

28 Sales, Dispositions, and Liquidations

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Tax Treatment for Sellers and Buyers

Asset	Seller's Tax Treatment of Gain	Buyer's Tax Treatment of Cost
Inventory	Taxed as ordinary income.	Deductible.
Equipment	The amount that represents prior depreciation is recaptured as ordinary income. Any excess is a capital gain.	Generally depreciable over 5 or 7 years, or currently deductible under Section 179 or using the special depreciation allowance (60% for 2024).
Buildings	The amount that represents prior depreciation is unrecaptured IRC section 1250 gain. Any excess is a capital gain.	Generally depreciable over 27.5 or 39 years. Buildings used in farming may have shorter depreciable periods.
Land	Taxed as a capital gain.	Not deductible. Cost is capitalized until sold.
Covenant not-to-compete	Taxed as ordinary income.	Amortized over 15 years.
Self-created goodwill and other intangibles	<ul style="list-style-type: none"> Self-created goodwill is taxed as a capital gain. A self-created patent, invention, model or design, secret formula or process, copyright, composition, letter, or memo, is not considered a capital asset and a gain from the sale will be taxed as ordinary income. 	Amortized over 15 years.
Acquired Section 197 intangibles	The amount that represents prior amortization is recaptured as ordinary income. Any excess is a capital gain.	Amortized over 15 years.

Tax rates for sellers who are individuals:

- Ordinary income is taxed at the taxpayer's highest marginal rate, which can be up to 37%.
- The maximum capital gain rate on assets held more than one year is 20%.
- The maximum capital gain rate on unrecaptured IRC section 1250 gain is 25%.

Losses. A loss on the sale of any business asset is an ordinary loss under IRC section 1231. A loss on the disposition of a Section 197 intangible asset that was acquired along with other Section 197 intangible assets is not allowed until the last Section 197 asset is sold.

Closing a Business

Cross References

- Form 966, *Corporate Dissolution or Liquidation*
- Form 4797, *Sales of Business Property*
- Form 8594, *Asset Acquisition Statement Under Section 1060*
- IRS Pub. 5447, *How to Close a Sole Proprietorship*
- IRS Pub. 5447-A, *How to Close a Partnership*
- IRS Pub. 5447-B, *How to Close a Corporation*

Related Topics

- Corporate Liquidations, page 18-22
- S Corporation Liquidation, Tab 19
- Terminating a Partnership, page 20-19

Closing a Business Checklist

An annual return must be filed for the final year of business. If the business has employees, final employment tax returns must also be filed, as well as deposits made. Also attach a statement to the return showing the name of the person keeping the payroll records and the address where those records will be kept.

Checkboxes. For the tax year in which the business ceases to exist, check the box on page 1 of the entity's tax return that indicates this return is the final return. If there are Schedule K-1s, check the final return box on each one of them as well.

Actions to Take When Closing a Business

Action to Take	Applicable Forms
<ul style="list-style-type: none"> Make final federal tax deposits. 	<ul style="list-style-type: none"> Electronic Federal Tax Payment System (EFTPS), see <i>Payroll Tax Deposits</i>, page 23-2.
<ul style="list-style-type: none"> File final quarterly or annual employment tax forms. 	<ul style="list-style-type: none"> Form 940, <i>Employer's Annual Federal Unemployment (FUTA) Tax Return</i>. Form 941, <i>Employer's Quarterly Federal Tax Return</i>.
<ul style="list-style-type: none"> Issue final wage and withholding information to employees. 	<ul style="list-style-type: none"> Form W-2, <i>Wage and Tax Statement</i>.
<ul style="list-style-type: none"> Report information for Forms W-2 issued. 	<ul style="list-style-type: none"> Form W-3, <i>Transmittal of Wage and Tax Statements</i>.
<ul style="list-style-type: none"> File final tip income and allocated tips information return. 	<ul style="list-style-type: none"> Form 8027, <i>Employer's Annual Information Return of Tip Income and Allocated Tips</i>.
<ul style="list-style-type: none"> Report capital gains or losses. 	<ul style="list-style-type: none"> Schedule D (Form 1040, 1065, 1120, or 1102-S), <i>Capital Gains and Losses</i>. Form 8949, <i>Sales and Other Dispositions of Capital Assets</i>.
<ul style="list-style-type: none"> File final annual return. Check box indicating final return. 	<ul style="list-style-type: none"> Schedule C (Form 1040), no check box. Forms 1120, 1120-S, 1065.
<ul style="list-style-type: none"> Report partner's/shareholder's shares. 	<ul style="list-style-type: none"> Schedule K-1 (Form 1065), <i>Partner's Share of Income, Deductions, Credits, etc.</i> Schedule K-1 (Form 1120-S), <i>Shareholder's Share of Income, Deduction, Credits, etc.</i>
<ul style="list-style-type: none"> File final employee pension/benefit plan. 	<ul style="list-style-type: none"> Form 5500, <i>Annual Return/Report of Employee Benefit Plan</i>.
<ul style="list-style-type: none"> Issue payment information to sub-contractors. 	<ul style="list-style-type: none"> Form 1099-NEC, <i>Nonemployee Compensation</i>

