



S Corporation Liquidations

A large green graphic on the left side of the slide, consisting of a large 'L' shape with a diagonal cutout. Inside the cutout is a solid gray rectangle.

Your Instructor

Objectives

- Determine the date of liquidation
- Explain how the S corporation and its shareholders are taxed in a liquidation
- Summarize the reporting requirements when an S corporation liquidates
- Prepare a final Form 1120-S, *U.S. Income Tax Return for an S Corporation*



Case Study



- Larry Smith (officer) owns 100% of Larry's Liquidations, Inc., a calendar-year S corporation that has always been an S corporation since it incorporated on Jan. 1, 2010. Larry's Liquidations is a parts salvage facility (junkyard) located in Brooklyn, NY. It is the only junkyard that has survived development in the area and new junkyards are not permitted. In February 2024, Larry received an offer from Joe Young to buy the entire business (all the business assets) for \$2 million in cash.
- Larry figures he can retire on that amount of money and will not have to work anymore, so he accepts the offer. Larry holds a directors' meeting on March 10 in his attorney's office to adopt a plan of liquidation.

Case Study, Cont.



- Larry sells all the corporate assets on June 30 and stops doing business. The S corporation pays off all its liabilities and makes a final liquidating distribution of \$1,864,349 from its checking account to Larry, 100% shareholder, on July 31, 2024.

Case Study, Balance Sheet



Larry's Liquidations, Inc. Balance Sheet

Dec. 31, 2024

Assets

Current Assets

Checking account	\$ 125,436
Inventory	175,000
Total current assets	300,436

Fixed Assets

Vehicles and equipment	
Computer	5,000
Equipment	7,500
Forklift	15,000
Tow truck	45,000
	<u>72,500</u>
Accumulated depreciation	(65,268)

Furniture and fixtures

Office furniture	<u>1,000</u>
	1,000
Accumulated depreciation	(1,000)

Buildings

Building	325,000
Fence	<u>20,000</u>
	345,000
Accumulated depreciation	(68,749)

Land

	<u>125,000</u>
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Total Fixed Assets

	<u>408,483</u>
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Total Assets

\$	<u>708,919</u>
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Liabilities & Equity

Liabilities

Accounts payable	\$ 2,715
Building mortgage payable	274,835
Shareholder loan	<u>12,000</u>
Total liabilities	289,550

Equity

Capital stock	5,000
Retained earnings	<u>414,369</u>
Total equity	419,369

Total Liabilities & Equity

\$	<u>708,919</u>
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Case Study, Allocations

Allocated Sales Price						
		Allocated Sales Price	Cost	Depreciation	Adjusted Basis	Gain or (Loss)
Land	425,000	425,000	125,000	-	125,000	300,000
Building	400,362	400,362	325,000	69,789	255,211	145,151
Fence	24,638	24,638	20,000	3,014	16,986	7,652
Hilo (forklift)	9,500	9,500	15,000	13,661	1,339	8,161
Flatbed tow truck	30,000	30,000	45,000	43,704	1,296	28,704
Equipment	1,000	1,000	7,500	5,492	2,008	(1,008)
Computer system	1,000	1,000	5,000	4,856	144	856
Office furniture	100	100	1,000	1,000	-	100
Inventory	175,000	175,000	175,000	-	175,000	-
Telephone number	3,400	3,400	-	-	-	3,400
Goodwill	930,000	930,000	-	-	-	930,000
	<u>\$ 2,000,000</u>	<u>\$ 2,000,000</u>	<u>\$ 718,500</u>	<u>\$ 141,516</u>	<u>\$ 576,984</u>	<u>\$ 1,423,016</u>

Case Study, Character of Gain/Loss

	Gain or (Loss)	Net §1231 Gain or (Loss)	§1245 Depreciation Recapture	Unrecaptured §1250 Gain	Capital Gain
Land	300,000	300,000			
Building	145,151	145,151		69,789	
Fence	7,652	7,652		3,014	
Hilo (forklift)	8,161		8,161		
Flatbed tow truck	28,704		28,704		
Equipment	(1,008)	(1,008)			
Computer system	856		856		
Office furniture	100		100		
Inventory	-				
Telephone number	3,400				3,400
Goodwill	930,000				930,000
	<u>\$ 1,423,016</u>	<u>\$ 451,795</u>	<u>\$ 37,821</u>	<u>\$ 72,803</u>	<u>\$ 933,400</u>

Case Study, Profit & Loss

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Larry's Liquidations, Inc. Profit & Loss Jan. through July			
Ordinary Income/Expense			
Income			
Sales		\$	562,500
Total income			562,500
Cost of goods sold			
Cost of goods sold			330,300
Total Cost of goods sold			330,300
Gross Profit			232,200
Expenses			
Accounting			600
Advertising			750
Automobile expense			3,250
Bank service charges			900
Depreciation expense			6,499
Dues and subscriptions			250
Employee benefits			18,750
Fuel			1,600
Insurance			11,475
Interest expense			11,857
Janitorial			500
Licenses and permits			600
Meals and entertainment			1,250
Miscellaneous			500
Office expenses			2,600
Payroll expense			
Officer	47,800		
Other	62,500		
Total Payroll			110,300
Postage and delivery			600
Repairs and maintenance			3,750
Supplies			6,250
Telephone			1,875
Trash			720
Travel			550
Utilities			10,800
Total expenses			196,236
Net Ordinary Income			35,964
Other Income/Expense			
Other income			
\$1245 gains	37,821		
\$1250 gains	152,803		
Capital gains	1,233,400		
Total other income			1,424,024
Other expenses			
Loss on sale	1,008		
Total other expenses			1,008
Net Other Income/Expense			1,423,016
Net Income/Loss		\$	1,458,980

Liquidation of S Corporation

- Corporation ceases to be going concern
- Corporation's only activities are:
 - Winding up affairs
 - Paying debts
 - Distributing any remaining balance to shareholders



Plan of Liquidation

- Formal plan of liquidation not required
- Plan of liquidation helpful to establish:
 - Due date for filing Form 966
 - Liquidating distributions qualify for sale or exchange treatment by shareholder
 - Whether distribution of installment note qualifies for special rules



Form 966

- File within 30 days of adopting a or resolution plan of liquidation
 - Attach certified copy of dissolution plan
- File additional Form 966 within 30 days of adopting amended or supplemented plan of liquidation



Case Study, Form 966

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Form 966 (Rev. October 2016) Department of the Treasury Internal Revenue Service		Corporate Dissolution or Liquidation (Required under section 6043(a) of the Internal Revenue Code) ▶ Information about Form 966 and its instructions is at www.irs.gov/form966 .		OMB No. 1545-0123
Please type or print	Name of corporation Larry's Liquidations, Inc.		Employer identification number 40-0100000	
	Number, street, and room or suite no. (If a P.O. box number, see instructions.) P.O. Box 1		Check type of return ☐ 1120 ☐ 1120-L ☐ 1120-IC-DISC ☒ 1120S ☐ Other ▶	
	City or town, state, and ZIP code Brooklyn NY 11210			
1 Date incorporated 01/01/10	2 Place incorporated New York	3 Type of liquidation ☒ Complete ☐ Partial	4 Date resolution or plan of complete or partial liquidation was adopted 03/10/24	
5 Service Center where corporation filed its immediately preceding tax return	6 Last month, day, and year of immediately preceding tax year 12/31/23	7a Last month, day, and year of final tax year 07/31/24	7b Was corporation's final tax return filed as part of a consolidated income tax return? If "Yes," complete 7c, 7d, and 7e. ☐ Yes ☒ No	
7c Name of common parent		7d Employer identification number of common parent	7e Service Center where consolidated return was filed	
8 Total number of shares outstanding at time of adoption of plan of liquidation			Common	Preferred
			100	
9 Date(s) of any amendments to plan of dissolution				
10 Section of the Code under which the corporation is to be dissolved or liquidated			331	
11 If this form concerns an amendment or supplement to a resolution or plan, enter the date the previous Form 966 was filed				
Attach a certified copy of the resolution or plan and all amendments or supplements not previously filed.				
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.				
▶ Signature of officer		Title	Date	

S Corporation's Tax Consequences

- Ways to liquidate
 - Sell assets and make liquidating distributions (cash and noncash) to shareholders
 - Shut down business and distribute remaining assets (cash and noncash property) to shareholders in liquidation



Sales of Assets

- Character of gain or loss depends on asset classification
 - Capital asset
 - Section 1231 property
 - Section 1245 property
 - Section 1250 property
 - Ordinary income asset



Tax Treatment

- Capital gain or loss
 - Self-created goodwill
- Reported on Form 8949
- Flows to Schedule D
- Passes to shareholder, Schedule K-1, Box 10, Code S



Case Study



- Larry decides to sell all the assets of Larry's Liquidations, Inc. on June 30, 2024. As part of the sale, the S corporation sells:
 - Self-created goodwill for \$930,000
 - Telephone number for \$3,400
- The S corporation reports the sale of these capital assets on Form 8949, Part II, and checks Box (F)
- Capital gain passes through to Larry on Schedule K-1, Box 10, Code S

Case Study, Reporting



Form 8949

Schedule K-1, Box 10, Code S

Form 8949 (2024)

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

Social security number or taxpayer identification number

Larry's Liquidations, Inc.

