

## Addendum for Entities- The Basis of Tax Strategy

### 1. Sole Proprietorship

- a. Advantages
  - i. Easy to start
  - ii. Allows for flexibility in management
  - iii. Simpler tax process
  - iv. Recordkeeping is reduced
  - v. Less government controls
  - vi. Easy to dissolve
- b. Disadvantages
  - i. Unlimited liability
  - ii. Limited resources/ financing
  - iii. Limited business expertise
  - iv. Informal Professional appearance

### 2. Entity Classification Election

- a. Dave has come to your office to prepare his taxes in late March 2022. As he is being interviewed he indicates that he wants his business to be treated as a corporation. He was being treated as a disregarded entity as a sole proprietor by default but he does already have an EIN. Dave wants his election to be a corporation beginning 1 January 2022.
  - i. Can Dave file 8832 with a election date of 1 January 2022?
  - ii. What other course of action can Dave take?

### 3. Accounting Period

- a. Dave determines that due to his approved change in his entity, he needs to file a return of a short tax year. Dave has adjusted gross income of 60,000 with expenses of 20,000. What is Dave's taxable income.
  1. Annualized income = short year income X (12mos/4 mos) (short tax year)  
Annualized income = (60,000-20,000) X 3 = 120,000
  2. Annualized income tax = annualized income X tax rate  
Annualized income tax = 120,000 x 24% = 28,800
  3. Short Tax year Tax= Annualized income tax X short year/12 months  
28,800 X4/12= 9.600

If Dave did not have to annualize his income:

1. 60,000-20,000= 40,000X 12% = 4,800.

### 4. Accounting methods

- a. Dave operates a business that provides IT parts and services. He is on accrual basis. He ships IT parts to a tax attorney, George on 23 December 2021. Due to the holidays, Dave sends out his invoice on January 15, 2022. George receives parts on 5 January, 2022 and the invoice on 22 January. George mails the check on 30 January 2022. Dave receives the check on 5 February and deposits it the same day.
  - i. When does Dave report the income?
    1. Invoice date
    2. Deposit date
    3. Receipt date of parts
    4. Shipping date
  - ii. All events test occurs on which date?