

FREEFELLOW

FORMULA & LIMITS SHEET

EA PART 2

IRS · Businesses (2025 tax year)

52

ITEMS

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TOPICS

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BUSINESS ENTITIES AND CONSIDERATIONS

12 items

Section 752 net deemed distribution on contribution of encumbered property

Net = Debt assumed by partnership – Contributor’s new share of that debt – gain recognized only if Net exceeds contributor’s outside basis (§731(a))

Section 751 hot-asset ordinary income on sale of a partnership interest

Ordinary = Share of unrealized receivables + Share of inventory items – remainder of total gain is capital under §741

Section 6698 partnership late-filing penalty

$P = \$245 \times N \times M$ – N = number of partners, M = months late (max 12); 2025 amount; Rev. Proc. 84-35 relief for ≤10-partner partnerships

Amount realized on sale of a partnership interest (§741)

$AR = C + DR - B$ – AR = amount realized (gain), C = cash received, DR = partner’s share of debt relieved, B = outside basis

Partner’s outside basis in a partnership

$B = \text{Cash} + AB_{prop} + \text{Debt share} + \text{Income} - \text{Distributions} - \text{Losses} - AB$ = adjusted basis of contributed property; basis cannot go below zero (§§722, 705, 752)

S corporation shareholder loss deduction limit

$L_{max} = B_{stock} + B_{debt}$ – B_stock = adjusted stock basis after distributions and nondeductibles, B_debt = basis in direct shareholder loans; excess suspends and carries forward

Section 357(c) recognized gain on liability excess

$G_{357(c)} = \max(0, L - B)$ – L = liabilities assumed by corporation, B = total adjusted basis of property transferred

Accumulated earnings tax

$AET = 0.20 \times (ATI - C)$ – ATI = accumulated taxable income, C = \ \$250,000 credit (\ \$150,000 for personal service corporations)

C corporation charitable contribution deduction limit

$D_{char} \leq 0.10 \times TI_{pre}$ – TI_pre = taxable income before charitable deduction, DRD, NOL carryback, and capital-loss carryback; 5-year carryforward of excess

Shareholder stock basis in a Section 351 exchange

$B_s = B_p + G_r - \text{Boot} - L_a$ – B_p = basis of property transferred, G_r = gain recognized, Boot = cash/other property received, L_a = liabilities assumed by corporation

Gain recognized on boot in a Section 351 exchange

$G = \min(\text{Boot}, G_{realized})$ – Boot = cash plus FMV of non-stock property received, G_realized = FMV received minus basis of property transferred; loss never recognized

Corporation’s carryover basis in property received under §351

$B_c = B_s + G_r$ – B_c = corporation’s basis, B_s = shareholder’s adjusted basis in property, G_r = gain recognized by the shareholder

BUSINESS TAX PREPARATION

12 items

Section 163(j) business interest expense limitation

$Cap = BII + 0.30 \times ATI + FPI$ – BII = business interest income, ATI = adjusted taxable income, FPI = floor-plan financing interest

Section 195 first-year start-up cost deduction

$Yr1 = \max(0, \$5,000 - \max(0, S - \$50,000))$ – S = total start-up costs; remainder amortized straight-line over 180 months from start

Cost of goods sold

$COGS = BI + P + L + O - EI$ – BI = beginning inventory, P = purchases, L = direct labor, O = other production costs, EI = ending inventory

Insolvency amount for §108 COD exclusion

$Insolvency = L - A$ – L = total liabilities immediately before discharge, A = FMV of total assets immediately before discharge; exclusion capped at this amount

Section 199A W-2 wage and UBIA limit above threshold

$Limit = \max(0.50 \times W2, 0.25 \times W2 + 0.025 \times UBIA)$ – W2 = W-2 wages paid, UBIA = unadjusted basis immediately after acquisition of qualified property

Section 199A qualified business income deduction

$QBI\ ded = \min(0.20 \times QBI, 0.20 \times (TI - NCG))$ – QBI = qualified business income, TI = taxable income, NCG = net capital gains

Depreciable basis on personal-to-business conversion

$B = \min(AB, FMV)$ – AB = adjusted basis at conversion, FMV = fair market value at date of conversion

Small taxpayer safe harbor building expense cap

$Cap = \min(0.02 \times UB, \$10,000)$ – UB = unadjusted basis of the building (§1.263(a)-3(h))

Section 7872 imputed interest on a below-market loan

$I = AFR \times P$ – AFR = applicable federal rate, P = loan principal outstanding

Realized gain or loss on property disposition

Gain/Loss = $AR - AB$ – AR = amount realized, AB = adjusted basis at sale

Adjusted basis of property

$AB = CB + I - D$ – CB = cost basis, I = capital improvements, D = depreciation taken or allowable (§1016)