continued on next page

Actions to Take When Closing a Business continued	
Action to Take	Applicable Forms
• Report information for Forms 1099 issued.	• Form 1096, <i>Annual Summary and Transmittal of U.S. Information Returns</i> .
• Report corporate dissolution or liquidation.	• Form 966, <i>Corporate Dissolution or Liquidation</i> .
• Consider allowing S corporation election to terminate.	• Form 1120-S, Instructions.
• Report business asset sales.	• Form 8594, <i>Asset Acquisition Statement Under Section 1060</i> .
• Report the sale or exchange of property used in the trade or business.	• Form 4797, <i>Sales of Business Property</i> .
• File final annual return or business dissolution form for state purposes, if applicable.	• Check Secretary of State website for each state in which business is organized.
• Keep business records	• Property records – keep at least 3 years. • Employment tax records – keep at least 4 years.

Canceling an Employer Identification Number (EIN) — Closing an Account

Once an EIN has been assigned to a business entity, it becomes the permanent federal taxpayer identification number for that entity. Regardless of whether the EIN is ever used to file federal tax returns, the EIN is never reused or reassigned to another business entity.

The IRS cannot cancel an entity's EIN. However, if a business entity received an EIN but later determines it is not needed, the IRS can close the business account. The EIN will still belong to the business entity and can be used at a later date, should the need arise.

Closing an account. To close a business account, write to the IRS at: Internal Revenue Service, Cincinnati, OH, 45999 and state the reason for closing the account. If possible, include a copy of the EIN Assignment Notice with the request. Otherwise, be sure to include the complete legal name of the entity, the EIN, and the business address. All appropriate tax returns must be filed before the IRS will close the account.

Sale of a Business

Cross References

- Form 8594, *Asset Acquisition Statement Under Section 1060*
- IRS Pub. 544, *Sales and Other Dispositions of Assets*
- IRC §1060, *Special allocation rules for certain asset acquisitions*

Related Topics

- Sales of Business Property (Form 4797), page 6-16
- Installment Sales (Form 6252), page 6-17
- Corporate Liquidations, page 18-22
- Liquidating Distributions, page 20-17

Sale of Business Assets

The sale of a business usually is not a sale of one asset. Instead, all the assets of the business are sold. Generally, when this occurs, each asset is treated as being sold separately for determining the treatment of gain or loss.

A business usually has many assets. When sold, these assets must be classified as capital assets, depreciable property used in the business, real property used in the business, or property held for sale to customers, such as inventory or stock-in-trade. The gain or loss on each asset is calculated separately. The sale of capital assets results in capital gain or loss. The sale of real property or depreciable property used in the business and held longer than one year results in gain or loss from a section 1231 transaction. The sale of inventory results in ordinary income or loss.

Trade or business. A group of assets constitutes a trade or business if either of the following applies.

- Goodwill or going concern value could, under any circumstances, attach to them, or
- The use of the assets would constitute an active trade or business under IRC section 355(b).

