PacificCPE

COURSE

32703A

Tax Planning for Small Business: Part 3

From filing deadlines and refund claims to IRS audits and succession planning, the back-end of small business tax work requires careful attention to process and timing. This course walks through best practices for filing returns and paying taxes accurately, guides you through retirement and succession planning strategies for business owners, and explains how to navigate IRS audits effectively. You'll also learn how to leverage available IRS services and tools to better support your clients throughout the year.

CREDIT HOURS 2 | FIELD OF STUDY TAXES | EXAM QUESTIONS 10

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LEARNING ASSIGNMENTS AND OBJECTIVES

Assignment

- Study the full course materials included here.
- Complete the review questions after each chapter.
- Answer 10 final exam questions.
- Final exam is scored immediately, 70% or better passes.
- Certificate of completion is available in your account.
- Failed exams can be retaken free of charge.

Course Objectives

- Identify the nuances of estimated taxes, electronic filing, and extensions.
- Identify strategies for retirement and succession planning.
- Identify the various types of audits.
- Identify the individuals that can be designated officials for a corporation's Business Tax Account.

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Chapter 1: FILING TAX RETURNS, PAYING TAXES, AND MAKING REFUND CLAIMS

Chapter Objective

After completing this chapter, you should be able to:

- Identify the nuances of estimated taxes, electronic filing, and extensions.

It's one of the facts of a business owner's life to file returns and pay taxes. The filing deadlines and tax payment rules for businesses and their owners may be different from those for individuals. Making sure you comply with filing and payment requirements is essential for avoiding unnecessary penalties and interest. Paying taxes and other business tax activities can be conducted through a Business Tax Account, explained in Chapter 4.

For more information about the electronic federal tax payment system, see IRS Publication 966, Electronic Federal Tax Payment System.

INCOME TAX DEADLINES AND EXTENSIONS

The date by which your business return must be filed depends on your type of entity and tax year. The information in Table 8.1 on the following page applies for 2025 returns to businesses reporting on a calendar-year basis.

Partnerships, limited liability companies, and S corporations must also furnish owners with a Schedule K-1 (and K-3, if applicable) by the return’s due date.

For C corporations on a fiscal year ending other than June 30, the due date is the 15th day of the 4th month after the close of their fiscal year. For example, a C corporation on a fiscal year ending on July 31 has a filing deadline of November 15. For C corporations with a fiscal year ending June 30, the due date is the 15th day of the 3rd month after the end of its tax year. So, the filing due date is September 15 if the C corporation has a fiscal year ending June 30.

For all other entities on a fiscal year, the due date is the 15th day that is 3½ months after the close of their fiscal year. For example, a limited liability company reporting on a fiscal year ending September 30 has a filing deadline of January 15 of the following year.

If any due date falls on a Saturday, Sunday, or legal holiday, the due date becomes the next business day. For example, the deadline for a C corporation with a fiscal year ending July 31, 2025, to file its 2025 income tax return is November 17, 2025 (November 15 is a Saturday).

TABLE 8.1 USUAL FILING DEADLINES*

Type of Entity	Income Tax Return	Return Due Date
Sole proprietorship	Schedule C or F of Form 1040 1040-SR	or April 15
Partnership	Form 1065	March 15
Limited liability company	Form 1065	March 15
S corporation	Form 1120-S	March 15
C corporation	Form 1120	April 15

*Assuming the business reports on a calendar year basis.

Filing Methods

Small business owners can choose to file paper returns or file electronically; certain large entities must file electronically (explained later in this chapter). The filing method does not affect the filing deadline.

Filing Extensions

If, for any reason, you are unable to file on time, you can avoid penalties by requesting an automatic 6-month filing extension. The request must be made no later than the due date of the return (see Table 8.1). The form used to request the extension and the extended due date for 2025 returns depends on your type of entity, as shown above in Table 8.2 (for calendar year businesses). For fiscal year entities, the extended due date is 6 months after the filing deadline.

TABLE 8.2 USUAL FILING EXTENSIONS*

Type of Entity	Form to Request Filing Extension	Extended Due Date
Sole proprietorship	Form 4868	October 15
Partnership	Form 7004	September 15
Limited liability company	Form 7004	September 15
S corporation	Form 7004	September 15
C corporation	Form 7004	October 15

There are no extensions available beyond the extended due date, regardless of the reasons involved; returns filed after the extended due date are usually subject to penalty. The only exception to the rule against having more time to file is a blanket extension granted by the IRS to taxpayers located in certain areas affected by federally-declared disasters. There is an automatic 60-day extension for individuals with a principal residence in a federally-declared disaster area or a principal place of business in such area, but the IRS has discretion to grant extensions for up to one year. Find news about this on an IRS landing page titled “Tax Relief in Disaster Situations” at https://www.irs.gov/uac/tax-relief-in-disaster- situations.

Late Filing Penalties

If you fail to file your return on time—by the due date or the extended due date if you obtain a filing extension—you will be subject to a late filing penalty.

ONLINE FILING OF BUSINESS INCOME TAX RETURNS

Today, the vast majority of tax returns for individual business owners as well as their business entities are filed e-filed with the IRS and with state tax or revenue departments. While e-filing is not mandatory for all taxpayers, there are compelling reasons to submit returns in this way:

- Faster refunds. Those who are owed a refund can expect to receive it in about half the time that it would take had the return been filed the traditional way in paper form. With electronic filing of returns and direct deposit of refunds, you can receive a refund in as little as 7 days.