40-0100000

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.		(h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g).
						(f) Code(s) from instructions	(g) Amount of adjustment	
	Goodwill	01/01/10	06/30/24	930,000	0			930,000
	Telephone Number	01/01/10	06/30/24	3,400	0			3,400

10	Other income (loss)
S*	933,400

Schedule K-1, Box 10, Code S - Non-portfolio Capital Gain (Loss)	
Description	Amount
Long-Term Business Gain/Loss	\$ 933,400
Total	\$ 933,400

Section 1231 Gain or Loss

- Generally:
 - Net gains are capital
 - Net losses are ordinary
- Capital gains converted to ordinary:
 - Depreciation recapture
 - Nonrecaptured §1231 loss



Case Study

- Larry decides to sell all the assets of Larry's Liquidations, Inc. on June 30, 2024. As part of the sale, the S corporation sells land for \$425,000 that was purchased on Jan. 1, 2010, for \$125,000. Thus, it has a long-term capital gain of \$300,000 ($\$425,000 - \$125,000$) on the sale of the land.
- It also sells equipment for \$1,000 that was purchased on July 1, 2020, for \$7,500. Accumulated depreciation was \$5,492, making the adjusted basis \$2,008, which results in a loss of \$1,008 ($\$1,000 - \$2,008$).
- The S corporation reports the sale of the land on Form 4797, Part I, since it was held more than one year and nondepreciable. It also reports the sale of the equipment on Form 4797, Part I, since it was held more than one year and sold at a loss.

Case Study, Cont.

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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 2024 Attachment Sequence No. 27				
Name(s) shown on return Larry's Liquidations, Inc.		Identifying number **-***0000				
1a Enter the gross proceeds from sales or exchanges reported to you for 2024 on Form(s) 1099-B or 1099-S (or substitute statement) that you are including on line 2, 10, or 20. See instructions		1a				
b Enter the total amount of gain that you are including on lines 2, 10, and 24 due to the partial dispositions of MACRS assets		1b				
c Enter the total amount of loss that you are including on lines 2 and 10 due to the partial dispositions of MACRS assets		1c				
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)
Land	01/01/10	06/30/24	425,000		125,000	300,000
Equipment	07/01/20	06/20/24	1,000	5,492	7,500	-1,008

Depreciation Recapture

- Section 1245 property
- Section 1250 property



Section 1245 Property

- Gains due to depreciation allowed or allowable = ordinary income
- Remaining gain is §1231 gain



Case Study



- The S corporation sells a forklift for \$9,500. This forklift was purchased on July 1, 2020, for \$15,000 and accumulated depreciation was \$13,661, so the adjusted basis is \$1,339. The gain on sale is \$8,161 ($\$9,500 - \$1,339$).
- The S corporation reports the sale of this forklift (§1245 property) on Form 4797, Part III, since it was held more than one year and sold at a gain. Since the gain on sale (\$8,161) is less than the depreciation allowed (\$13,661), the entire gain on sale is recaptured as ordinary income on Form 4797, Part II, Line 13.

Case Study, Cont.

Page 1 of 1

Form 4797 (2024) **Larry's Liquidations, Inc.** ***-***0000 Page 2

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 Forklift	07/01/20	06/30/24
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 1a before completing.)	20 9,500			
21 Cost or other basis plus expense of sale	21 15,000			
22 Depreciation (or depletion) allowed or allowable	22 13,661			
23 Adjusted basis. Subtract line 22 from line 21	23 1,339			
24 Total gain. Subtract line 23 from line 20	24 8,161			
25 If section 1245 property:				
a Depreciation allowed or allowable from line 22	25a 13,661			
b Enter the smaller of line 24 or 25a	25b 8,161			
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 1975	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 8,161
31 Add property columns A through D, lines 25b, 26g, 27c, 28b, and 29b. Enter here and on line 13	31 8,161
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 0

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	

Form 4797 (2024)

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Section 1250 Property

- Gains due to depreciation exceeding straight line depreciation allowed or allowable = ordinary income
 - Bonus depreciation claimed on qualified improvement property (QIP)



Case Study

- The S corporation sells a building (excluding the land) for \$400,362. This building was purchased on Jan. 1, 2016, for \$325,000 and straight line accumulated depreciation was \$69,789, so the adjusted basis is \$255,211. The gain on sale is \$145,151 (\$400,362 – \$255,211).
- The S corporation reports the sale of this building (§1250 property) on Form 4797, Part III, since it was held more than one year and sold at a gain. None of the gain on sale is recaptured as ordinary income since there is no additional depreciation in excess of straight line depreciation. However, the gain due to depreciation (\$69,789) is taxed as unrecaptured §1250 gain (discussed below). The remaining gain, \$75,362 (\$145,151 – \$69,789), is taxed at the regular capital gains rates, up to 20%.

Case Study, Cont.

Page 1 of 1

Form 4797 (2024) **Larry's Liquidations, Inc.** **--***0000 Page 2

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 Forklift	07/01/20	06/30/24
B Building	01/01/16	06/30/24
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 1a before completing.)	20 9,500	400,362		
21 Cost or other basis plus expense of sale	21 15,000	325,000		
22 Depreciation (or depletion) allowed or allowable	22 13,661	69,789		
23 Adjusted basis. Subtract line 22 from line 21	23 1,339	255,211		
24 Total gain. Subtract line 23 from line 20	24 8,161	145,151		
25 If section 1245 property:				
a Depreciation allowed or allowable from line 22	25a 13,661			
b Enter the smaller of line 24 or 25a	25b 8,161			
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	0		
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	153,312
31 Add property columns A through D, lines 25b, 26g, 27c, 28b, and 29b. Enter here and on line 13	31	8,161
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	145,151

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Unrecaptured §1250 Gain

- Gain due to straight line depreciation = unrecaptured §1250 gain
- Taxed at ordinary income rates, capped at 25% capital gains rate
- Remaining gain taxed at regular capital gains rates, up to 20%



Case Study

- The S corporation sells a fence for \$24,638. This fence was purchased on July 1, 2022, for \$20,000 and straight line accumulated depreciation was \$3,014, so the adjusted basis is \$16,986. The gain on sale is \$7,652 (\$24,638 – \$16,986).
- The gain due to depreciation is taxed as unrecaptured §1250 gain, so \$3,014 is taxed at ordinary income tax rates, but not more than the 25% capital gains rate. The remaining gain, \$4,638 (\$7,652 – \$3,014), is taxed at the regular capital gains rate, up to 20%. Form 4797, Part III, Property C (Fence), is shown below.

Case Study, Cont.

Page 1 of 1

Form 4797 (2024) **Larry's Liquidations, Inc.** **--***0000 Page 2

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 Forklift	07/01/20	06/30/24
B Building	01/01/16	06/30/24
C Fence	07/01/22	06/30/24
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 1a before completing.)	20	9,500	400,362	24,638	
21 Cost or other basis plus expense of sale	21	15,000	325,000	20,000	
22 Depreciation (or depletion) allowed or allowable	22	13,661	69,789	3,014	
23 Adjusted basis. Subtract line 22 from line 21	23	1,339	255,211	16,986	
24 Total gain. Subtract line 23 from line 20	24	8,161	145,151	7,652	
25 If section 1245 property:					
a Depreciation allowed or allowable from line 22	25a	13,661			
b Enter the smaller of line 24 or 25a	25b	8,161			
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 1980 and before 1978	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		0	0	
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	160,964
31 Add property columns A through D, lines 25b, 26g, 27c, 28b, and 29b. Enter here and on line 13	31	8,161
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 8	32	152,803

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Ordinary Gain or Loss

- Inventory
- Accounts or notes receivable acquired in the ordinary course of its trade or business
- Depreciable business property or nondepreciable business land held one year or less
- Section 197 intangible asset held one year or less
- Property deducted under the de minimis safe harbor for tangible property



Case Study



- The S corporation sells all its inventory for \$175,000
- The S corporation reports the sale of this inventory as usual on Form 1120-S, Line 1a, and computes the cost of goods sold on Form 1125-A, *Cost of Goods Sold*