The following are factors to be considered in determining whether goodwill or going concern value could attach. [Reg. §1.1060-1(b)(2)]

- The presence of any intangible assets. However, the transfer of such an asset in the absence of other assets is not a trade or business,
- The total consideration paid exceeds the purchaser's book value of the assets (other than goodwill and going concern value), and
- The sale includes a license, lease agreement, covenant-not-to-compete, or other similar agreement between the purchaser and seller in connection with the transfer.

Example #1: Larry sells Sue and Mary one of his old carpet cleaning machines and some cleaning supplies so that Sue and Mary can start a carpet cleaning business. Larry continues to operate his carpet cleaning business with other equipment. Even though the purchase of the machine and supplies is a major portion of the cost for Sue and Mary to start up their business, it does not constitute a sale of a trade or business because there were no intangible assets sold, and Larry continues to operate his business.

Example #2: Assume the same facts as Example #1, except that Larry also sells his customer list for a price and discontinues his business. The group of assets sold to Sue and Mary makes up a trade or business because the customer list is an intangible asset and its value represents the goodwill in Larry's carpet cleaning business.

Corporate liquidations. Corporate liquidations of property generally are treated as a sale or exchange. Gain or loss generally is recognized by the corporation on a liquidating sale of its assets. Gain or loss is also generally recognized on a liquidating distribution of assets as if the corporation sold the assets to the distributee at fair market value. See *Corporate Liquidations*, page 18-22.

Allocation of consideration paid for a business. The sale of a trade or business for a lump sum is considered a sale of each individual asset rather than of a single asset. Except for assets exchanged under any nontaxable exchange rules, both the buyer and seller of a business must use the residual method to allocate the consideration to each business asset transferred. This method determines gain or loss from the transfer of each asset and how much of the consideration is for goodwill and certain other intangible property. It also determines the buyer's basis in the business assets.

Consideration. The buyer's consideration is the cost of the assets acquired. The seller's consideration is the amount realized, money plus the fair market value of property received, from the sale of assets.

Residual method. The residual method must be used for any transfer of a group of assets that constitutes a trade or business and for which the buyer's basis is determined only by the amount paid for the assets. This applies to both direct and indirect transfers.

The residual method provides for the consideration to be reduced first by the amount of Class I assets. The consideration remaining

after this reduction must be allocated among the various business assets in a certain order. See *Classes of Assets*, below.

Asset Acquisition Statement

Form 8594, Asset Acquisition Statement Under Section 1060.

Both the seller and buyer of a group of assets that makes up a trade or business must use Form 8594 to report such a sale if goodwill or going concern value attaches, or could attach, to the assets of the business, and if the buyer's basis in the assets is determined only by the amount paid for the assets.

When to file. Unless one of the exceptions below applies, the seller and buyer must file identical Forms 8594 and attach to Forms 1040, 1041, 1065, 1120, 1120-S, or any other business entity form in the year of sale. This applies whether the group of assets constitutes a trade or business in the hands of the seller, the buyer, or both. This also applies if a portion of the selling price is under an installment sales contract. If the amount allocated to any asset is increased or decreased after the year of sale, the seller and/or buyer (whoever is affected) must complete Parts I and III of Form 8594 and attach the form to the income tax return for the year in which the increase or decrease is taken into account.

Exceptions: The filing of Form 8594 is not required if either of the following apply.

- A group of assets that makes up a trade or business is exchanged for like-kind property in a section 1031 like-kind exchange. However, if section 1031 does not apply to all the assets transferred, Form 8594 is required for the part of the group of assets to which section 1031 does not apply, or
- An interest in a partnership is transferred to a new partner.

Penalty. A \$330 penalty may apply under IRC section 6721 if either the seller or buyer fails to file Form 8594. Exceptions apply for reasonable cause.

Classes of Assets

Each asset in the group of assets reported on Form 8594, *Asset Acquisition Statement Under Section 1060*, must be categorized into one of seven classes of assets. The consideration must be allocated among the assets in the following order and, other than Class VII assets, the amount allocated to each asset cannot exceed its fair market value on the purchase date.

