment installment agreement for taxes owed.	_____	_____	_____
813) Inquire if employee benefit plans have been reviewed to determine if they are in compliance due to changing corporate circumstances and law changes.	_____	_____	_____
814) Inquire if nonqualified deferred compensation information has been included in employees' Forms W-2 or Forms 1099. (See Notices 2007-86 and 2007-34 and Final Regs T.D. 9321, 4/10/07, corrected 7/13/07, effective 1/1/09.) (EESA 2008)	_____	_____	_____
815) Inquire if Forms 1098 and 1099 have been filed.	_____	_____	_____
816) Inquire if foreign financial accounts exist. Note reporting requirements and June 30 deadline.	_____	_____	_____
817) Attach extension request.	_____	_____	_____
818) Consider whether worker classification is proper (i.e., employee vs. independent contractor).	_____	_____	_____
819) Inquire if employment taxes were timely deposited. (EFTPS)	_____	_____	_____
820) Determine that related transactions are properly reported on all available returns. Note new penalties.	_____	_____	_____
821) Determine whether there are any reportable transactions that need to be disclosed on Form 8886. Note penalties for failure to disclose. A copy of Form 8886 must be sent to each individual shareholder. Note Final Regs on abusive S Corporation ESOP arrangements. (T.D. 9302)	_____	_____	_____
822) Determine whether there are tax shelter registration disclosures. (See Tax Shelter Guide.)	_____	_____	_____
823) If Corporation purchased life insurance on employees or directors after 8/17/06, consider whether the corporation has satisfied the notification and annual information reporting requirements. (Form 8925) (§§ 101(j) and 6039I)	_____	_____	_____
824) Consider new modified requirements for avoiding preparer penalties for returns prepared after May 25, 2007. (EESA 2008 modifies the § 6694 standards of SBWOTA 2007.) Note that under EESA 2008:	_____	_____	_____

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.1) Undisclosed positions must generally meet the “substantial authority” standard.	_____	_____	_____
.2) Disclosed positions must generally meet the “reasonable basis” standard.	_____	_____	_____
.3) Tax shelters and reportable transactions to which § 6662A applies must meet the “more likely than not be sustained on the merits” standard.	_____	_____	_____
825) Consider disclosure requirements for written tax advice under Circular 230.	_____	_____	_____
826) Note tax planning/additional service suggestions. (See Client Review for Additional Services.)	_____	_____	_____

COMMENTS OR EXPLANATIONS