1a	Gross receipts or sales	562,500	b	Less Returns and allowances		c	Balance	1c	562,500
2	Cost of goods sold (attach Form 1125-A)							2	330,300
3	Gross profit. Subtract line 2 from line 1c							3	232,200

Form 1125-A		Cost of Goods Sold		OMB No. 1545-0123
(Rev. November 2024)		Department of the Treasury Internal Revenue Service		
		Attach to Form 1120, 1120-C, 1120-F, 1120-S, or 1065. Go to www.irs.gov/Form1125A for the latest information.		
Name Larry's Liquidations, Inc.		Employer identification number **-***0000		
1	Inventory at beginning of year	1	175,000	
2	Purchases	2	155,300	
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	330,300	
7	Inventory at end of year	7	0	
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	330,300	
9a Check all methods used for valuing closing inventory. See instructions.				
(i) ☒ Cost				
(ii) ☐ Lower of cost or market				
(iii) ☐ Other (Specify method used and attach explanation.)				
For certain small business taxpayers, alternative methods of accounting for inventories:				
(iv) ☐ Non-incidental materials and supplies method				
(v) ☐ AFS method				
(vi) ☐ Non-AFS method				
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 (i) If the LIFO inventory method was used for this tax year, enter amount of closing inventory figured under LIFO 9d(i)				
(ii) If the LIFO inventory method was used for this tax year, enter amount of the closing LIFO Reserve 9d(ii)				
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				

Form 8594

- Required by buyer and seller when there is an asset sale
- Section 1060 contains rules for determining basis
 - Residual method using FMV of assets
 - Allocated in a specific order



Allocation Order

Class	Description
Class I	Cash and general deposit accounts, such as savings and checking accounts
Class II	Certificates of deposit, U.S. government securities, foreign currency and actively traded personal property (including publicly traded stock)
Class III	Accounts receivable, other debt instruments, and assets marked-to-market at least annually for federal income tax purposes
Class IV	Inventory-type property, or property held primarily for sale to customers in the ordinary course of business
Class V	All other assets not covered in Classes I–IV and VI–VII (e.g., furniture, fixtures, buildings, land, vehicles, equipment), except §197 intangibles
Class VI	Section 197 intangibles, excluding goodwill and going concern value
Class VII	Goodwill and going concern value



Case Study

- Larry's Liquidations completes Form 8594 as follows and attaches the form to its final Form 1120-S. The breakdown of assets and their classifications are as follows:

Class IV Asset	FMV
Inventory	\$175,000
Class V Assets	
Land	425,000
Building	400,362
Fence	24,638
Forklift	9,500
Tow truck	30,000
Equipment	1,000
Computer system	1,000
Office furniture	100
Total	891,600
Class VI Asset	
Telephone number	3,400
Class VII Asset	
Goodwill	930,000
Total of all assets	\$2,000,000

Case Study



Form 8594 (Rev. November 2021) Department of the Treasury Internal Revenue Service		Asset Acquisition Statement Under Section 1060 Attach to your income tax return. Go to www.irs.gov/Form8594 for instructions and the latest information.		OMB No. 1545-0074 Attachment Sequence No. 169
Name as shown on return		Identifying number as shown on return		
Larry's Liquidations, Inc.		**-***0000		
Check the box that identifies you: ☐ Purchaser ☒ Seller				
Part I General Information				
1 Name of other party to the transaction		Other party's identifying number		
Joe Young		***-**-1111		
Address (number, street, and room or suite no.)				
555 Wisconsin Ave.				
City or town, state, and ZIP code				
Brooklyn NY 11210				
2 Date of sale		3 Total sales price (consideration)		
06/03/24		2,000,000		
Part II Original Statement of Assets Transferred				
4 Assets	Aggregate fair market value (actual amount for Class I)	Allocation of sales price		
Class I	\$	\$		
Class II	\$	\$		
Class III	\$	\$		
Class IV	\$ 175,000	\$ 175,000		
Class V	\$ 891,600	\$ 891,600		
Class VI and VII	\$ 933,400	\$ 933,400		
Total	\$ 2,000,000	\$ 2,000,000		
5 Did the purchaser and seller provide for an allocation of the sales price in the sales contract or in another written document signed by both parties? ☒ Yes ☐ No If "Yes," are the aggregate fair market values (FMV) listed for each of asset Classes I, II, III, IV, V, VI, and VII the amounts agreed upon in your sales contract or in a separate written document? ☒ Yes ☐ No				
6 In the purchase of the group of assets (or stock), did the purchaser also purchase a license or a covenant not to compete, or enter into a lease agreement, employment contract, management contract, or similar arrangement with the seller (or managers, directors, owners, or employees of the seller)? ☐ Yes ☒ No If "Yes," attach a statement that specifies (a) the type of agreement and (b) the maximum amount of consideration (not including interest) paid or to be paid under the agreement. See instructions.				
For Paperwork Reduction Act Notice, see separate instructions. Form 8594 (Rev. 11-2021)				

Liquidating Distributions

- Never treated as dividends
- Treated as payment for deemed sale of stock on Form 8949
 - Sales proceeds = cash + FMV of noncash property received
 - Use numbers on Form 1099-DIV
 - Basis = adjusted basis of stock
 - Character of gain or loss
 - Capital unless §1244 applies
 - Holding period
 - Generally, time shareholder owned stock (exceptions for gifted or inherited stock)



Distribution of Installment Note

- Sale before plan of liquidation
 - S corporation reports remaining unrecognized gain upon distribution
- Sale after plan of liquidation
 - S corporation does not report remaining unrecognized gain if meet all the following:
 - Sell assets on installment after plan of liquidation
 - Complete sale within 12 months of plan of liquidation
 - Complete liquidation during same 12-month period



Form 1099-DIV

- Report liquidating distributions of \$600 or more to shareholder
 - Report cash in Box 9
 - Report FMV of noncash property in Box 10
 - Do not reduce FMV by any liabilities assumed by shareholder
- Do not report liquidating distributions on Schedule K-1



Case Study

- Larry sold all the assets and stopped doing business on June 30. All debts were paid off and the final cash liquidation distribution was made to Larry on July 31, which is reported on Form 1099-DIV, Box 9, as follows:

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.		1a Total ordinary dividends		OMB No. 1545-0110	
Larry's Liquidations P.O. Box 1 Brooklyn, NY 11210-0001		\$		Form 1099-DIV	
		1b Qualified dividends		(Rev. January 2024)	
		\$		For calendar year 2024	
		2a Total capital gain distr.		2b Unrecap. Sec. 1250 gain	
		\$		\$	
PAYER'S TIN	RECIPIENT'S TIN	2c Section 1202 gain		2d Collectibles (28%) gain	
xx-xxxx0000	xxx-xx-1111	\$		\$	
		2e Section 897 ordinary dividends		2f Section 897 capital gain	
		\$		\$	
RECIPIENT'S name		3 Nondividend distributions		4 Federal income tax withheld	
Larry Smith		\$		\$	
Street address (including apt. no.)		5 Section 199A dividends		6 Investment expenses	
P.O. Box 2		\$		\$	
City or town, state or province, country, and ZIP or foreign postal code		7 Foreign tax paid		8 Foreign country or U.S. possession	
Brooklyn, NY 11210		\$			
		9 Cash liquidation distributions		10 Noncash liquidation distributions	
		\$ 1,864,349		\$	
		12 Exempt-interest dividends		13 Specified private activity bond interest dividends	
		\$		\$	
Account number (see instructions)		14 State		15 State identification no.	
		\$		\$	
		16 State tax withheld		\$	

Form **1099-DIV** (Rev. 1-2024) (keep for your records) www.irs.gov/Form1099DIV Department of the Treasury - Internal Revenue Service

Dividends and Distributions

Copy B For Recipient

This is important tax information and is being furnished to the IRS. If you are required to file a return, a negligence penalty or other sanction may be imposed on you if this income is taxable and the IRS determines that it has not been reported.

Final Form 1120-S

- Indicate year-end at top of Form 1120-S and Schedules K-1
- Check Box H(1) on Form 1120-S and Final K-1 box on Schedule K-1
- File by 15th day of 3rd month following year-end
 - Can request six-month extension with Form 7004
- Use prior year's form if:
 - Tax year < 12 months beginning and ending in current year
 - Current year Form 1120-S not available when return due
 - Apply current tax law



Case Study



- Using the information presented throughout the materials, we will review Larry's Liquidations final Form 1120-S

Case Study, Cont.

