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LIST OF SUBSTANTIVE CHANGES AND ADDITIONS

PPC's 1120 Deskbook

Twenty-sixth Edition (October 2016)

Highlights of this Edition

The following are some of the important update features of the 2016 edition of *PPC's 1120 Deskbook*:

- **New Filing Date Requirements.** For 2016 and later years, there are new corporate return filing date requirements under the Surface Transportation Act of 2015.
- **Domestic Production Activities Deduction.** Expanded discussion and examples have been added to the *Deskbook* to aid practitioners in the determination of qualified manufacturing activities and DPGR.
- **Accounting Method Change Procedures.** Explanations of recent revenue procedures are provided to understand new requirements for requesting accounting method changes from the IRS.
- **Credits.** The *Deskbook* provides explanations and examples for the expanded research and AMT credits of the 2015 PATH Act.
- **Debt-equity Regulations.** The IRS has issued controversial final and proposed regulations to prevent earnings-stripping with related-party debt.

In addition to these featured items, your *Deskbook* includes the following:

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
Chapter 1 Personal Service Corporations	1. This chapter includes an expanded discussion of the use of passive losses by a personal service corporation.	Key Issue 1A
	2. The discussion of minimum distribution requirements of a fiscal year personal service corporation has been expanded.	Key Issue 1A
	3. This chapter adds a discussion of the definition of Performing Arts Services (other than athletes) as they pertain to a personal service corporation.	Key Issue 1B
	4. The Tax Court recently ruled on a case that imposed substantial accuracy-related penalties on a PSC that “zeroed out” earnings at year end. This case should be reviewed by anyone considering this approach.	Key Issue 1B
Chapter 2 Tax Years	1. Updated examples to reflect the Surface Transportation and Veterans Health Care Choice Improvement Act of 2015 provision that changed the corporate tax return due dates.	Throughout
	2. Added a brief discussion on the effect of the “end-of-the-day” rule on the tax years of consolidated group members.	Key Issue 2E

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
Chapter 3 Accounting Methods	1. Updated the discussion on accounting method change procedures to reflect guidance recently issued by the IRS.	Throughout
	2. Added a discussion on the treatment of inventoriable items of small taxpayers claiming the \$1 million gross receipts exception.	Key Issue 3B
	3. Clarified when family farm C corporations are required to use the accrual method of accounting.	Key Issue 3B
	4. Included recent IRS guidance on the two-year deferral period for gift cards redeemable for either goods or services.	Key Issue 3E
	5. Added a brief discussion on the remodel-refresh safe harbor for retail and restaurant operators.	Illustration 3-4
Chapter 4 Inventory and Cost of Goods Sold	1. Updated the discussion on accounting method change procedures to reflect guidance recently issued by the IRS.	Key Issue 4A
	2. Expanded an example to illustrate use of different methods of accounting for separate trades or business activities.	Key Issue 4A
	3. Clarified alternate inventory valuation methods for farmers (including family farm C corporations).	Key Issue 4B
Chapter 6 Sales/Exchanges of Capital Assets and Business Property	1. This chapter contains a discussion of a 2015 PATH Act provision allowing capital gain treatment for sale of timber in some instances.	Key Issue 6A
	2. Final regulations provide guidance to brokers for reporting transactions involving debt instruments and options, including the reporting of original issue discount (OID) on tax-exempt obligations, the treatment of certain holder elections for reporting a taxpayer's adjusted basis in a debt instrument, and transfer reporting for Section 1256 options and debt instruments. This guidance is discussed in this chapter.	Key Issue 6A
	3. Under examination, the IRS held that a leasing company did not use the leased aircraft in a productive trade or business and was thus subject to the Section 183 "hobby" regulations. However, a Chief Counsel Advice IRS concluded that the lessor held the aircraft "for productive use in a trade or business" for the purposes of IRC Sec. 1031. A discussion of the CCA is included in this chapter.	Key Issue 6H
Chapter 7 Other Income Issues	1. This chapter contains a discussion concerning debt discharge income requirements for qualified farm indebtedness.	Key Issue 7F
	2. The IRS has called for examiners to closely monitor cases where income for cancelled debt was deferred under IRC Sec. 108(i). If the amount of debt cancelled was computed incorrectly, the IRS believes the amount of debt should be corrected even if the statute of limitations has expired. This could affect income being recognized in 2014–2018.	Key Issue 7H