- Accuracy. There is a less than 1% error rate with electronically filed returns (compared with a more-than-20% error rate for paper returns). This is because the IRS reviews the return before accepting it. The IRS acknowledges acceptance of a return within 48 hours of submission. This acknowledgment is your proof of filing and assurance that the IRS has your return information.
- Convenience. You can use your personal computer to file your return 7 days a week, 24 hours a day. You may even be able to use the IRS's Direct File or file from your mobile phone. If you lack the software to e-file, you can use an authorized IRS e-file provider (for a modest fee). In 37 states, you can file your federal and state returns simultaneously. If you owe taxes, you can file early and postpone payment until the return's due date. Payment methods are discussed later in this chapter.
- Preparers required to e-file. Paid tax return preparers are required to e-file client returns if they expect to file 11 or more Forms 1040, 1040-SR, and 1041, so if you use a paid preparer, your return will likely be e-filed.

If you e-file, then you do not have to attach any information returns that would otherwise be required. For example, if you are a sole proprietor but your spouse is an employee with a W-2 form, that form is sent to the IRS if you file your return electronically. **Electronic Signatures**

To e-file, the signature of an electronically filed self-prepared return is handled through a self-select personal identification number (PIN). This is a self-created 5-number code that is used in conjunction with your prior year's adjusted gross income, total tax, and date of birth to verify that the return being filed is your own. You do not have to register your PIN number, nor even notify the IRS. But if you are a sole proprietor filing a joint return, both you and your spouse need separate PINs. Tax professionals filing clients' returns electronically use their PTINs.

Deemed Filing Date

An electronically filed return is deemed timely if it is transmitted on or before the due date and an acknowledgment of processing by the IRS is issued.

Sole Proprietorships

You can e-file your income tax return if you are a sole proprietor filing a Schedule C or F. Virtually all the forms and schedules you need can be filed electronically.

Partnerships and LLCs

Partnerships filing at least 10 returns must e-file Form 1065. According to the 2024 IRS Data Book, nearly 4.8 million partnership returns were filed electronically.

S Corporations

S corporations with 10 or more returns filed annually (including income tax, excise tax, information—W-2 and otherwise—and employment tax returns) must file Form 1120-S electronically. Smaller S corporations can opt to e-file. According to the 2024 IRS Data Book, more than 5.7 million S corporations filed their returns electronically. Whether e-file is used, if the corporation owes any income tax, it must deposit it electronically if it is otherwise required to use EFTPS as explained later in this chapter.

S corporation shareholders can file their personal tax returns electronically, even if the corporation files by mail (and vice versa). They can obtain the benefit of e-filing on their share of business items.

C Corporations

The return can be filed under the 1120/1120-S e-file program. C corporations with 10 or more returns filed annually (including income tax, excise tax, information—W-2 and otherwise—and employment tax returns) must file Form 1120 electronically. According to the 2024 IRS Data Book, more than 1.6 million C corporations filed their returns electronically. Whether e-file is used, you must still deposit corporate income taxes electronically if you are required to use EFTPS as explained later in this chapter.

ESTIMATED TAXES

Estimated taxes are not separate tax obligations; they are a method of paying throughout the year what you expect to owe when you ultimately file your return. Estimated taxes are paid by individuals (including owners of partnerships, limited liability companies, and S corporations on their share of business income) and C corporations. If you do not pay enough estimated taxes (plus withholding taxes on wages and certain other payments), you may be subject to penalties.

Individuals

Estimated taxes cover:

- Regular income tax (including income taxes on your share of business income)
- Alternative minimum tax for high-income taxpayers (see Chapter 3 of course 32702H)
- Self-employment tax (discussed earlier in Chapter 4 of course 32702H)

- Additional Medicare taxes on earned income and net investment income (see Chapter 4 of course 32702H)
- Employment taxes on a household employee
- Additional tax—essentially penalties—on IRAs, qualified retirement plans, and other tax- favored accounts figured on Form 5329

You must pay estimated taxes if you expect tax liability for the year to be at least $1,000 and you do not meet a safe harbor test (or file your return and pay the tax in full by January 31). The safe harbor test means that your withholdings and tax credits (e.g., applying an excess payment from last year toward this year's taxes) are less than the smaller of:

- 90% of the tax shown to be on this year's return (66% for farmers and commercial fishermen), or
- 100% of the tax shown on last year's return (110% if your adjusted gross income last year is more than $150,000, or $75,000 if married filing separately).

There is a special estimated tax rule for farmers and commercial fishermen. No estimated tax penalties are owed if the income tax return is filed and any taxes paid by February 28. If you don't file by this date, then any estimated tax penalties will be figured from only one payment date—January 15.

Use the Estimated Tax Worksheet (Figure 8.1 on the next page) to figure what you must pay in order to avoid penalties for 2025 (if you still have time to make an installment for 2025). An updated version should be used for 2026 estimated taxes. If you have wages, you may also use the IRS's Tax Withholding Estimator tool at https:// www. irs. gov/individuals/tax-with holding-estimator.

Estimated taxes are due on April 15, June 15, September 15, and January 15 of the following year. The due date is extended to the next business day if any payment date falls on a Saturday, Sunday, or legal holiday.

Estimated taxes can be paid in several ways, explained later in this chapter.

If you do not pay enough through estimated taxes, figure your penalty on Form 2210, Underpayment of Estimated Taxes by Individuals, Estates, and Trusts (Form 2210-F, Underpayment of Estimated Tax by Farmers and Fishermen).