



# 2023 S Corporation Income Tax Return Checklist

## Form 1120-S (Short)

Business name \_\_\_\_\_

Prepared by \_\_\_\_\_ Date \_\_\_\_\_ Reviewed by \_\_\_\_\_ Date \_\_\_\_\_

### 100) General

Yes/ Done	No/ N/A
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NOTE: This checklist does not include steps to assist clients with their compliance with the Corporate Transparency Act (“CTA”), including beneficial ownership information (“BOI”) reporting. If an engagement to assist with compliance with CTA is entered into, a separate engagement letter should be obtained. Consider consulting with your liability insurance provider and legal counsel for further information. Information regarding the BOI reporting requirements can be found at <https://www.fincen.gov/boi>.

- ▶ 101) Determine if this is a first-year return or a final return. If so, take additional steps as necessary. Consider reviewing the [AICPA Tax Section's Initial Business Return Filing Checklist](#) and the [IRS's Closing a Business Checklist](#).
- ▶ 102) Obtain a signed engagement letter (applicable for paid preparers).
- ▶ 103) Consider asking the appropriate corporate officer to execute a Form 2848 and/or Form 8821. Also consider state or local authorizations.
- ▶ 104) Request/review correspondence, to or from the IRS or state tax authority, including any adjustments made to prior returns that could affect later returns.
- ▶ 105) If any adjustments were made to previous returns, verify that shareholders have been notified and determine whether any additional adjustments or filings are necessary.
- ▶ 106) Review the proforma or organizer for accuracy.
- ▶ 107) Review any business financial statements and footnotes for relevant information, if applicable.
- ▶ 108) Obtain and review a copy of the prior year’s federal and state(s) return, including all forms and supporting schedules.
- ▶ 109) Identify the authorized officer who will sign the return.
- ▶ 110) Confirm the corporation’s name, employer identification number, address, tax year and business code.
- ▶ 111) Reconcile income and expenses with book entries and review Schedule M-1 of the prior year’s return.
- ▶ 112) Obtain a copy of Schedule K-1 from each partnership or LLC in which the corporation is a partner or member.

Yes/ No/  
Done N/A

- ▶ 113) Check for carryover items such as prior year deferred income and deductions, installment sales, Sec. 481 adjustments and Sec. 179 amounts.
- ▶ 114) Was S corporation status first elected for this taxable year? If so, confirm that Form 2553 is valid, IRS approval was received, and the election is in effect during the year.
  1. Was the corporation formerly taxed under Subchapter C? If so, determine the following: the extent of the unrealized built-in gain at the time of the election, C corporation's earnings and profits, the passive income of the corporation and whether LIFO inventories were used in the last C corporation year.
- ▶ 115) Was the S corporation election terminated during the year because of a disqualifying event (e.g., excess number of shareholders, disqualifying shareholder, second class of stock, etc.)? If so, and termination is not desired, consider filing for inadvertent termination relief.
- ▶ 116) With respect to each person who was a shareholder at any time during the taxable year, obtain the following: full name, tax identification number, address, tax year and number or percentage of shares owned at any time during the year.
- ▶ 117) Verify that items of income, deductions, credits, etc., are allocated to the shareholders on a per-share, per-day basis.
- ▶ 118) Did the corporation receive (as a reward, award, or payment for property or services) or sell, exchange or otherwise dispose of a digital asset (or a financial interest in a digital asset) during the tax year? If so, determine the reportable amount realized.
- ▶ 119) Consider if any qualified disaster relief provisions apply to the corporation for 2023 (related to due dates of federal and state/local returns)?

Comments/explanations

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## 200) Income

Yes/ No/  
Done N/A

- ▶ 201) Request all Forms 1099 received by the corporation.
- ▶ 202) For each item of income received by the corporation, determine whether it is trade or business, portfolio, rental or foreign-source income.
- ▶ 203) Does the corporation engage in any passive activities under Sec. 469? If so, determine if the grouping of activities is adequate and consistent with prior years.
- ▶ 204) Did the corporation lease any vehicles for business use in the taxable year? If so, calculate the appropriate income inclusion for leased vehicles and property under IRS tables.
- ▶ 205) Were there any related-party transactions? If so, determine the effects of Sec. 267 and Sec. 1239.
- ▶ 206) Was any income deferred for book purposes? Was any income deferred for book purposes in the prior year but included for tax purposes this taxable year. If so, determine adjustments as necessary.
- ▶ 207) Was the corporation relieved of any debt obligation in the taxable year, other than by means of payment? Determine if there is an exclusion of cancellation of debt income in the taxable year? If so, prepare Form 982.