Asset Class	Includes
Class I	Cash and general deposit accounts (including checking and savings accounts) but not certificates of deposit.
Class II	Certificates of deposit, U.S. Government securities, foreign currency, and actively traded personal property, including stock and securities.
Class III	Accounts receivable, other debt instruments, and assets that the taxpayer marks-to-market at least annually for federal income tax purposes. See Form 8594 for certain exceptions.
Class IV	Inventory or property held by the taxpayer primarily for sale to customers in the ordinary course of business.
Class V	Assets not classified elsewhere. Generally includes furniture and fixtures, buildings, land, vehicles, and equipment, which constitute all or part of a business.
Class VI	Section 197 intangibles other than goodwill and going concern value. See <i>Intangible Assets</i> , page 9-13.
Class VII	Goodwill and going concern value.

If an asset can be included in more than one class, include it in the lower numbered class. For example, if an asset is described in both Class II and Class IV, choose Class II.

Agreement. The buyer and seller may enter into a written agreement as to the allocation of any consideration or the fair market value of any of the assets. This agreement is binding on both parties unless the IRS determines the amounts are not appropriate.

Reporting requirement. Both the buyer and seller involved in the sale of business assets must report to the IRS the allocation of the sales price among Section 197 intangibles and the other business assets. See *Asset Acquisition Statement*, previous column.

Sale of a Business Planning Issues

Cross References

- Form 4797, *Sales of Business Property*
- Form 6252, *Installment Sale Income*
- IRS Pub. 544, *Sales and Other Disposition of Assets*

Related Topics

- Sales of Business Property (Form 4797), page 6-16
- Installment Sales (Form 6252), page 6-17

Buyer vs. Seller

The seller and buyer of a business must come to an agreement as to the value placed upon each class of asset. Often the value placed on the various assets can be a point of contention between the two parties. See the *Tax Treatment for Sellers and Buyers* chart, page 28-1.

Buyer's classification. Buyers generally want the majority of the purchase price allocated to inventory so that it can be expensed when it is sold. Buyers will want minimal value allocated to:

- Land as it is not a depreciable asset,
- Buildings and equipment because the longer depreciable life of these assets will be slower to offset income, and
- Goodwill and other intangibles as these also are amortized over a number of years.

Seller's classification. Sellers will likely prefer the majority of the value be allocated to buildings and equipment, which generally receive capital gain treatment. Sellers will want minimal amounts allocated to inventory and non-compete agreements which are taxed at ordinary income rates.

Sale of Stock vs. Sale of Assets

Sale of stock. The sale of a corporation can be as simple as selling the stock. The seller would benefit if the stock is sold because the seller would receive capital gain treatment on the sale. However, purchasing the stock means the buyer is purchasing an existing entity along with any liabilities it may have, including any unknown liabilities of the corporation at the time of purchase.

Sale of assets. The buyer might want to consider purchasing the assets of the corporation and forming a new corporation rather than purchasing the stock of the existing corporation. Purchasing the assets allows the buyer to depreciate or amortize the cost of the assets, whereas the cost of stock is capitalized until sold. If the seller agrees to sell the assets of the corporation rather than its stock, the corporation reports gain or loss on each asset sold. Cash from the sale is then distributed to shareholders when the corporation is liquidated.

C corporation. For a C corporation, tax issues are the main reason for the seller's preference for selling stock instead of selling assets. If the assets of a C corporation are sold instead of stock, the sale can essentially be taxed twice. The first tax occurs when selling assets to the buyer. The corporation will pay tax on the value of the assets over the existing basis of the assets. Second, when the corporation is liquidated, the individual pays personal

capital gain tax on the excess of the net proceeds of the sale, over his or her existing basis in the stock.

S corporation. When an S corporation sells assets, it does not pay tax on any gain realized through the sale. Instead, the gains of the corporation flow through to the shareholders. Sale of assets which generate a capital gain are passed on to the shareholders as a capital gain. Ordinary income is passed on to the shareholders as ordinary income. Gain recognized at the corporate level and passed through to the shareholders will increase the basis in the corporation for each shareholder. This reduces the gain on the liquidating distribution that will occur after the sale of assets.