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
Chapter 8 The Passive Activity Loss (PAL) and At-risk Rules	1. This chapter contains a discussion of the special treatment of real estate losses as nonpassive for certain real estate professionals.	Key Issue 8C
	2. An example has been added to illustrate the limitations on grouping of rental activities.	Key Issue 8D
Chapter 9 Domestic Production Deduction	1. Expanded an example to illustrate when storage activities are considered DPGR for the domestic production activities deduction.	Key Issue 9A
	2. The discussion on gross receipts from providing computer software for customers' direct use while connected to the internet has been expanded to clarify when these exceptions apply.	Key Issue 9B
	3. This chapter contains a discussion of a recent case in which the court ruled that repackaging resulted in a distinct final product and thus was a qualified manufacturing activity.	Key Issue 9B
	4. An example has been added to illustrate when advanced payments qualify as DPGR with respect to the taxpayer's method of accounting.	Key Issue 9B
Chapter 10 Compensation	1. A recent court case expands the discussion on the independent investor test for reasonable compensation.	Key Issue 10B
	2. The discussion of the alternative minimum tax impact of incentive stock options is expanded.	Key Issue 10H
Chapter 11 Bad Debts and Debt Modifications	1. A recent court case illustrates the importance of establishing related party debt as bona fide to substantiate later bad debt deductions.	Key Issue 11A
	2. Added a discussion of final and proposed debt-equity regulations recently issued under IRC Sec. 385.	Key Issue 11A
Chapter 12 Taxes and Interest	1. Added a discussion of applicable high yield discount obligations (AHYDO).	Key Issue 12K
Chapter 13 Charitable Contributions	1. This chapter contains a discussion of the tax impact of the donation of corporation stock to a charity followed by a liquidation of the corporation, or the donation of substantially all of the corporation's assets to one or more charity organizations.	Key Issue 13C
	2. The discussion of the charitable donation of wholesome food inventory is expanded. This was made permanent by the 2015 PATH Act.	Key Issue 13E
Chapter 14 Depreciation	1. This chapter contains a discussion of qualified improvement property eligible for bonus depreciation and a shorter depreciable life. This was made permanent by the 2015 PATH Act.	Key Issue 14C
	2. This chapter also contains a discussion of qualified real property eligible for expensing under IRC Sec. 179, also made permanent by the 2015 PATH Act.	Key Issue 14I
Chapter 15 Amortization	1. This chapter contains a discussion of the deductibility of both initial and continuing franchise fees.	Key Issue 15C
	2. A discussion of anti-churning has been added.	Key Issue 15C

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
Chapter 16 Pension and Profit-sharing Plans and Other Benefits	1. Rollover contributions are now allowed from certain retirement plans to SIMPLE retirement accounts. A discussion of this provision in the 2015 PATH Act has been added to this chapter.	Key Issue 16E
	2. The IRS has recently updated its Audit Techniques Guide (ATG) focusing on nonqualified deferred compensation plans. New examination procedures listed in this ATG are discussed in this chapter.	Key Issue 16F
	3. This chapter contains a discussion of newly issued proposed reliance regulations on nonqualified deferred compensation (NQDC) plans under IRC Sec. 409A. These proposed regulations clarify or modify specific provisions of the final regulations issued in 2007.	Key Issue 16F
	4. This chapter contains an expanded discussion of the Affordable Care Act (ACA) and its impact on employer health insurance provided to its employees.	Key Issue 16G
Chapter 17 T&E, Club Dues, Gifts, Directors' Fees, Autos, and Airplanes	1. Changes were made throughout the chapter to update for various IRS pronouncements on travel allowances and per diem rates pertaining to 2016.	Throughout
Chapter 18 Net Operating Losses	1. This chapter contains an updated example concerning the treatment of the statute of limitations and how it applies to the filing of Form 1139 (Claim for Tentative Refund) versus Form 1120X (Amended Return).	Key Issue 18C
Chapter 19 Alternative Minimum Tax	1. This chapter contains a detailed discussion of the new election to forgo bonus and accelerated depreciation to claim refundable AMT credits as revised by the 2015 PATH Act.	Key Issue 19C
	2. The chapter contains an expanded discussion of situations when the AMT NOL carryback is extended more than two years.	Key Issue 19G
Chapter 20 Holding Company Tax	1. Added a discussion of the requirements for extending the consent dividends election under IRC Sec. 565.	Key Issue 20F
Chapter 22 Credits	1. Updated various credits for changes in expiration dates resulting from the 2015 PATH Act.	Key Issue 22A and T807
	2. Updated Energy Credit under IRC Sec. 48(a) for changes resulting from the 2016 Consolidated Appropriations Act.	Illustration 22-4
	3. Updated Incremental Research Credit under IRC Sec. 41 for changes resulting from the 2015 PATH Act, including AMT offset and credit against payroll taxes.	Illustration 22-5
	4. Updated Work Opportunity Credit under IRC Sec. 51 for changes resulting from the 2015 PATH Act.	Illustration 22-8
Chapter 24 Schedules M-1 and M-3 (Reconciling Book to Tax Income) and Schedule UTP (Uncertain Tax Positions)	1. The discussion of the elimination of exposure to penalties under IRC Secs. 6662(d) and 6694(a) through disclosure on Forms M-1 or M-3 is expanded.	Key Issues 24F