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**Financial transactions**

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- ▶ 208) Were any shares of stock or other securities sold during the year? If so, determine:
1. Dates purchased and sold, number of shares (stock) or maturity date (bonds), cost basis and gain/loss
  2. Dealer status for Sec. 475 treatment (adjust assets to fair market value (FMV) and apply loss limitations to items not timely identified in the corporate books and records)
  3. Wash sale rules applicability (Sec. 1091)
  4. Straddle rules applicability and applicable election consequences (Sec. 1092)
  5. Short sales applicability
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- ▶ 209) Did any securities become worthless during the taxable year? If so, obtain the following: name of the issuer, number of shares (stock) or maturity date (bonds), date acquired, basis, the date on which such securities became worthless and facts demonstrating worthlessness.
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**Interest/dividends**

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- ▶ 210) Did the corporation receive any interest from U.S. Treasury bills, notes or other bonds? If so, address state tax reporting rules.
- ▶ 211) Did the corporation receive any interest on tax-exempt state or local obligations? If so, address state tax reporting rules and report on Schedule K, Line 16a.
- ▶ 212) Compare the sources and amounts of interest/dividend income with prior year returns.
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**Gain or loss on property**

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- ▶ 213) Did the corporation have any sales of tangible property or other assets other than inventory in the taxable year? To complete Schedule D (Form 1120) and Form 4797, *Sales of Business Property*, obtain all the following:
1. Forms 1099-B and/or 1099-S
  2. Closing Disclosures for any purchases or sales of real property
  3. The selling price, original cost basis, accumulated depreciation (if applicable), date purchased and date sold, nature (i.e., method) of accumulated depreciation taken in prior years and proper reporting based on the use of the property (personal, rental or business)
- ▶ 214) Did the corporation dispose of any property, including through a distribution to shareholders? If so, determine the following: the total amount of the gain or loss on each transaction, character and the amount of depreciation recapture, if any.
- ▶ 215) Do the installment method rules apply to any sales made by the corporation during the taxable year? If so, determine the proper calculation of capital gain, interest and ordinary income on installments.
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Yes/ No/  
Done N/A

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**Rental income**

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- ▶ 216) For each rental property, obtain a description of the type and location of the property and the total rent income and itemized expenses.
  - ▶ 217) Report real estate rental activities on Form 8825. Consider grouping of rental activities for passive activity limitation purposes. Determine type of rental property, including whether the passive activity self-rental rules apply and request the number of rental days and personal-use days (if any) during 2023. Determine if the short-term rental/vacation home rules apply.
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Comments/explanations

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**300) Deductions and losses**

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Yes/ No/  
Done N/A

**Depreciation/amortization**

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- ▶ 301) Consider whether the corporation should make a Sec. 179 election (on Form 4562) to immediately expense part or all the cost of qualifying property. Note that the 2023 Sec. 179 deduction limit is \$1.16 million with the phase out beginning at \$2.89 million of property placed in service. New or used tangible property, including lodging property, roofs, HVAC, fire systems and security systems, purchased and placed in service during the tax year, are potentially eligible.
  - ▶ 302) Did the corporation acquire any property in the taxable year that qualifies for bonus depreciation? If so, determine if electing out of bonus depreciation is appropriate. Note that bonus depreciation is 80% for 2023 tax year.
  - ▶ 303) Determine the following for each asset placed in service during the taxable year: the modified accelerated cost recovery system (MACRS) life, the appropriate depreciation method and the applicable convention.
  - ▶ 304) Did the corporation make any improvements that are classified as qualified improvement property (QIP) during the taxable year? If so, note the proper MACRS life.
  - ▶ 305) Did the corporation acquire any software in the taxable year? If so, determine whether the 36-month depreciation rules can be applied.
  - ▶ 306) Did the corporation incur any research and development expenses (Sec. 174)? Note that software development costs are treated as Sec. 174 costs, and that these costs must now be capitalized and amortized over five years beginning in 2023. Absent legislation, costs identified as Sec. 174 must be capitalized and amortized over five years beginning in 2022.
  - ▶ 307) Have any assets been demolished or abandoned or are any assets out of service? If so, confirm proper reporting of disposal and consider any credit recapture.
  - ▶ 308) Determine if real property and equipment leases are operating leases or capital leases. Consider any Schedule M-1 adjustments as necessary.
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**Shareholder transactions**

- ▶ 309) Were there any loss transactions or expense amounts accruing to a shareholder or related party? If so, determine whether the Sec. 267 rule limiting the deduction applies.
- ▶ 310) Obtain current year contributions to retirement plans. Verify that contributions were made using the eligible contribution limit according to the plan.
- ▶ 311) Did the corporation pay insurance premiums for a group health insurance plan for any more-than-2% shareholder/employee? If so, verify that the premiums paid are reported as taxable wages on the shareholder's Form W-2 (but not subject to Social Security and Medicare) and deducted by the corporation.
- ▶ 312) Did the corporation pay other fringe benefits for more-than-2% shareholders? If so, verify that the fringe benefits that are claimed as deductions by the corporation have been reported on the shareholders' Forms W-2 as wages.