Non-Tax Issues

There are concerns other than tax-related issues that need to be taken into consideration when buying or selling a corporation.

- With a stock sale, any unknown liabilities the company may have are transferred to the new owner. With an asset sale, the liabilities would remain with the seller. Some examples include future product liability claims, contract claims, lawsuits by employees, pension or benefit plan liabilities.
- If the corporation has a good credit rating, the buyer may want to buy the stock instead of buying the assets.
- Contracts such as leases, supply contracts, or employment contracts may have been written between the corporation and a third party. It may be easier for the buyer to maintain these contracts with a stock purchase than it would be to negotiate contracts as a new entity.
- A change of accounting method is generally not allowed when purchasing stock in a corporation.
- Retitling shares of stock purchased through a business sale may require less paperwork and lower costs than retitling each asset if assets are purchased separately.
- Permits and licenses owned by a corporation remain intact when a corporation is sold through a stock sale. An asset sale requires the new owner to reapply for permits and licenses.

Self-Employment Tax—Sale of Business

Self-employed taxpayers are subject to self-employment tax on the ordinary income derived from carrying on a trade or business. If a self-employed individual goes out of business and sells a group of assets that make up his or her trade or business, the ordinary income from the sale may or may not be subject to self-employment tax.

Not subject to self-employment (SE) tax. The following items are not subject to SE tax.

Capital assets. Gain or loss from the disposition of a capital asset is not taken into account in calculating SE tax. This includes the portion of the gain that represents depreciation recapture on the sale of equipment and other depreciable assets. This also includes depreciation recapture on the disposition of property expensed under Section 179.

Termination agreements. Payments received in exchange for a covenant not-to-compete are considered ordinary income. Payments derived from the cessation of a business activity are not subject to SE tax. (*Robert E. Milligan*, 9th Cir., October 25, 1994)

Subject to self-employment (SE) tax. If the taxpayer keeps any depreciable asset expensed under Section 179 after going out of business, and uses the asset 50% or more for personal purposes before the MACRS recovery period is up for that asset, Section 179 must be recaptured to the extent it exceeds depreciation under regular MACRS, and such recaptured amount is subject to SE tax. If the asset is listed property, Section 179 is recaptured to the extent it exceeds depreciation under straight-line depreciation using the ADS life.

Author's Comment: Gain from the sale of inventory sold in the normal course of a trade or business is taxed as ordinary income and is also subject to SE tax for self-employed taxpayers. However, there are conflicting opinions about treatment of inventory as part of the sale of a business. Some publications use reasoning similar to the *Milligan* court case, see *Termination agreements*, previous column, that gains resulting from cessation of a business are not part of the normal course of a trade or business and are therefore not subject to self-employment tax. Such treatment would report the sale of inventory included with other assets making up a business on Form 4797, *Sales of Business Property*, with the gain being reported as ordinary income, but not subject to SE tax.

We disagree. In defining net earnings from self-employment, IRC section 1402(a)(3) states, in part, "there shall be excluded any gain or loss... (C) from the sale, exchange, involuntary conversion, or other disposition of property if such property is neither (i) stock in trade or other property which would be includible in inventory if on hand at the close of the taxable year, nor (ii) property held primarily for sale to customers in the ordinary course of the trade or business." (IRC §1402)

Based on the above provision, upon the sale of a business, inventory should be included in cost of goods sold, and gain on the sale of the inventory should be reported as ordinary income subject to SE tax.

Partnership—Sale of Business

The sale or exchange of an interest in a partnership is treated as a capital asset when sold. The part of any gain or loss from unrealized receivables or inventory items will be treated as ordinary gain or loss. See *Partnership—Sale of Business Example*, page 28-9.

Not all sales or exchanges of a partnership interest will trigger termination of the partnership. For more information, see *Terminating a Partnership*, page 20-19.

Sale of Business Examples

The following examples illustrate how the sale of a business is reported on the tax return of the seller and the buyer. Each example assumes a business owned for 2½ years.

