PacificCPE

COURSE
34501A

Small Business Tax: Entities, Filing, and New Law

Starting with the sweeping changes introduced by the One Big Beautiful Bill signed July 4, 2025, this course covers what every small business advisor needs to know heading into 2026. From there, it walks through the major attributes of each business entity type—sole proprietorships, partnerships, corporations, S corps, and LLCs—and explains the filing and payment rules that apply to each, including treatment of disregarded entities and excise taxes.

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

Start Course ↓ | Final Exam Copy ↓

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 major attributes of various forms of business ownership.
- Recognize income tax implications of different types of entities. This chapter explains the business taxes that sole proprietors or other types of business entities may have to pay and the forms they may have to file. One significant topic not contained in this chapter is employment taxes. Given the complexity of the issue, employment taxes are the subject of their own discussion in Chapter 1 of course 34502B.

Copyright Notice

© 2026 Pacific CPE, LP. All rights reserved.

The materials in this course — including the text, illustrations, exhibits, examples, exam questions, and review questions — are the copyrighted property of Pacific CPE, LP. No portion of this course may be reproduced, stored in a retrieval system, distributed, or transmitted in any form or by any means (electronic, mechanical, photocopying, recording, or otherwise) without the prior written permission of Pacific CPE, LP, except for the personal, non-commercial use of the registered learner.

Pacific CPE, LP grants the registered learner a single-seat, non-transferable license to access this course for the purpose of completing the associated continuing professional education credit. Account credentials may not be shared. Group access requires a separate enterprise license.

This course is provided "as is" for educational purposes. While Pacific CPE, LP makes a reasonable effort to ensure the content is current and accurate, the materials should not be relied upon as a substitute for professional advice. Pacific CPE, LP disclaims all liability for any error, omission, or loss arising from the use of, or reliance on, the course content.

Questions about reproduction, licensing, or use of these materials should be directed to support@pacificcpe.com.

Publication Date: May 2026

TABLE OF CONTENTS

CHAPTER 00

Introduction 6

0.01 I. The One Big Beautiful Bill - Signed July 4, 2025 6

0.02 II. New Tax Law Changes For 2026 Tax Returns And Thereafter 7

CHAPTER 01

Choice Of Entity 10

1.01 I. Overview 10

1.02 A. Sole Proprietorship 10

1.03 B. Partnerships 11

1.04 C. Corporation 14

1.05 D. S Corporation 15

1.06 E. Limited Liability Company 17

1.07 F. Note On Husband And Wife Businesses 19

Test Your Knowledge 20

CHAPTER 02

Filing And Paying Business Taxes 26

2.01 I. Federal Income Tax: General Rules 26

2.02 II. Income Taxation Of Disregarded Entities: The Limited Liability Company 34

2.03 III. Taxation Of Partnerships 41

2.04 IV. Taxation Of Corporations 47

2.05 V. Income Taxation Of Subchapter S Corporations 57

2.06 VI. Excise Taxes 60

Test Your Knowledge 61

Final Exam Copy 88

Glossary 72

Index .....

INTRODUCTION

I. THE ONE BIG BEAUTIFUL BILL - SIGNED JULY 4, 2025

Most of the changes in the One Big Beautiful Bill take effect on January 1, 2026, but some are retroactive and could impact 2025 tax returns. Many of the changes have certain requirements, such as adjusted gross income limits, and some are temporary.

- **Additional Senior Deduction**

Temporarily adds a senior deduction of $6,000 for each qualifying individual for both itemizers and non-itemizers that phases out when modified adjusted gross income exceeds $75,000, available from 2025 through 2028.

- **Increased State and Local Tax (SALT) Itemized Deduction**

Temporarily increases the cap on the itemized deduction for state and local taxes (SALT) to $40,000 for 2025, and increases the cap by one percent each year from that level through 2029, subject to a phaseout for taxpayers with incomes above $500,000, then reduces the cap to a flat $10,000 thereafter.

- **Increase in the Standard Deduction**

Makes the standard deduction increase permanent. For 2026, it is $32,200 for joint filers, $24,150 for head of household, and $16,100 for all other filers, inflation adjusted thereafter.

- **No Tax on Tips**

Temporarily makes up to $25,000 of tip income deducible for individuals in traditionally and customarily tipped industries for tax years 2025 through 2028; deduction phases out at a 10 percent rate when adjusted gross income exceeds $150,000 ($300,000 for joint filers).

- **No Tax on Overtime**

Temporarily makes up to $12,500 ($25,000 for joint filers) of the premium portion of overtime compensation deductible for itemizers and non-itemizers for tax years 2025 through 2028; the deduction phases out at a 10 percent rate when adjusted gross income exceeds $150,000 ($300,000 for joint filers).

- **Deduction for Interest Payments on Certain Vehicles**

Temporarily makes auto loan interest deductible for itemizers and non-itemizers for new autos with final assembly in the United States for tax years 2025 through

2028; deduction limited to $10,000, and phases out at a 20 percent rate when income exceeds $100,000 for single filers and $200,000 for joint filers.

