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LIST OF SUBSTANTIVE CHANGES AND ADDITIONS

PPC's Guide to Buying or Selling a Business

Twenty-eighth Edition (June 2022)

Highlights of this Edition

The following are some of the important new features of the 2022 Edition of *PPC's Guide to Buying or Selling a Business*:

- **Qualified Small Business Stock.** IRS guidance, on whether a corporation is eligible to issue qualified small business stock under IRC Sec. 1202, has been added to the *Guide*.
- **Qualified Business Income (QBI) Deduction.** The *Guide's* discussion of the QBI deduction has been significantly expanded, including the addition of numerous examples that illustrate the practical application of QBI concepts.
- **Business Interest Expense.** The *Guide's* discussion of the limitation on business interest expense under IRC Sec. 163(j) has been significantly expanded, including new examples and discussion of revenue procedures that impact electing real property trades or businesses.
- **Accounting Method Changes.** The discussion of accounting method changes for an acquired business has been updated and expanded as to when audit protection can be provided to a taxpayer that has been contacted or scheduled for an examination.
- **S Corporation Stock Redemptions.** Explained the strategy of redeeming stock to remove investments with excess passive income to minimize the S corporation passive investment income tax and the risk of termination of S status if the corporation has accumulated earnings and profits (AE&P).

In addition to these featured items, your *Guide* includes the following update items detailed below.

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
CHAPTER 1 Purchase/Sale Transaction Profiles	1. Updated various inflation-adjusted amounts for the 2022 amount(s).	Throughout chapter
	2. Updated the discussion of the net operating loss deduction being limited to 80% of taxable income.	Section 101
	3. Updated the Quick Access Federal Tax Data Sheet for 2022 amounts.	Appendix 1D
CHAPTER 4 Choosing the Business Entity	1. Updated for IRS guidance, in private letter rulings and chief counsel advice, on whether a corporation is eligible to issue qualified small business stock under IRC Sec. 1202.	Section 401
	2. Updated and significantly expanded the discussion of the qualified business income (QBI) deduction.	Section 407

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
CHAPTER 5 Valuation of a Closely Held Business	1. Updated the list of accreditations offered by the American Society of Appraisers (ASA).	Section 501
	2. Updated the discussion of AICPA accreditations for availability to certain non-CPAs, and for additional AICPA accreditations co-developed with other professional organizations.	Section 501
	3. Updated the discussion of future changes to USPAP for Appraisal Standards Board exposure drafts issued in August and December of 2021.	Section 501
CHAPTER 6 Buying and Selling Assets	1. Addressed the tax results when a taxpayer purchases property that is subject to a leasehold.	Section 602
	2. Clarified who is a "related party" for loss disallowance purposes when a corporation makes liquidating distributions.	Section 603
	3. Revised discussion of penalties for failure to submit and/or provide copies of Form 1099-DIV when corporation makes liquidating distributions.	Section 603
	4. Clarified allocation of S corporation built-in gains tax among gains that gave rise to the tax.	Section 604
	5. Explained application of proposed regulations setting forth how a partner should measure its interest in a partnership's unrealized receivables and inventory items.	Section 605
	6. Expanded discussion of proposed partnership regulations that define Section 704(c)(1)(C) property and provide rules for handling Section 704(c)(1)(C) basis adjustments.	Section 605
CHAPTER 7 Buying a Corporate Business Using Stock Transactions	1. Explained the significance of a shareholder's level of participation on liability for the net investment income tax (NIIT) upon the sale of S corporation stock.	Section 702
	2. Noted that final regulations under IRC Sec. 1377 apply the treatment of distributions during the post termination transition period (PTTP) to all shareholders of the corporation, which can help some shareholders qualify for the taxpayer-friendly distribution rules.	Section 702
	3. Cited a 2021 letter ruling involving the acquisition of one corporation by another and whether the units issued as part of that acquisition were considered stock under the Section 382 loss carryover limitation rules.	Section 706
CHAPTER 12 Capital Structure and Owner Cash Flow Considerations	1. Updated and significantly expanded the discussion of the limitation on business interest expense under IRC Sec. 163(j).	Section 1203
	2. Added an example of how an electing real property trade or business computes depreciation expense on real property placed in service in a year before the year the election is made.	Section 1203

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
	3. The Taxpayer Certainty and Disaster Tax Relief Act of 2021 clarified that residential rental property held by an electing real property trade or business generally qualifies for a 30-year recovery period. Added discussion of revenue procedures that allow electing real property trades or businesses that used a 40-year recovery period for residential real property placed in service before 2018 to apply the correct 30-year recovery period.	Section 1203
	4. Noted a Chief Counsel Advice that explains how to treat a Section 481(a) adjustment with respect to depreciation when computing adjusted taxable income [for the Section 163(j) limit] that includes the add-back for depreciation expense in a year before 2022.	Section 1203
CHAPTER 13 Tax Accounting and Reporting Issues	1. Updated and expanded discussion of when audit protection can be provided to a taxpayer that has been contacted or scheduled for an examination.	Section 1302
	2. Cited 2022 revenue procedure that in part removed option of netting remaining portion of Section 481(a) adjustment from prior method change.	Section 1302
	3. Explained when a taxpayer that ceases to engage in a trade or business or terminates its existence must take into account any remaining Section 481(a) adjustment.	Section 1302
	4. Discussed whether and when C corporations joining a consolidated group must adopt the tax year of the common parent.	Section 1303
	5. Addressed provision in final Section 163(j) business interest expense regulations that provides a remedy to the detrimental application of the self-charged interest rules.	Section 1305
	6. Included sample completed version of current (August 2021) Form 8716 (Election to Have a Tax Year Other Than a Required Tax Year) tied to example in chapter.	Appendix 13F
CHAPTER 15 Buy/Sell Agreements	1. Distinguished a put from a call in the context of options to purchase an owner's interest in the entity.	Section 1501
	2. Discussed the S corporation election to use the "closing of the books" method to allocate pass-through items in the year of a "qualifying disposition" of stock, which is separate from the complete termination election.	Section 1503
	3. Noted the impact of the S corporation allocation method on the amount and character of the income recognized by a redeemed shareholder, which in turn may affect the ability to use certain carryovers and other tax attributes.	Section 1503

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
CHAPTER 19 Using an Employee Buyout to Sell a Business	4. Explained the strategy of redeeming stock to remove investments with excess passive income to minimize the S corporation passive investment income tax and possible termination of S status if the corporation has AE&P.	Section 1503
	5. Clarified the phrase “natural object of the transferor’s bounty” for Section 2703 purposes so the buy/sell price can be used for valuation purposes.	Section 1505
	1. Updated throughout for retirement plan-related inflation-adjusted amounts.	Throughout chapter