C Corporation—Sale of Business Example

Greener Pastures, Inc. The two owners of Greener Pastures, Inc., are Nate, who owns 55% of the stock, and Tyler, who owns 45% of the stock. They started operation as a business on April 1, 2021. After being profitable for 2½ years, a buyer by the name of Sam approached them on October 1, 2023, with an offer, and both Nate and Tyler decide to sell.

Sale of stock. Nate and Tyler (the sellers) would prefer to sell their stock. If Nate and Tyler sell their stock, they would receive long-term capital gain treatment with a maximum tax rate of 20% on the gain. They would also avoid double tax since the sale of assets inside a C corporation is taxed once at the corporate level and a second time upon liquidation of the shareholder's stock. Nate and Tyler also want to delay the sale until after the first of the year to defer gain one more year.

Sale of assets. Sam (the buyer) would prefer to purchase the equipment, inventory, customer list, and a covenant not-to-compete from Greener Pastures, Inc. and start up his own corporation with the assets purchased. Sam wants to be able to depreciate the assets purchased at his cost. He also does not want to be subject to any hidden liabilities that Greener Pastures, Inc. may have, such as assumption of product liabilities from the sale of inventory or potential lawsuits associated with the services that were offered to customers. Sam would also like to purchase the assets before the end of the year to be able to use the Section 179 deduction on the equipment and furniture in 2023 rather than wait until 2024.

Terms of the sales agreement. They agree to compromise and sell all the assets, not including the cash, to Sam. The sale will take place on January 2, 2024, prior to the conduct of any business during the new year. Sam will purchase all the tangible and intangible assets of Greener Pastures, Inc. for \$130,000 and pay 40% down (\$52,000 cash), with the remaining 60% paid over five years, with a balloon payment for the balance due on December 2, 2029 (\$78,000 installment note at 5% annual interest). They agree to allocate \$40,000 of the purchase price to a covenant not-to-compete. Any liabilities of Greener Pastures, Inc. remain with Greener Pastures. The corporation will pay off liabilities with cash received from the down payment and then liquidate by distributing the remaining cash and installment note to Nate and Tyler on January 31, 2024.

The high 40% down payment is necessary for several reasons.

- For tax purposes, gain that represents ordinary income (inventory, depreciation recapture, and covenant not-to-compete) must be recognized in the year of sale rather than under the installment method even though actual payment is received in future years. Only the gain representing capital gain can be recognized under the installment method for tax purposes. Therefore, the down payment needs to be high enough to cover the tax liability that cannot be deferred under the installment method.
- The buyer is not assuming any of the corporate liabilities, thus the down payment needs to be high enough so that the corporation has the cash to pay off its liabilities.
- The corporation will need enough cash to pay off the shareholder who is only receiving cash upon liquidation and not the installment note (see *Installment note*, page 28-6, for reasoning).

Balance sheet prior to sale. As of January 2, 2024, Greener Pastures, Inc. has the following balance sheet per books, per tax, and per fair market value (FMV), prior to the sale.

Assets:	Per Books	Per Tax	FMV
Cash.....	\$100,000	\$100,000	\$100,000
Inventory.....	8,500	8,500	14,600
Equipment.....	23,600	23,600	13,000
Accumulated depreciation.....	(11,210)	(23,600)	0
Display shelving.....	8,950	8,950	3,500
Accumulated depreciation.....	(1,771)	(5,455)*	0
Office furniture.....	3,675	3,675	2,000
Accumulated depreciation.....	(873)	(2,240)*	0
Computers.....	3,890	3,890	900
Accumulated depreciation.....	(1,848)	(2,938)*	0
Organizational costs.....	4,500	4,500	0
Accumulated amortization.....	0	(4,500)	0
Start-up costs.....	1,660	1,660	0
Accumulated amortization.....	0	(1,660)	0
Goodwill (customer list, etc.).....	0	0	56,000
Covenant not-to-compete.....	0	0	40,000
Total assets.....	\$139,073	\$114,382	\$230,000
Total FMV of assets sold (everything except cash).....			\$130,000
Liabilities:			
Withholding payable.....	\$ 1,800	\$ 1,800	n/a
SIMPLE employee deferrals payable.....	750	750	n/a
Sales tax payable.....	1,400	1,400	n/a
Loan payable.....	8,500	8,500	n/a
Total liabilities.....	\$ 12,450	\$ 12,450	
Equity:			
Common stock.....	\$100,000	\$100,000	n/a
Current earnings*.....	0	(1,060)	n/a
Retained earnings.....	26,623	2,992	n/a
Total equity.....	\$126,623	\$101,932	
Total liabilities + equity.....	\$139,073	\$114,382	