– Form 1120-S

Form 1120-S		U.S. Income Tax Return for an S Corporation		OMB No. 1545-0123
Department of the Treasury Internal Revenue Service		Do not file this form unless the corporation has filed or is attaching Form 2553 to elect to be an S corporation. Go to www.irs.gov/Form1120S for instructions and the latest information.		2024
For calendar year 2024 or tax year beginning 01/01/24 , ending 07/31/24				
A S election effective date 01/01/10	B Business activity code number (see instructions) 423930	C Check if Sch. M-3 attached ☐	NAME Larry's Liquidations, Inc. OR Number, street, and room or suite no. If a P.O. box, see instructions. P.O. Box 1 City or town, state or province, country, and ZIP or foreign postal code Brooklyn NY 11210	D Employer identification number **-***0000 E Date incorporated 01/01/2010 F Total assets (see instructions) \$ 0
G Is the corporation electing to be an S corporation beginning with this tax year? See instructions. ☐ Yes ☒ No				
H Check if: (1) ☒ Final return (2) ☐ Name change (3) ☐ Address change (4) ☐ Amended return (5) ☐ S election termination				
I Enter the number of shareholders who were shareholders during any part of the tax year 1				
J Check if corporation: (1) ☐ Aggregated activities for section 465 at-risk purposes (2) ☐ Grouped activities for section 469 passive activity purposes				
Caution: Include only trade or business income and expenses on lines 1a through 22. See the instructions for more information.				
1a Gross receipts or sales 562,500		b Less returns and allowances		c Balance 562,500
2 Cost of goods sold (attach Form 1125-A)				1c 330,300
3 Gross profit. Subtract line 2 from line 1c				2 232,200
4 Net gain (loss) from Form 4797, Part II, line 17 (attach Form 4797)				3 37,821
5 Other income (loss) (see instructions—attach statement)				4 270,021
6 Total income (loss). Add lines 3 through 5				5 47,800
7 Compensation of officers (see instructions—attach Form 1125-E)				6 62,500
8 Salaries and wages (less employment credits)				7 3,750
9 Repairs and maintenance				8 600
10 Bad debts				9 11,867
11 Rents				10 6,499
12 Taxes and licenses				11 750
13 Interest (see instructions)				12 18,750
14 Depreciation from Form 4562 not claimed on Form 1125-A or elsewhere on return (attach Form 4562)				13 43,095
15 Depletion (do not deduct oil and gas depletion)				14 195,611
16 Advertising				15 74,410
17 Pension, profit-sharing, etc., plans				16 See Stmt 1
18 Employee benefit programs				17 43,095
19 Energy efficient commercial buildings deduction (attach Form 7205)				18 195,611
20 Other deductions (attach statement)				19 74,410
21 Total deductions. Add lines 7 through 20				20 See Stmt 1
22 Ordinary business income (loss). Subtract line 21 from line 6				21 195,611
23a Excess net passive income or LIFO recapture tax (see instructions)		23b		22 74,410
b Tax from Schedule D (Form 1120-S)				23c
c Add lines 23a and 23b (see instructions for additional taxes)				23d
24a Current year's estimated tax payments and preceding year's overpayment credited to the current year		24b		24c
b Tax deposited with Form 7004		24d		24e
c Credit for federal tax paid on fuels (attach Form 4136)				24f
d Elective payment election amount from Form 3800				24g
e Add lines 24a through 24d				24h
25 Estimated tax penalty (see instructions). Check if Form 2220 is attached ☐				24i
26 Amount owed. If line 24h is smaller than the total of lines 23c and 25, enter amount owed				24j
27 Overpayment. If line 24h is larger than the total of lines 23c and 25, enter amount overpaid				24k
28 Enter amount from line 27. Credited to 2025 estimated tax		Refunded		24l
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.				
Sign Here		May the IRS discuss this return with the preparer shown below? See instructions. ☒ Yes ☐ No		
Signature of officer		Date Title		
Print/Type preparer's name		Preparer's signature		
Date		Check ☐ if self-employed PTIN		
Firm's name Natl Assn of Tax Prof		Firm's EIN		
Firm's address PO Box 8002		Phone no. 920-749-1040		
City, state, and ZIP or foreign postal code Appleton, WI 54912		Form 1120-S (2024)		

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Case Study, Cont.

– Form 1120-S

Form 1120-S (2024) **Larry's Liquidations, Inc.** ***-***0000 Page 2

Schedule B Other Information (see instructions)

1 Check accounting method: a ☒ Cash b ☐ Accrual c ☐ Other (specify) _____ Yes No

2 See the instructions and enter the: a Business activity **Parts salvage facility** b Product or service **Parts and scrap metal**

3 At any time during the tax year, was any shareholder of the corporation a disregarded entity, a trust, an estate, or a nominee or similar person? If "Yes," attach Schedule B-1, Information on Certain Shareholders of an S Corporation ☒ X

4 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 stock issued and outstanding of any foreign or domestic corporation? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (v) below ☒ X

(i) Name of Corporation	(ii) Employer Identification Number (if any)	(iii) Country of Incorporation	(iv) Percentage of Stock Owned	(v) If Percentage in (iv) is 100%, Enter the Date (if applicable) a Qualified Subchapter S Subsidiary Election Was Made

b Own directly an interest of 20% or more, or own, directly or indirectly, an interest of 50% or more in the profit, loss, or capital 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 (v) below ☒ X

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

5a At the end of the tax year, did the corporation have any outstanding shares of restricted stock? ☒ X
If "Yes," complete lines (i) and (ii) below.

(i) Total shares of restricted stock _____

(ii) Total shares of non-restricted stock _____

b At the end of the tax year, did the corporation have any outstanding stock options, warrants, or similar instruments? ☒ X
If "Yes," complete lines (i) and (ii) below.

(i) Total shares of stock outstanding at the end of the tax year _____

(ii) Total shares of stock outstanding if all instruments were executed _____

6 Has this corporation filed, or is it required to file, Form 8918, Material Advisor Disclosure Statement, to provide information on any reportable transaction? ☒ X

7 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.

8 If the corporation (a) was a C corporation before it elected to be an S corporation or the corporation acquired an asset with a basis determined by reference to the basis of the asset (or the basis of any other property) in the hands of a C corporation, and (b) has net unrealized built-in gain in excess of the net recognized built-in gain from prior years, enter the net unrealized built-in gain reduced by net recognized built-in gain from prior years. See instructions \$ _____

9 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 ☒ X

10 Does the corporation satisfy one or more of the following? See instructions ☒ X

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 \$30 million and the corporation has business interest expense.

c The corporation is a tax shelter and the corporation has business interest expense.

If "Yes," complete and attach Form 8990, Limitation on Business Interest Expense Under Section 163(j).

11 Does the corporation satisfy both of the following conditions? ☒ X

a The corporation's total receipts (see instructions) for the tax year were less than \$250,000.

b The corporation's total assets at the end of the tax year were less than \$250,000.

If "Yes," the corporation is not required to complete Schedules L and M-1.

Form 1120-S (2024)

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Case Study, Cont. – Form 1120-S

Form 1120-S (2024) Larry's Liquidations, Inc. ***-***0000		Page 3
Schedule B Other Information (see instructions) (continued)		Yes No
12	During the tax year, did the corporation have any non-shareholder debt that was canceled, was forgiven, or had the terms modified so as to reduce the principal amount of the debt?	☒ ☐
	If "Yes," enter the amount of principal reduction \$	
13	During the tax year, was a qualified subchapter S subsidiary election terminated or revoked? If "Yes," see instructions	☐ ☒
14a	Did the corporation make any payments that would require it to file Form(s) 1099?	☐ ☒
	b If "Yes," did or will the corporation file required Form(s) 1099?	☐ ☒
15	Is the corporation attaching Form 8996 to certify as a Qualified Opportunity Fund?	☐ ☒
	If "Yes," enter the amount from Form 8996, line 15 \$	
16	At any time during the tax year, did the corporation: (a) receive (as a reward, award, or payment for property or services); or (b) sell, exchange, or otherwise dispose of a digital asset (or a financial interest in a digital asset)? See instructions	☐ ☒