Section 1245 ordinary depreciation recapture

Recapture = $\min(\text{Gain}, \text{Depreciation taken})$ – taxed as ordinary income; remaining gain is Section 1231

Section 4975 first-tier excise tax on a prohibited transaction

Tax = $0.15 \times$ Amount involved — assessed per year until corrected; rises to 100% if not corrected

IRS method rental allocation for a mixed-use vacation home

Rental % = $\frac{\text{Rental days}}{\text{Rental days} + \text{Personal days}}$ — fraction applied to all expenses to split rental vs personal

Trust distribution deduction (sections 651 and 661)

DD = $\min(\text{Distributions}, \text{DNI} - \text{net tax-exempt income})$ — DD = distribution deduction, DNI = distributable net income

Distributable net income for a trust

DNI = TI + Exemption + Tax-exempt interest — Capital gains to corpus — TI = taxable income before distribution deduction

Farm optional method self-employment earnings

SE earnings = $\frac{2}{3} \times$ Gross farm income — capped at $\$7,320$ (2025); available when net farm earnings < $\$7,493$

SEP-IRA contribution limit for a self-employed individual

$C = \min(0.20 \times \text{NESE}_{\text{net}}, 70,000)$ — NESE_{net} = net SE earnings less the deductible half of SE tax (2025 cap)

Section 280A vacation home personal-use threshold

Threshold = $\max(14, 0.10 \times R)$ — R = rental days; exceeding the threshold makes the property a residence with deductions capped at rental income

Section 469(i) rental loss allowance after MAGI phaseout

$A = \max(0, 25,000 - 0.5 \times \max(0, \text{MAGI} - 100,000))$ — A = allowed active-participation loss; fully phased out at $\$150,000$ MAGI

LIMITS & THRESHOLDS

BUSINESS ENTITIES AND CONSIDERATIONS

8 items

Form 990 is required at gross receipts \geq **$\$200,000$** or assets \geq **$\$500,000$** ; the 990-N e-postcard applies when receipts are \leq **$\$50,000$** .

The $\S 6698$ late-filing penalty for Form 1065 is **$\$245$** per partner per month, capped at **12 months**.

$\S 6221(b)$ BBA opt-out requires \leq **100** K-1s with all eligible partners; the $\S 6226$ push-out election must be made within **45 days** of the FPA.

$\S 183(d)$ safe harbor shifts the burden of proof to the IRS with profit in **3 of last 5 years** (**2 of 7** for horse breeding/racing).

The **20%** accumulated earnings tax applies above a credit of **$\$250,000$** (or **$\$150,000$** for personal service corporations).

S corporations require \leq **100** eligible shareholders, **one** class of stock, and a Form **2553** election by the 15th day of the 3rd month.

$\S 1244$ allows ordinary-loss treatment up to **$\$50,000$** (**$\$100,000$** MFJ) on the first **$\$1$ million** of stock issued to original shareholders.

The dividends-received deduction is **50%** for under 20% ownership, **65%** for 20% to 80%, and **100%** for affiliated 80%+ groups.

BUSINESS TAX PREPARATION

8 items

Business gifts are capped at **$\$25$** per recipient per year, and the simplified home office method maxes at **$\$1,500$** (**300** sq ft \times $\$5$).

The $\S 199A$ QBI deduction is **20%** of QBI with 2025 thresholds of **$\$241,950$** single and **$\$483,900$** MFJ.

For 2025, $\S 179$ expensing is capped at **$\$1,250,000$** with phase-out beginning at **$\$3,130,000$** of total purchases.

Bonus depreciation in 2025 is **40%**, the standard mileage rate is **70¢** per business mile, and business meals are **50%** deductible.

$\S 1031$ like-kind exchanges require identification within **45 days** and closing within **180 days**, reported on Form **8824**.

The de minimis safe harbor allows expensing up to **$\$2,500$** per item without an AFS or **$\$5,000$** per item with an AFS.

A net negative $\S 481(a)$ adjustment is taken in **1 year** (favorable) while a net positive is spread over **4 years** (unfavorable).

For 2025 $\S 280F$ passenger autos, year-1 depreciation is capped at **$\$12,200$** (or **$\$20,200$** with bonus depreciation).

SPECIALIZED RETURNS AND TAXPAYERS

4 items

Trusts hit the 37% bracket at **$\$15,650$** (2025); the personal exemption is **$\$300$** simple, **$\100** complex, **$\$600$** estate.

Real estate professional status requires more than **750 hours** and more than **50%** of personal services in real property trades.

2025 $\S 401(k)$ elective deferral is **$\$23,500$** with **$\$7,500$** age-50 catch-up and **$\$11,250$** super catch-up for ages **60-63**.

The $\S 469(i)$ **$\$25,000$** active-participation rental allowance phases out $\$0.50$ per dollar of MAGI between **$\$100,000$** and **$\$150,000$** .