**Interest expense**

- ▶ 313) Was any interest paid in the taxable year? If so, confirm that interest is properly allocated among passive activities, business activities and investment income activities.
- ▶ 314) Does the corporation have average annual gross receipts in excess of \$29 million (an aggregate test)? If so, determine whether interest expense deduction limitations under Sec. 163(j) are applicable.

**Business gifts, travel, meals and entertainment**

- ▶ 315) Advise the taxpayer that business gift deductions are limited to \$25 per recipient.
- ▶ 316) For any separate travel expense exceeding \$75, advise the taxpayer to maintain a receipt and a documentary item of evidence of the time and place, business purpose and business relationship with the person being entertained.
- ▶ 317) Determine the disallowed portion of meals expenses, as well as club dues, and verify the correct reporting on Schedule K-1. Note that the 50% limit applies to on-premises meals provided for the convenience of the employer.
- ▶ 318) Confirm that expenses determined to be entertainment related are not deducted.

**Charitable contributions**

- ▶ 319) Did the taxpayer make qualified contributions? If so, report contributions with the appropriate contribution code and allocate them pro rata to shareholders.
- ▶ 320) Did the corporation make any property contributions to charitable organizations in the taxable year? If so, obtain the necessary information for disclosure. Prepare Form 8283 and provide a copy to each shareholder. Obtain the signature of a qualified appraiser, if applicable.

**Uniform capitalization rules/long-term contracts**

- ▶ 321) Did the corporation produce or acquire property for inventory in the taxable year? If so, verify the correct application of the uniform capitalization rules under Sec. 263A, considering that most producers or re-sellers meeting the \$29 million gross receipts test (an aggregate test, combined with relevant related parties) are exempt from the uniform capitalization rules.

Yes/ No/  
Done N/A

- ▶ 322) Did the corporation enter any contracts for the manufacture, building, installation or construction of property in the taxable year that were not completed at the end of the year? If so, consider electing the simplified method of allocating costs or the modified percentage-of-completion method. Note that the completed-contract method may be used for contracts for the construction of real property that is expected to be completed within two years or less if the corporation meets the \$29 million gross receipts test (an aggregate test).

**Other deductions**

- ▶ 323) Did the corporation incur any lobbying expenses in the taxable year? If so, confirm that such expenses are not deducted.
- ▶ 324) Did the corporation pay any trade association dues in the taxable year? If so, determine if such dues include nondeductible lobbying expenses.
- ▶ 325) Did the corporation pay any expenses for employee parking and/or mass transit? If so, consider deductibility. See Sec. 274(e).
- ▶ 326) Confirm that no amount was deducted for fines paid to, or at the direction of, a government or governmental entity in relation to the violation of any law or the investigation or inquiry by such government or entity into the potential violation of any law (except for amounts paid or incurred under any binding order or agreement where the approval was obtained before Dec. 22, 2017). See Sec. 162(f).
- ▶ 327) Verify that the specific write-off method is used for bad debts.
- ▶ 328) Was there any inventory write-down for book purposes? If so, determine if there should be an adjustment for tax purposes.
- ▶ 329) Did the corporation have any long-term lease agreements where the lease provides for deferred payments or increasing payments? If so, verify the proper treatment under Sec. 467.
- ▶ 330) Review increases or decreases in reserve accounts for potential M-1 items.
- ▶ 331) Did the corporation place in service any energy efficient commercial building property (EECPB) during the taxable year? If so, determine deduction available under Sec. 179D by completing Form 7205.

Comments/explanations

**400) Credits/Elections**

Yes/ No/  
Done N/A

- ▶ 401) Determine the amount of income taxes paid to a foreign country or U.S. possession and consider whether the holding period is met for taxes paid on dividends. Consider credits for foreign taxes (including an election of the simplified computation of the credit limitation). Note that this information is now reported on Schedules K-2/K-3 unless the taxes paid or accrued are not more than \$300 and the corporation meets the domestic filing or Form 1116 exception.

Yes/ No/  
Done N/A

▶ 402) Did the corporation pay any employees who took leave under the Family Medical Leave Act (FMLA) in 2023? If so, consider whether the corporation is eligible for a credit under Sec. 45S.

▶ 403) Determine whether the corporation qualifies for any other tax credits.

▶ 404) Determine if the corporation should make the safe harbor election to expense the acquisition costs of materials and supplies and other tangible property.

▶ 405) Consider making an election to expense repairs and maintenance under the safe harbor rules.

▶ 406) Consider an election to deduct up to \$5,000 of organizational expenses and up to \$5,000 of business start-up costs.