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
Chapter 26 Controlled Groups	<ol style="list-style-type: none"> 1. This chapter contains an expanded discussion of the Section 179 deductions as it pertains to S corporations. 2. The Affordable Care Act (ACA) may affect controlled groups if they qualify as an applicable large employer (ALE). This chapter contains a discussion of this provision. 3. IRS has issued temporary regulations that clarify the coordination of the arm's-length standard and the best method rule under IRC Sec. 482 with other provisions of the Code. This chapter discusses how this regulation might affect members of a controlled group. 	Key Issue 26B Key Issue 26D Key Issue 26E
Chapter 28 Related Party Rules and Shareholder/ Corporation Transactions	<ol style="list-style-type: none"> 1. Property leased from related parties is not considered leased for purposes of the bonus depreciation rules of IRC Sec. 168(k)(3). This provision is discussed in this chapter. 2. A new example was added illustrating the treatment of resold property on which no loss was allowed on the original purchase because of the related party rules. 3. The 2015 PATH Act added a provision that makes the treatment of property under IRC Sec. 267(d) inapplicable when it pertains to property transferred from a non-U.S. taxpayer. This new provision is discussed in this chapter. 	Key Issue 28B Key Issue 28C Key Issue 28C
Chapter 29 Stock Purchases Treated as Asset Acquisitions (Section 338)	<ol style="list-style-type: none"> 1. The chapter contains a discussion of an IRS Written Determination concerning the applicability of the success-based fee safe harbor under Rev. Proc. 2011-29 to transactions when a Section 338(h)(10) election is made. 	Key Issue 29H
Chapter 31 Sections 1244 and 1202 Stock	<ol style="list-style-type: none"> 1. Updated the discussion for changes to Section 1202 gain exclusion from the 2015 PATH Act. 	Key Issue 31E
Chapter 32 Incorporation	<ol style="list-style-type: none"> 1. This chapter discusses the interplay and ultimate tax result of IRC Secs. 351 and 304. 	Key Issue 32B
Chapter 34 Filing Form 1120	<ol style="list-style-type: none"> 1. Updated this chapter throughout for the change to filing deadlines for Form 1120 to April 15. Updated the discussion for both calendar and fiscal year taxpayers. 2. This chapter contains a discussion of the change to the rule for which corporations are required to file Schedule C of Form 1120. 	Key Issues 34D Key Issue 34F
Chapter 35 Amended Returns, Claims for Refunds, and Assessments of Tax	<ol style="list-style-type: none"> 1. Updated this chapter throughout for the change to filing deadlines for Form 1120 to April 18, 2017, for 2016. 2. The 2015 PATH Act contained a provision that lengthened the statute of limitations for certain issues to six years, thus overriding a standing Supreme Court decision. 3. This chapter contains a discussion of the difference in treatment of a claim for refund and that of a change in accounting method. 4. This chapter discusses the availability of a six-month period after an extension agreement has expired during which a taxpayer can still file a claim for refund. 	Key Issue 35A Key Issue 35A Key Issue 35B Key Issue 35B