Schedule K Shareholders' Pro Rata Share Items		Total amount
Income (Loss)	1 Ordinary business income (loss) (page 1, line 22)	1 74,410
	2 Net rental real estate income (loss) (attach Form 8825)	2
	3a Other gross rental income (loss)	3a
	b Expenses from other rental activities (attach statement)	3b
	c Other net rental income (loss). Subtract line 3b from line 3a	3c
	4 Interest income	4
	5 Dividends: a Ordinary dividends	5a
	b Qualified dividends	5b
	6 Royalties	6
	7 Net short-term capital gain (loss) (attach Schedule D (Form 1120-S))	7
Income (Loss)	8a Net long-term capital gain (loss) (attach Schedule D (Form 1120-S))	8a
	b Collectibles (28%) gain (loss)	8b
	c Unrecaptured section 1250 gain (attach statement) Stmt 2	8c 72,803
	9 Net section 1231 gain (loss) (attach Form 4797)	9 451,795
10 Other income (loss) (see instructions) Type: Stmt 3	10 933,400	
Deductions	11 Section 179 deduction (attach Form 4562)	11
	12a Cash charitable contributions	12a
	b Noncash charitable contributions	12b
	c Investment interest expense	12c
	d Section 59(e)(2) expenditures Type:	12d
e Other deductions (see instructions) Type:	12e	
Credits	13a Low-income housing credit (section 42(j)(5))	13a
	b Low-income housing credit (other)	13b
	c Qualified rehabilitation expenditures (rental real estate) (attach Form 3468, if applicable)	13c
	d Other rental real estate credits (see instructions) Type:	13d
	e Other rental credits (see instructions) Type:	13e
	f Biofuel producer credit (attach Form 6478)	13f
	g Other credits (see instructions) Type:	13g
Inter-national	14 Attach Schedule K-2 (Form 1120-S), Shareholders' Pro Rata Share Items—International, and check this box to indicate you are reporting items of international tax relevance ☐	
Alternative Minimum Tax (AMT) Items	15a Post-1986 depreciation adjustment	15a
	b Adjusted gain or loss	15b
	c Depletion (other than oil and gas)	15c
	d Oil, gas, and geothermal properties – gross income	15d
	e Oil, gas, and geothermal properties – deductions	15e
	f Other AMT items (attach statement)	15f
Items Affecting Shareholder Basis	16a Tax-exempt interest income	16a
	b Other tax-exempt income	16b
	c Nondeductible expenses	16c 625
	d Distributions (attach statement if required) (see instructions)	16d
	e Repayment of loans from shareholders	16e 12,000
	f Foreign taxes paid or accrued	16f

Form 1120-S (2024)

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Case Study, Cont. – Form 1120-S

Form 1120-S (2024) **Larry's Liquidations, Inc.** ***-***0000 Page 4

Schedule K Shareholders' Pro Rata Share Items (continued)

		Total amount
Other Information	17a Investment income	17a
	b Investment expenses	17b
	c Dividend distributions paid from accumulated earnings and profits	17c
	d Other items and amounts (attach statement)	See Statement 4
Reconciliation	18 Income (loss) reconciliation. Combine the total amounts on lines 1 through 10. From the result, subtract the sum of the amounts on lines 11 through 12d and 18f	18 1,459,605

Schedule L Balance Sheets per Books

	Beginning of tax year		End of tax year	
	(a)	(b)	(c)	(d)
Assets				
1 Cash		125,436		
2a Trade notes and accounts receivable				
b Less allowance for bad debts	(		(	
3 Inventories		175,000		
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	418,500			
b Less accumulated depreciation	(135,017	283,483	(	
11a Depletable assets				
b Less accumulated depletion	(		(	
12 Land (net of any amortization)		125,000		
13a Intangible assets (amortizable only)				
b Less accumulated amortization	(		(	
14 Other assets (attach statement)				
15 Total assets		708,919		0
Liabilities and Shareholders' Equity				
16 Accounts payable		2,715		
17 Mortgages, notes, bonds payable in less than 1 year				
18 Other current liabilities (attach statement)				
19 Loans from shareholders		12,000		
20 Mortgages, notes, bonds payable in 1 year or more		274,835		
21 Other liabilities (attach statement)				
22 Capital stock		5,000		
23 Additional paid-in capital				
24 Retained earnings		414,369		
25 Adjustments to shareholders' equity (attach statement)				
26 Less cost of treasury stock	(		(	
27 Total liabilities and shareholders' equity		708,919		0

Form 1120-S (2024)

Case Study, Cont. – Form 1120-S

Form 1120-S (2024) **Larry's Liquidations, Inc.** ***-***0000 Page 5

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

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

1 Net income (loss) per books	1,458,980	5 Income recorded on books this year not included on Schedule K, lines 1 through 10 (itemize):	
2 Income included on Schedule K, lines 1, 2, 3c, 4, 5a, 6, 7, 8a, 9, and 10, not recorded on books this year (itemize):		a Tax-exempt interest \$	
3 Expenses recorded on books this year not included on Schedule K, lines 1 through 12e, and 18f (itemize):		6 Deductions included on Schedule K, lines 1 through 12e, and 18f, not charged against book income this year (itemize):	
a Depreciation \$		a Depreciation \$	
b Travel and entertainment \$ 625		7 Add lines 5 and 6	
4 Add lines 1 through 3	625	8 Income (loss) (Schedule K, line 18). Subtract line 7 from line 4	1,459,605
	1,459,605		

Schedule M-2 Analysis of Accumulated Adjustments Account, Shareholders' Undistributed Taxable Income Previously Taxed, Accumulated Earnings and Profits, and Other Adjustments Account
(see instructions)

	(a) Accumulated adjustments account	(b) Shareholders' undistributed taxable income previously taxed	(c) Accumulated earnings and profits	(d) Other adjustments account
1 Balance at beginning of tax year	414,369			
2 Ordinary income from page 1, line 22	74,410			
3 Other additions Stmt. 5	1,385,195			
4 Loss from page 1, line 22	()			
5 Other reductions Stmt. 6	625			()
6 Combine lines 1 through 5	1,873,349			
7 Distributions				
8 Balance at end of tax year. Subtract line 7 from line 6	1,873,349			

Form 1120-S (2024)

Case Study, Cont.
– Sch. D

SCHEDULE D
(Form 1120-S)
Department of the Treasury
Internal Revenue Service

Capital Gains and Losses and Built-in Gains
Attach to Form 1120-S.
Use Form 8949 to list your transactions for lines 1b, 2, 3, 8b, 9, and 10.
Go to www.irs.gov/Form1120S for instructions and the latest information.

OMB No. 1545-0123
2024

Name
Larry's Liquidations, Inc.

Employer identification number
****-***0000**

Did the corporation dispose of any investment(s) in a qualified opportunity fund during the tax year?
If "Yes," attach Form 8949 and see its instructions for additional requirements for reporting your gain or loss.

☐ Yes ☒ No

Part I Short-Term Capital Gains and Losses—Generally Assets Held One Year or Less (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 the 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				
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 Tax on short-term capital gain included on line 23 below				6
7 Net short-term capital gain or (loss). Combine lines 1a through 6 in column (h). Enter here and on Form 1120-S, Schedule K, line 7 or 10				7

Part II Long-Term Capital Gains and Losses—Generally Assets Held More Than One Year (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 the 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	933,400	0		933,400
11 Long-term capital gain from installment sales from Form 6252, line 26 or 37				11
12 Long-term capital gain or (loss) from like-kind exchanges from Form 8824				12
13 Capital gain distributions (see instructions)				13
14 Tax on long-term capital gain included on line 23 below				14
15 Net long-term capital gain or (loss). Combine lines 8a through 14 in column (h). Enter here and on Form 1120-S, Schedule K, line 8a or 10				15 933,400

For Paperwork Reduction Act Notice, see the Instructions for Form 1120-S.

Schedule D (Form 1120-S) 2024

38

Case Study, Cont. – Form 4797

Form 4797	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 2024 Attachment Sequence No. 27				
Department of the Treasury Internal Revenue Service						
Name(s) shown on return Larry's Liquidations, Inc.		Identifying number **-***0000				
1a Enter the gross proceeds from sales or exchanges reported to you for 2024 on Form(s) 1099-B or 1099-S (or substitute statement) that you are including on line 2, 10, or 20. See instructions		1a				
b Enter the total amount of gain that you are including on lines 2, 10, and 24 due to the partial dispositions of MACRS assets		1b				
c Enter the total amount of loss that you are including on lines 2 and 10 due to the partial dispositions of MACRS assets		1c				
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)
Land	01/01/10	06/30/24	425,000		125,000	300,000
Equipment	07/01/20	06/20/24	1,000	5,492	7,500	-1,008
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						6 152,803
7 Combine lines 2 through 6. Enter the gain or (loss) here and on the appropriate line as follows						7 451,795
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 37,821
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 37,821
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), 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), Part I, line 4						18b

For Paperwork Reduction Act Notice, see separate instructions.