- **Increased Child Tax Credit**

Makes the expiring child tax credit permanent. The maximum is $2,200 for 2025 and 2026, inflation adjusted thereafter.

- **Increased Section 179 Limits**

For 2026, the Section 179 expensing cap to an inflation-adjusted $2.56 million is phased down, starting when the cost of qualifying property exceeds an inflation-adjusted $4.09 million.

- **Partially Refundable Adoption Credit**
- **Trump Savings Accounts for Eligible Children Born Between 2025-2028 - One Time:** $1,000
- **End of the Electric Vehicle Credit as of September 30, 2025**

Additional items included in the bill mostly having an impact on businesses include:

- **Restoration of 100% Bonus Depreciation**
- **Restoration of Expensing of Certain R&D Costs**
- **Business Interest Deductions Moving Back to the EBITDA standard**
- **100% Expensing for Certain Manufacturing Structures (Temporary)**

II. NEW TAX LAW CHANGES FOR 2026 TAX RETURNS AND THEREAFTER

As the TCJA changes were set to expire at the beginning of 2026, the 2025 One Big Beautiful Bill makes many of these once-temporary changes permanent. Much of what takes effect beginning in 2026 is a permanent continuation of the TCJA of 2017.

While there are a handful of changes that are retroactive to 2025, the majority of the changes in the One Big Beautiful Bill take effect on January 1, 2026. Some are permanent, while others last a few years.

In addition to the tax-year 2025 retroactive changes, 2026 and thereafter tax changes include many changes, including:

- **AMT**

Makes the increase in the alternative minimum tax (AMT) exemption permanent; reverts AMT exemption phaseout thresholds to 2018 levels of $500,000 for single filers

and $1 million for joint returns, indexed for inflation thereafter; increases the phaseout rate.

- **Increase of Estate Tax Exemption**

Permanently increases the estate and lifetime gift tax exemption to an inflation-indexed $15 million for single filers, and $30 million for joint filers, beginning in 2026.

- **Above the Line Charitable Contributions**

Creates a permanent $1,000 above-the-line deduction for charitable contributions ($2,000 for joint filers).

- **Limits on the Value of Itemized Deductions**

Limits the value of itemized deductions to 35 cents on the dollar for taxpayers in the top tax bracket.

0.5 percent floor on charitable contributions in order to take them as an itemized deduction.

- **Elimination of Personal and Dependent Exemptions**
- **Increased Standard Deductions**
- **Current Tax Brackets**
- **Increased Child Tax Credit**
- $750,000 Deductible Personal Mortgage Limit*
- **Limitation on Personal Casualty Losses, Miscellaneous Itemized Deductions, and Moving Expense Deduction for Most Taxpayers**
- **Increased AMT Exemption**
- **Deduction for Qualified Business Income (QBI) at 20%**
- **Business Tax Provisions**
  - Permanently restores immediate expensing for domestic research and development (R&D) expenses; small businesses with gross receipts of $31 million or less can retroactively expense R&D back to after December 31, 2021; all other domestic R&D between December 21, 2021 and January 1, 2025 can accelerate remaining deductions over a one- or two-year period.
  - Permanently reinstates the EBITDA-based limitation on business net interest deductions.
  - Permanently restores 100 percent bonus depreciation for short-lived investments.

- Temporarily provides 100 percent expensing of qualifying structures, with the beginning of construction occurring after January 19, 2025, and before January 19, 2029, and placed in service before January 1, 2031.
- Makes the Section 199A pass-through deduction permanent; increases phase-in range of limitation by $50,000 for non-joint returns and $100,000 for joint returns.
- Implements a one percent floor on deduction of charitable contributions made by corporations.

Chapter 1: CHOICE OF ENTITY

Chapter Objective

After completing this chapter, you should be able to:

- Identify the major attributes of various forms of business ownership.

I. OVERVIEW

The purpose of this course is to provide general information about the federal tax laws that apply to small business owners, many of whom are sole proprietors or statutory employees. This chapter provides readers with an understanding of the options open to small business owners when selecting a legal entity. The type of entity affects many facets of a business's operation, including management and taxation.

Today, there are more choices than ever in selecting the appropriate business entity. Historically, there were three choices: the sole proprietorship, the partnership and the corporation. Now there are a number of hybrids that combine various characteristics of each traditional entity, such as the limited liability company, which combines the limited liability of a corporation with the flexibility and tax advantages of a partnership. All states offer limited liability companies as an option for most types of businesses. Other recent options include the limited liability partnership.

State law can also play an important role in determining the best entity. State law governs many important aspects of business entities, both tax and non-tax (i.e., in some states an S corporation is treated more favorably than in others).

A. SOLE PROPRIETORSHIP

A sole proprietorship is an unincorporated business that is owned by one individual. It is the simplest form of business organization to start and maintain.Asole proprietorship has no separate legal existence apart from the owner. Its liabilities are the personal liabilities of the owner. The income and losses of the business are included on the owner's personal tax return.

Unlike partnerships and corporations – for which there are a host of statutory provisions – a sole proprietor is not subject to any unique set of laws. General business and tax laws apply, including those governing contracts and torts.