▶ 407) Consider whether any other elections are necessary.

Comments/explanations

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### 500) Foreign transactions and reporting

Yes/ No/  
Done N/A

Schedule K-2 is used to report items of international tax relevance from the operation of a S corporation. Schedule K-3 is an extension of Schedule K-1 and is generally used to report to shareholders their share of items reported on Schedule K-2.

Consider domestic filing exception and Form 1116 exemption exception for Schedules K-2 and K-3.

▶ 501) At any time during the tax year, did the corporation have an interest in, or a signature or other authority over, a financial account in a foreign country with an aggregate balance of at least \$10,000? If so, prepare FinCEN Forms 114 and 114a (due by April 15 with an automatic extension to October 15 for the preceding calendar year). Note that FinCEN has announced its intention to amend the regulations to include virtual currency accounts, but no such regulations have yet been adopted.

▶ 502) If the corporation has foreign business activity, consider reviewing other international filing obligations shown in the Form 1120-S long checklist.

Comments/explanations

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### 600) Other federal, state and local filing issues

Yes/ No/  
Done N/A

▶ 601) Verify that all items required to be separately stated are properly disclosed to the shareholder. Determine that proper reporting and detail have been provided for all items that affect the shareholder's tax liability.

- ▶ 602) Confirm that Schedules K-1 report results on an activity-by-activity basis. Note the requirement to indicate on Schedules K-1 whether more than one activity exists for at-risk and/or passive activity purposes and provide additional information as necessary.
- ▶ 603) Apply the at-risk rules to the corporation's activities. Note the requirement to indicate if activities have been aggregated for the purpose of the Sec. 465 at-risk rules; see page one of Form 1120-S, item J(1).
- ▶ 604) Have activities been grouped for the purpose of the Sec. 469 passive-activity rules? If so, note the requirement to indicate whether the activities have been grouped; see page one of Form 1120-S, item J(2).
- ▶ 605) Has the corporation elected into the pass-through entity tax (PTET) regime? (Note that the PTET is required for CT.) If so, confirm that the tax was properly paid and elected. See Notice 2020-75 for federal reporting rules. Determine that the entity tax is calculated and determined based on each states' rules and the information for the partners is provided as necessary.
- ▶ 606) Determine that proper reporting and detail have been provided for all items that affect a shareholder's potential Sec. 199A deduction.
- ▶ 607) Did the corporation have undistributed C corporation earnings and profits at the beginning of the taxable year? If so, determine the following: whether any distributions should be treated as taxable dividends (issue Forms 1099-DIV) and whether the passive investment income is greater than 25% of gross receipts.
- ▶ 608) Determine that equity increases and decreases (Schedule M-2) are properly segregated among the accumulated adjustment account, the other adjustments account and the shareholder's undistributed previously taxed income.
- ▶ 609) Determine if health plan(s) and/or reimbursement arrangements are compliant with the Affordable Care Act (ACA). If applicable, file Form 1094/1095-C.
- ▶ 610) Determine if the corporation has filed all required Forms 1095, 1098, 1099 and 1042 and any other information returns necessary. Note that corporations that have 10 or more information returns are generally now required to file them electronically.
- ▶ 611) Consider checking the box to allow the IRS to contact the preparer.
- ▶ 612) Determine if all tax positions meet the "substantial authority" standard or if any positions disclosed on Form 8275 meet the "reasonable basis" standard.
- ▶ 613) Is the corporation required to electronically file its federal return. Note [T.D. 9972](#) has changed the electronic filing requirement.
- ▶ 614) Determine state and local filing requirements. For more information, see the AICPA's [State and Local Tax Roadmap and Resource Center](#). Consider items such as nexus, apportionment and state adjustments/credits.

Comments/explanations

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**700) Professional responsibilities and reminders – FOR PAID PREPARER USE**

Yes/ No/  
Done N/A

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- ▶ 701) Confirm that you/your firm have met all professional responsibilities as outlined in the AICPA Code of Professional Conduct, AICPA Statements on Standards for Tax Services and federal and state authorities, such as Circular 230. Consider potential conflicts of interest, preparer penalties and reminders to clients about their responsibility for the contents of the tax return.

Consider the AICPA hosting services interpretation ([ET Sec. 1.295.143](#)) applicability to your clients.

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- ▶ 702) Internal processing procedures:

- Reconcile source documents to completed return results.
- Prepare filing instructions and a transmittal letter.
- Confirm delivery instructions (portal, mail, pickup or delivery).

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- ▶ 703) Provide your client with complete federal and state returns, including copies of any disclosure consent form(s) and advise your client to retain copies for at least six years. Return original documents to your client and provide other documents/support, as applicable.

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Comments/explanations

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