Form **4797** (2024)

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Case Study, Cont. – Form 4797

Page 1 of 2

Form 4797 (2024) **Larry's Liquidations, Inc.** ***-***0000 Page 2

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 Forklift	07/01/20	06/30/24
B Building	01/01/16	06/30/24
C Fence	07/01/22	06/30/24
D Flatbed tow truck	07/01/20	06/20/24

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 1a before completing.)	20 9,500	400,362	24,638	30,000
21 Cost or other basis plus expense of sale	21 15,000	325,000	20,000	45,000
22 Depreciation (or depletion) allowed or allowable	22 13,661	69,789	3,014	43,704
23 Adjusted basis. Subtract line 22 from line 21	23 1,339	255,211	16,986	1,296
24 Total gain. Subtract line 23 from line 20	24 8,161	145,151	7,652	28,704

25 If section 1245 property:

a Depreciation allowed or allowable from line 22	25a 13,661			43,704
b Enter the smaller of line 24 or 25a	25b 8,161			28,704

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	0	0	

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	All Pages 190,624	30 189,668
31 Add property columns A through D, lines 25b, 26g, 27c, 28b, and 29b. Enter here and on line 13	All Pages 37,821	31 36,865
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	All Pages 152,803	32 152,803

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	

Form 4797 (2024)

Case Study, Cont.

– Form 4797

Page 2 of 2

Form 4797 (2024) **Larry's Liquidations, Inc.** ***-***0000 Page 2

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 Computer system	07/01/20	06/30/24
	B Furniture	01/01/15	06/30/24
	C		
	D		
	These columns relate to the properties on lines 19A through 19D.		
		Property A	Property B
20	Gross sales price (Note: See line 1a before completing.)	1,000	100
21	Cost or other basis plus expense of sale	5,000	1,000
22	Depreciation (or depletion) allowed or allowable	4,856	1,000
23	Adjusted basis. Subtract line 22 from line 21	144	0
24	Total gain. Subtract line 23 from line 20	856	100
25	If section 1245 property:		
	a Depreciation allowed or allowable from line 22	4,856	1,000
	b Enter the smaller of line 24 or 25a	856	100
26	If section 1250 property: If straight line depreciation was used, enter -0- on line 26g, except for a corporation subject to section 201.		
	a Additional depreciation after 1975. See instructions		
	b Applicable percentage multiplied by the smaller of line 24 or line 25a. See instructions		
	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		
	d Additional depreciation after 1969 and before 1978		
	e Enter the smaller of line 26c or 26d		
	f Section 201 amount (corporations only)		
	g Add lines 26b, 26e, and 26f		
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		
	b Line 27a multiplied by applicable percentage. See instructions		
	c Enter the smaller of line 24 or 27b		
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		
	b Enter the smaller of line 24 or 28a		
29	If section 1255 property:		
	a Applicable percentage of payments excluded from income under section 128. See instructions		
	b Enter the smaller of line 24 or 29a. See instructions		

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	956
31	Add property columns A through D, lines 25b, 26g, 27c, 28b, and 29b. Enter here and on line 13	31	956
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	0

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

Form 4797 (2024)

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Case Study, Cont. – Form 1125-A

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Form 1125-A (Rev. November 2024) 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 Larry's Liquidations, Inc.		Employer identification number **-***0000
1 Inventory at beginning of year		1 <u>175,000</u>
2 Purchases		2 <u>155,300</u>
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 <u>330,300</u>
7 Inventory at end of year		7 <u>0</u>
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 <u>330,300</u>
9a Check all methods used for valuing closing inventory. See instructions.		
(i) ☒ Cost		
(ii) ☐ Lower of cost or market		
(iii) ☐ Other (Specify method used and attach explanation.)		
For certain small business taxpayers, alternative methods of accounting for inventories:		
(iv) ☐ Non-incidental materials and supplies method		
(v) ☐ AFS method		
(vi) ☐ Non-AFS method		
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 (i) If the LIFO inventory method was used for this tax year, enter amount of closing inventory figured under LIFO		9d(i)
(ii) If the LIFO inventory method was used for this tax year, enter amount of the closing LIFO Reserve		9d(ii)
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
For Paperwork Reduction Act Notice, see instructions.		
Form 1125-A (Rev. 11-2024)		

Case Study, Cont. – Form 1125-E

[illegible]

Case Study, Cont. – Form 8594

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Form **8594**
(Rev. November 2021)
Department of the Treasury
Internal Revenue Service

**Asset Acquisition Statement
Under Section 1060**
▶ Attach to your income tax return.
▶ Go to www.irs.gov/Form8594 for instructions and the latest information.

OMB No. 1545-0074
Attachment
Sequence No. **169**

Name as shown on return
Larry's Liquidations, Inc.

Identifying number as shown on return
****-***0000**

Check the box that identifies you:
☐ Purchaser ☒ Seller

Part I General Information

1 Name of other party to the transaction
Joe Young

Other party's identifying number
*****-**-1111**

Address (number, street, and room or suite no.)
555 Wisconsin Ave.

City or town, state, and ZIP code
Brooklyn NY 11210

2 Date of sale
06/03/24

3 Total sales price (consideration)
2,000,000

Part II Original Statement of Assets Transferred

4 Assets	Aggregate fair market value (actual amount for Class I)	Allocation of sales price
Class I	\$	\$
Class II	\$	\$
Class III	\$	\$
Classes IV	\$ 175,000	\$ 175,000
Class V	\$ 891,600	\$ 891,600
Class VI and VII	\$ 933,400	\$ 933,400
Total	\$ 2,000,000	\$ 2,000,000

5 Did the purchaser and seller provide for an allocation of the sales price in the sales contract or in another written document signed by both parties? ☒ Yes ☐ No
If "Yes," are the aggregate fair market values (FMV) listed for each of asset Classes I, II, III, IV, V, VI, and VII the amounts agreed upon in your sales contract or in a separate written document? ☒ Yes ☐ No

6 In the purchase of the group of assets (or stock), did the purchaser also purchase a license or a covenant not to compete, or enter into a lease agreement, employment contract, management contract, or similar arrangement with the seller (or managers, directors, owners, or employees of the seller)? ☐ Yes ☒ No
If "Yes," attach a statement that specifies (a) the type of agreement and (b) the maximum amount of consideration (not including interest) paid or to be paid under the agreement. See instructions.

Case Study, Cont. – §199A Worksheet



Section 199A Information Worksheet					
Form 1120-S	For calendar year 2024 or tax year beginning <u>01/01/24</u> , ending <u>07/31/24</u>				2024
Name Larry's Liquidations, Inc.					Employer Identification Number **-***0000
	Activity Description	Pass-Through Entity EIN	PTP	Aggregated	SSTB
Column A	<u>Page 1 Activity</u>		☐	☐	☐
Column B			☐	☐	☐
Column C			☐	☐	☐
Column D			☐	☐	☐
Column E			☐	☐	☐

	Column A	Column B	Column C	Column D	Column E
QBI or Qualified PTP items:					
Ordinary business income (loss)	74,410				
Net rental real estate income (loss)					
Other net rental income (loss)					
Royalty income (loss)					
Section 1231 gain (loss)	451,795				
Other income (loss)					
Section 179 deduction					
Other deductions					
W-2 wages	110,300				
Qualified property					
Other Information:					
QBI allocable to cooperative pmts received					
W-2 wages allocable to qualified payments					
Section 199A(g) deduction					
Section 199A REIT dividends					

Case Study, Cont. – Federal Statements



LARRYLIQ Larry's Liquidations, Inc.
 -*0000
 FYE: 7/31/2024

Federal Statements

Statement 1 - Form 1120-S, Page 1, Line 20 - Other Deductions

Description	Amount
Accounting	\$ 600
Automobile expense	3,250
Bank service charges	900
Dues and subscriptions	250
Fuel	1,600
Insurance	11,475
Janitorial services	500
Miscellaneous	500
Office expense	2,600
Postage and delivery	600
Supplies	6,250
Telephone	1,875
Trash	720
Travel	550
Utilities	10,800
50% of Meals	625
Total	\$ 43,095

Statement 2 - Form 1120-S, Page 3, Schedule K, Line 8c - Unrecaptured Section 1250 Gain

Description	Amount
Unrecap Sec 1250 Gain	\$ 72,803
Total	\$ 72,803

Statement 3 - Form 1120-S, Page 3, Schedule K, Line 10 - Other Income (Loss)

Description	Amount
Long-Term Business Gain/Loss	\$ 933,400
Total	\$ 933,400

Statement 4 - Form 1120-S, Page 4, Schedule K, Line 17d - Other Items and Amounts

Description	Amount
Section 199A Information - See Attached Wrk	\$
Qualifies for exception to filing Schedule K-2	

Statement 5 - Form 1120-S, Page 5, Schedule M-2, Line 3(a) - Other Additions

Description	Amount
Net Section 1231 Gain	\$ 451,795
Other Income	933,400
Total	\$ 1,385,195

LARRYLIQ Larry's Liquidations, Inc.
 -*0000
 FYE: 7/31/2024

Federal Statements

Statement 6 - Form 1120-S, Page 5, Schedule M-2, Line 5(a) - Other Reductions

Description	Amount
Travel & Entertainment	\$ 625
Total	\$ 625

Example, Cont.
– Schedule K-1

Schedule K-1
(Form 1120-S)
Department of the Treasury
Internal Revenue Service

2024
For calendar year 2024, or tax year

beginning 01/01/24 ending 07/31/24

Shareholder's Share of Income, Deductions, Credits, etc.
See separate instructions.