* Includes half-year tax depreciation under MACRS for year of sale.

Form 8594. Form 8594, *Asset Acquisition Statement Under Section 1060*, Part II, must be filed by both the buyer and the seller as follows.

Total Class I assets (cash, bank accounts, etc.)*	\$ 0
Total Class II assets.....	0
Total Class III assets.....	0
Total Class IV assets (inventory).....	14,600
Total Class V assets (equipment, furnishings, etc.).....	19,400
Total Class VI assets (covenant not-to-compete).....	40,000
Total Class VII assets (goodwill).....	56,000
Total all classes of assets.....	\$130,000

* The corporation cash is not part of the sale; therefore, it is not reported on Form 8594.

Allocation of sales price. Form 8594, Part II, asks for the aggregate fair market value (FMV) of each class of asset and the allocation of sales price for each class of asset. In this example, these two amounts are the same. If the sales price was greater than, or less than the FMV of the combined group of assets that make up the sale, then an allocation of the sales price is required.

To illustrate, assume in this example the total sales price is \$150,000 instead of \$130,000, even though the FMV of all assets equals \$130,000. An allocation of the sales price must be made to determine the buyer's basis in each acquired asset and the seller's gain or loss on the transfer of each asset. The residual method for the allocation of the sales price must be used. The amount allocated to an asset, other than a Class VII asset (goodwill), cannot exceed its FMV on the purchase date. In other words, any excess over FMV must be allocated to Class VII (goodwill).

Allocate the sales price to Class I assets first, up to FMV. Then allocate the remaining consideration to Class II assets, then to Class III, IV, V, and VI assets in that order, not to exceed FMV in any class of assets. The remaining sales price is allocated to Class VII assets, even if it exceeds the combined FMV of all Class VII assets.

In this example, if the sales price was \$150,000 rather than \$130,000, the allocation to each class would be the same as above, except that goodwill (Class VII) would be \$76,000 instead of \$56,000.

Income statement. After the sale to Sam, the final income statement for Greener Pastures, Inc. is as follows.

Revenue:	Per Books	Per Tax
Sales of inventory.....	\$ 14,600	\$ 14,600
Gain or (loss) on sale of equipment.....	610	13,000
Gain or (loss) on sale of display shelving.....	(3,679)	5
Gain or (loss) on sale of office furniture.....	(802)	565
Gain or (loss) on sale of computers.....	(1,142)	(52)
Sale of customer list ¹	56,000	56,000
Covenant not-to-compete income.....	40,000	40,000
Gross income.....	\$105,587	\$124,118
Cost of Goods Sold:		
Beginning inventory.....	\$ 8,500	\$ 8,500
Purchases.....	0	0
Minus ending inventory.....	0	0
Cost of goods sold.....	\$ 8,500	\$ 8,500
Gross profit.....	\$ 97,087	\$115,618
Expenses:		
Depreciation (half-year for year of sale).....	\$ 0	\$ 1,060
Miscellaneous administrative expenses ²	2,500	2,500
Expense organizational costs upon liquidation ³	4,500	0
Expense start-up costs upon liquidation ³	1,660	0
Income tax: federal ⁴	21,226	0
Income tax: state.....	10,980	10,980
Total expenses.....	\$ 40,866	\$ 14,540
Net income.....	\$ 56,221	\$101,078

continued on next page

Footnotes:

¹ The \$78,000 portion of the sale represents an installment note. \$56,000 (the capital gain portion) would generally not be recognized as income until payments are received under the installment method. However, in this example, the installment note is distributed to one of the shareholders upon liquidation. Thus, the corporation does not report any of it under the installment method and pays tax on all of it in 2024 because the installment note is treated as if it were sold for cash. See *Installment note*, next column.

