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FORMULA SHEET

CPA TCP

Tax Compliance & Planning

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TOPICS

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TAX COMPLIANCE AND PLANNING FOR INDIVIDUALS

6 items

Individual AMT formula (TCP emphasis)

TI + Preferences + Adjustments = AMTI
 – Exemption = AMT Base
 $\times 26\%$ ($\leq \$220,700$) or 28% = TMT
 $AMT = \max(0, TMT - \text{Regular Tax})$

At-risk basis (§465)

At-risk = cash + property basis + recourse debt.
 Losses deductible only to extent of at-risk basis; excess suspended.
 Non-recourse debt does NOT increase at-risk (except qualified non-recourse RE).

Passive activity loss (PAL) rules

Passive losses offset only passive income; suspended losses carry forward.
 Full disposition releases all suspended losses.
 Active rental: $\leq \$25k$ (PO $\leq \$100k - \$150k$ AGI).
 Material participation: 500+ hrs.

Net operating loss (NOL) carryforward (post-TCJA)

NOL carryforward: indefinite (no carryback for most taxpayers post-2017).
 Deduction limited to 80% of taxable income in carryforward year.
 Exceptions: farming NOLs may carry back 2 years; casualty/disaster losses may carryback.

Estimated tax penalty safe harbor (TCP)

Tax paid \geq lesser of:
 90% current year, OR
 100% prior year (110% if prior AGI $> \$150k$).
 Corps: 100% prior or 100% current (no 110%).

Self-employment (SE) tax calculation

Net SE Earnings = Net SE Income $\times 92.35\%$
 $SE Tax = 15.3\% \times NE$ up to SS base + $2.9\% \times$ excess.
 +0.9% Add'l Medicare on $> \$200k$ ($\leq \$250k$ MFJ). Deduct 50% above-the-line.

ENTITY TAX COMPLIANCE

6 items

Partnership inside vs. outside basis

Outside: partner's basis in interest.
 Inside: partnership's basis in its assets.
 Contribution: outside = contributor's carryover basis; inside = same.
 §754 election: allows inside step-up on transfer/death.

S-corporation accumulated adjustments account (AAA)

AAA: cumulative post-S-election income (net of losses).
 Distributions ordering:
 1. AAA \rightarrow tax-free (basis reduction)
 2. AEP \rightarrow taxable dividend
 3. Remaining basis \rightarrow return of basis
 4. Excess \rightarrow capital gain

C-corporation earnings and profits (E&P)

E&P = economic dividend capacity. Start with TI:
 + Tax-exempt income
 + Depr. difference (E&P uses ADS)
 – Federal taxes, – non-deductible expenses.
 Distributions reduce E&P; excess \rightarrow basis \rightarrow capital gain.

Section 338(h)(10) election

Joint election: treat stock sale as asset sale.
 Seller: asset-level G/L ($\leq \$1245/\1250 recapture possible).
 Buyer: stepped-up basis via §1060 residual method.
 Target: consolidated-group sub or S-corp only (not standalone C-corps).

Built-in gains (BIG) tax for S-corp conversion

Applies to C \rightarrow S conversion selling appreciated assets within 5-yr recognition period.
 $BIG Tax = 21\% \times \min(\text{Recognized BIG}, TI)$
 Net BIG = FMV at conversion – basis at conversion.

CFC Subpart F income

CFC: U.S. shareholders own $> 50\%$ voting/value.
 Subpart F income taxed currently (no distribution needed) to $\geq 10\%$ U.S. shareholders on passive/tax-haven income.
 GILTI: 10.5% min tax on intangible low-taxed income.

ENTITY TAX PLANNING

2 items

Entity selection: tax comparison

Sole prop/partnership/S-corp: pass-through, SE tax applies.
 C-corp: 21% flat, double tax on dividends.
 S-corp: split salary (SE tax) vs. distribution (no SE).
 QBI 20%: pass-throughs only, not C-corps.

Dividends-received deduction (DRD) – corporate

$< 20\%$ ownership: 50% DRD.
 $\geq 20\%$ but $< 80\%$: 65% DRD.
 $\geq 80\%$ (affiliated): 100% DRD.
 DRD limited to applicable percentage of taxable income before DRD, unless allowing full DRD would create/increase an NOL.

Installment sale gross profit ratio

$$\text{GP Ratio} = \frac{\text{GP}}{\text{Contract Price}}$$

$$\text{Income} = \text{GP Ratio} \times \text{Payments (ex. interest)}$$

$$\text{Contract price} = \text{selling price} - \text{qualifying debt assumed.}$$

Like-kind exchange: boot and gain recognition

$$\text{Boot Recd} = \text{Cash} + \text{FMV non-LK} + \text{Liab. assumed by buyer} -$$

$$\text{Liab. assumed by taxpayer}$$

$$\text{Gain Recog} = \min(\text{Realized Gain}, \text{Boot Recd})$$

Deferred gain reduces replacement basis.