Part I
Information About the Corporation

A. Corporation's employer identification number
-0000

B. Corporation's name, address, city, state, and ZIP code
Larry's Liquidations, Inc.
P.O. Box 1
Brooklyn NY 11210

C. IRS Center where corporation filed return
Kansas City, MO 64999

D. Corporation's total number of shares
Beginning of tax year 100
End of tax year 100

Part II
Information About the Shareholder

E. Shareholder's identifying number
***-**-0002

F1. Shareholder's name, address, city, state, and ZIP code
Larry Smith

F2. If the shareholder is a disregarded entity, a trust, an estate, or a nominee or similar person, enter the individual or entity responsible for reporting:
TIN _____
Name _____

F3. What type of entity is this shareholder?

G. Current year allocation percentage 100.000000%

H. Shareholder's number of shares
Beginning of tax year 100
End of tax year 100

I. Loans from shareholder
Beginning of tax year \$ 0
End of tax year \$ 0

For IRS Use Only

18 More than one activity for at-risk purposes*
19 More than one activity for passive activity purposes*
* See attached statement for additional information.

Final K-1
Amended K-1

Shareholder's Share of Current Year Income, Deductions, Credits, and Other Items

1	Ordinary business income (loss)	13	Credits
2	Net rental real estate income (loss)		
3	Other net rental income (loss)		
4	Interest income		
5a	Ordinary dividends		
5b	Qualified dividends	14	Schedule K-3 is attached if checked
6	Royalties	15	Alternative minimum tax (AMT) items
7	Net short-term capital gain (loss)		
8a	Net long-term capital gain (loss)		
8b	Collectibles (28%) gain (loss)		
8c	Unrecaptured section 1250 gain		
9	Net section 1231 gain (loss)	16	Items affecting shareholder basis
10	Other income (loss)	C*	625
S*	933,400	E	12,000
11	Section 179 deduction	ZZ*	STMT
12	Other deductions		

Schedule K-1 (Form 1120-S) 2024



Example, Cont. – K-1 Statements



LARRYLIQ Larry's Liquidations, Inc.	
-*0000	
FYE: 7/31/2024	
Federal Statements	
Larry Smith	
***-**-0002	

<u>Schedule K-1, Box 8c - Unrecaptured Section 1250 Gain</u>	
Description	Shareholder Amount
Unrecap Sec 1250 Gain	\$ 72,803
Total	\$ 72,803

<u>Schedule K-1, Box 10, Code S - Non-portfolio Capital Gain (Loss)</u>	
Description	Amount
Long-Term Business Gain/Loss	\$ 933,400
Total	\$ 933,400

<u>Schedule K-1, Box 16, Code C - Nondeductible Expenses</u>	
Description	Shareholder Amount
Page 1 Meals	\$ 625
Total	\$ 625

<u>Schedule K-1, Box 17, Code ZZ - Other Information</u>	
Description	Shareholder Amount
Schedule K-3 will not be distributed to you unless requested	

Case Study, Cont. – Shareholder
§ 199A Information



Form 1120-S Schedule K-1		Schedule K-1, Box 17, Code V Shareholder's Section 199A Information		2024	
For calendar year 2024 or tax year beginning		01/01/24		, ending 07/31/24	
Name Larry's Liquidations, Inc. Larry Smith				Taxpayer Identification Number **-***0000 ***-**-0002	
Column A	Activity Description	Pass-Through Entity EIN	PTP	Aggregated	SSTB
Column B					
Column C					
Column D					
Column E					
QBI or Qualified PTP items:					
	Column A	Column B	Column C	Column D	Column E
	74,410				
	451,795				
	110,300				
Other Information:					
QBI allocable to cooperative pmts received					
W-2 wages allocable to qualified payments					
Section 199A(g) deduction					
Section 199A REIT dividends					

Shareholder Tax Consequences

- Liquidating distributions are treated as full payment for stock
- $\text{Gain/loss} = \text{cash} + \text{FMV of noncash} - \text{adjusted stock basis}$



Case Study

- Let's assume Larry (age 75) is single, claims the standard deduction of \$16,550 for 2024 (\$14,600 + \$1,950 for age) and his stock basis at the beginning of the year is \$400,369. Using the case study information at the beginning of the book and Larry's final Schedule K-1 provided earlier, Larry's ending stock basis after reporting the Schedule K-1 pass through items is \$1,859,349. Thus, Larry must recognize a \$5,000 long-term capital gain (\$1,864,349 - \$1,859,349) from the liquidating distribution that was reported on Form 1099-DIV, Box 9 (provided earlier).
- Larry also attaches Form 7203, *S Corporation Shareholder Stock and Debt Basis Limitations*, to his tax return

Case Study, Cont. – Form 8949

Form 8949 (2024) 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 Social security number or taxpayer identification number
Larry Smith ***-**-0002

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.		(h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g).
						(f) Code(s) from instructions	(g) Amount of adjustment	
	100.000 sh Larry's Liquidations	01/01/10	07/31/24	1,864,349	1,859,349			5,000

Case Study, Cont. – Form 7203

Form 7203 (Rev. December 2022) Department of the Treasury Internal Revenue Service	S Corporation Shareholder Stock and Debt Basis Limitations Attach to your tax return. Go to www.irs.gov/Form7203 for instructions and the latest information.	OMB No. 1545-2302 Attachment Sequence No. 203		
Name of shareholder Larry Smith		Identifying number ***-**-0002		
A Name of S corporation Larry's Liquidations, Inc.		B Employer identification number **-***0000		
C Stock block (see instructions): D Check applicable box(es) to indicate how stock was acquired: (1) ☒ Original shareholder (2) ☐ Purchased (3) ☐ Inherited (4) ☐ Gifted (5) ☐ Other: _____ E Check if you have a Regulations section 1.1367-1(g) election in effect during the tax year for this S corporation ☐				
Part I Shareholder Stock Basis				
1 Stock basis at the beginning of the corporation's tax year	1	400,369		
2 Basis from any capital contributions made or additional stock acquired during the tax year	2			
3a Ordinary business income (enter losses in Part III)	3a	74,410		
3b Net rental real estate income (enter losses in Part III)	3b			
3c Other net rental income (enter losses in Part III)	3c			
3d Interest income	3d			
3e Ordinary dividends	3e			
3f Royalties	3f			
3g Net capital gains (enter losses in Part III)	3g	933,400		
3h Net section 1231 gain (enter losses in Part III)	3h	451,795		
3i Other income (enter losses in Part III)	3i			
3j Excess depletion adjustment	3j			
3k Tax-exempt income	3k			
3l Recapture of business credits	3l			
3m Other items that increase stock basis	3m			
4 Add lines 3a through 3m	4	1,459,605		
5 Stock basis before distributions. Add lines 1, 2, and 4	5	1,859,974		
6 Distributions (excluding dividend distributions) Note: If line 6 is larger than line 5, subtract line 5 from line 6 and report the result as a capital gain on Form 8949 and Schedule D. See instructions.	6			
7 Stock basis after distributions. Subtract line 6 from line 5. If the result is zero or less, enter -0-, skip lines 8 through 14, and enter -0- on line 15	7	1,859,974		
8a Nondeductible expenses	8a	625		
8b Depletion for oil and gas	8b			
8c Business credits (sections 50(c)(1) and (5))	8c			
9 Add lines 8a through 8c	9	625		
10 Stock basis before loss and deduction items. Subtract line 9 from line 7. If the result is zero or less, enter -0-, skip lines 11 through 14, and enter -0- on line 15	10	1,859,349		
11 Allowable loss and deduction items. Enter the amount from line 47, column (c)	11			
12 Debt basis restoration (see net increase in instructions for line 23)	12			
13 Other items that decrease stock basis	13			
14 Add lines 11, 12, and 13	14			
15 Stock basis at the end of the corporation's tax year. Subtract line 14 from line 10. If the result is zero or less, enter -0-	15	1,859,349		
Part II Shareholder Debt Basis				
Section A—Amount of Debt (If more than three debts, see instructions.)				
Description	(a) Debt 1 ☒ Formal note ☐ Open account	(b) Debt 2 ☐ Formal note ☐ Open account	(c) Debt 3 ☐ Formal note ☐ Open account	(d) Total
16 Loan balance at the beginning of the corporation's tax year				
17 Additional loans (see instructions)	12,000			12,000
18 Loan balance before repayment. Add lines 16 and 17	12,000			12,000
19 Principal portion of debt repayment (this line doesn't include interest)	12,000			12,000
20 Loan balance at the end of the corporation's tax year. Subtract lines 19 from line 18				

For Paperwork Reduction Act Notice, see separate instructions.

Form 7203 (Rev. 12-2022)

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Case Study, Cont. – Form 7203

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Larry Smith

***-**-0002

Form 7203 (Rev. 12-2022) Page **2**

Part II Shareholder Debt Basis *(continued)*

Section B—Adjustments to Debt Basis				
Description	(a) Debt 1	(b) Debt 2	(c) Debt 3	(d) Total
21 Debt basis at the beginning of the corporation's tax year				
22 Enter the amount, if any, from line 17	12,000			12,000
23 Debt basis restoration (see instructions)				
24 Debt basis before repayment. Add lines 21, 22, and 23	12,000			12,000
25 Divide line 24 by line 18	1.0000			
26 Nontaxable debt repayment. Multiply line 25 by line 19	12,000			12,000
27 Debt basis before nondeductible expenses and losses. Subtract line 26 from line 24	0			
28 Nondeductible expenses and oil and gas depletion deductions in excess of stock basis				
29 Debt basis before losses and deductions. Subtract line 28 from line 27. If the result is zero or less, enter -0-	0			
30 Allowable losses in excess of stock basis. Enter the amount from line 47, column (d)				
31 Debt basis at the end of the corporation's tax year. Subtract line 30 from line 29. If the result is zero or less, enter -0-	0			
Section C—Gain on Loan Repayment				
32 Repayment. Enter the amount from line 19	12,000			12,000
33 Nontaxable repayments. Enter the amount from line 26	12,000			12,000
34 Reportable gain. Subtract line 33 from line 32	0			

Case Study, Cont.

– Sched. D Worksheet

- After claiming the standard deduction and the qualified business income deduction (QBI), Larry's regular tax is \$278,580, computed as follows using the Schedule D Tax Worksheet

Form 1040		Schedule D Tax Worksheet		2024	
Name Larry Smith			Taxpayer Identification Number ***-**-0002		
1.	Enter your taxable income from Form 1040, 1040-SR, or 1040-NR, line 15. (However, if you are filing Form 2555 (relating to foreign earned income), enter instead the amount from line 3 of the Foreign Earned Income Tax Worksheet)	1.	1,482,923		
2.	Enter your qualified dividends from Form 1040, line 3a				
3.	Form 4952, line 4g amount	3.			
4.	Form 4952, line 4e amount	4.			
5.	Subtract line 4 from line 3. If zero or less, enter -0-	5.	0		
6.	Subtract line 5 from line 2. If zero or less, enter -0-	6.	0		
7.	Enter the smaller of line 5 or line 6 of Schedule D	7.	1,390,195		
8.	Enter the smaller of line 3 or line 4	8.			
9.	Subtract line 8 from line 7. If zero or less, enter -0-	9.	1,390,195		
10.	Add lines 6 and 9	10.	1,390,195		
11.	Add lines 18 and 19 of Schedule D	11.	72,803		
12.	Enter the smaller of line 9 or line 11	12.	72,803		
13.	Subtract line 12 from line 10	13.	1,317,392		
14.	Subtract line 13 from line 1. If zero or less, enter -0-	14.	165,531		
15.	Enter \$47,025 if Single or MFS; \$94,050 if MFJ or QSS; \$93,000 if HOH15	15.	47,025		
16.	Enter the smaller of line 1 or line 15	16.	47,025		
17.	Enter the smaller of line 14 or line 16	17.	47,025		
18.	Subtract line 10 from line 1. If zero or less, enter -0-	18.	92,728		
19.	Enter the smaller of line 1 or \$191,950 Sgl/MFS; \$383,900 MFJ/QSS; \$191,950 HOH	19.	191,950		
20.	Enter the smaller of line 14 or line 19	20.	165,531		
21.	Enter the larger of line 18 or line 20	21.	165,531		
22.	Subtract line 17 from line 18. This amount is taxed at 0%	22.			
If lines 1 and 16 are the same, skip lines 23 through 43 and go to line 44. Otherwise, go to line 23.					
23.	Enter the smaller of line 1 or line 13	23.	1,317,392		
24.	Enter the amount from line 22 (if line 22 is blank, enter -0-)	24.	0		
25.	Subtract line 24 from line 23. If zero or less, enter -0-	25.	1,317,392		
26.	Enter \$518,900 Sgl; \$291,850 MFS; \$583,750 MFJ/QSS; \$551,350 HOH15	26.	518,900		
27.	Enter the smaller of line 1 or line 26	27.	518,900		
28.	Add lines 21 and 22	28.	165,531		
29.	Subtract line 28 from line 27. If zero or less, enter -0-	29.	353,369		
30.	Enter the smaller of line 25 or line 29	30.	353,369		
31.	Multiply line 30 by 15% (.15)	31.	53,005		
32.	Add lines 24 and 30	32.	353,369		
If lines 1 and 32 are the same, skip lines 33 through 43 and go to line 44. Otherwise, go to line 33.					
33.	Subtract line 32 from line 23	33.	964,023		
34.	Multiply line 33 by 20% (.20)	34.	192,805		
If Schedule D, line 19, is zero or blank, skip lines 35 through 40 and go to line 41. Otherwise, go to line 35.					
35.	Enter the smaller of line 9 above or Schedule D, line 19	35.	72,803		
36.	Add lines 10 and 21	36.	1,555,726		
37.	Enter the amount from line 1 above	37.	1,482,923		
38.	Subtract line 37 from line 36. If zero or less, enter -0-	38.	72,803		
39.	Subtract line 38 from line 35. If zero or less, enter -0-	39.	0		
40.	Multiply line 39 by 25% (.25)	40.	0		
If Schedule D, line 18, is zero or blank, skip lines 41 through 43 and go to line 44. Otherwise, go to line 41.					
41.	Add lines 21, 22, 30, 33 and 39	41.			
42.	Subtract line 41 from line 1	42.			
43.	Multiply line 42 by 28% (.28)	43.			
44.	Figure the tax on the amount on line 21. If the amount on line 21 is less than \$100,000, use the Tax Table to figure the tax. If the amount on line 21 is \$100,000 or more, use the Tax Computation Worksheet	44.	32,770		
45.	Add lines 31, 34, 40, 43, and 44	45.	278,580		
46.	Figure the tax on the amount on line 1. If the amount on line 1 is less than \$100,000, use the Tax Table to figure the tax. If the amount on line 1 is \$100,000 or more, use the Tax Computation Worksheet	46.	506,869		
47.	Tax on all taxable income (including capital gains and qualified dividends). Enter the smaller of line 45 or line 46. Also, if you are filing Form 1040, 1040-SR, or 1040-NR, line 16, except if you're filing Form 2555, then enter it on line 4 of the Form 1040	47.	278,580		

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Case Study, Cont.

- Larry's total long-term capital gain is \$1,390,195 (\$451,795 + \$933,400 + \$5,000). However, \$72,803 of this amount is taxed as unrecaptured §1250 gain.
- Larry's wages, S corporation pass-through income and unrecaptured §1250 gain are all taxed at his ordinary income tax rate (marginal tax rate is 24%), which is less than the maximum 25% capital gains rate for unrecaptured §1250 gain
- The remaining capital gain is \$1,317,392 (\$1,390,195 – \$72,803), of which \$353,369 is taxed at the 15% capital gains rate and \$964,023 is taxed at the 20% capital gains rate

Liabilities Assumed by Shareholders

- Reduce actual amount received by liabilities assumed
- Reduces gain or increases loss
- Remaining payments not deductible



Liquidating Distribution of Property Subject to Liability

- Shareholder receives full FMV of property
 - Amount reported on Form 1099-DIV, Box 10, is not reduced by liability
- Shareholder adds liability to stock basis when reporting sale of stock in liquidation
- Shareholder's basis in noncash property = FMV of property
 - Do not add liability shareholder assumed to basis



Liquidating Distributions Over Several Years

- Gain recognized when payments exceed stock basis
- Losses generally recognized when final distribution is made



REVIEW QUESTIONS



THANK YOU

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