² These are expenses incurred by the corporation after the sale of its assets and prior to the final liquidating distributions to its shareholders, such as legal, accounting, tax preparation, and office expenses.

³ Organizational costs and start-up costs were expensed in the first year for tax purposes and capitalized for book purposes. Since they no longer have any value when the corporation is liquidated, they are written off the books for book purposes.

⁴ Federal income tax is a deduction for book purposes only.

Cash flow. The corporation cash flow for 2024 is as follows:

1/1/24 cash on hand.....	\$100,000
Cash received on date of sale (40% down payment)	52,000
Pay off corporate liabilities	(12,450)
Miscellaneous administrative expenses	(2,500)
Federal income tax.....	(21,226)
State income tax.....	(10,980)
Cash available at liquidation.....	\$104,844

Note: The corporation checking account is the one asset that is not included in the sale. Thus, the cash stays with the corporation.

Balance sheet after sale. After the sale to Sam on January 2, 2024, and after corporation liabilities and miscellaneous administrative expenses are paid, Greener Pastures, Inc. has the following balance sheet per books prior to the final liquidation of the corporation on January 31, 2024.

Assets:	Per Books
Cash.....	\$104,844
Installment note	78,000
Inventory.....	0
Equipment, furniture, etc.....	0
Organizational costs	0
Start-up costs.....	0
Goodwill (customer list, etc.).....	0
Covenant not-to-compete.....	0
Total assets.....	\$182,844
Liabilities:	
Withholding payable.....	\$ 0
SIMPLE employee deferrals payable.....	0
Sales tax payable.....	0
Loan payable	0
Total liabilities.....	\$ 0
Equity:	
Common stock	\$100,000
Current earnings.....	56,221
Retained earnings.....	26,623
Total equity.....	\$182,844
Total liabilities + equity	\$182,844

Liquidation. Upon the final liquidation of the corporation, there are two assets: \$104,844 of cash and the installment note of \$78,000, for a total of \$182,844 available for distribution. Nate owns 55% of the outstanding stock and is entitled to \$100,564 ($\$182,844 \times 55\%$). Tyler owns 45% of the outstanding stock and is entitled to \$82,280 ($\$182,844 \times 45\%$).

Form 966. The corporation must file Form 966, *Corporate Dissolution or Liquidation*, within 30 days after the corporation adopts its plan to liquidate. For more information on Form 966 and corporate liquidations, see *Corporate Liquidations*, page 18-22.

Form 1099-DIV. The corporation must issue Form 1099-DIV, *Dividends and Distributions*, to the shareholders when it distributes the cash and the installment note to the shareholders upon liquidation. Cash distributed to the shareholders is reported in box 9, and noncash distributed (the installment note) is reported in box 10.

Installment note. If cash was the only remaining asset, it would be simple to liquidate the corporation. The installment note may be difficult to split from a legal perspective. The terms of the note could be written so that Sam, the buyer, makes two separate payments each month, one to Nate and one to Tyler. Or, the corporation could remain open for five years until Sam makes the final payment, then liquidate the corporation and distribute the cash. Or, the corporation could distribute cash, plus the installment note to one shareholder and cash to the other shareholder.

The problem with leaving the corporation open for the five years it takes to collect on the installment note is the corporation could be subject to personal holding company tax rules. A C corporation that only receives investment income and has no income from the operation of a business could be subject to the PHC tax. See *Personal Holding Company (PHC)*, page 18-19.

In this example, assume Nate agrees to take the \$78,000 installment note plus \$22,564 cash for his \$100,564 liquidation proceeds. Tyler receives a liquidating cash distribution of \$82,280.

Nate's tax return. Nate received the installment note from the liquidating corporation. \$56,000 out of the \$78,000 installment note qualifies for installment method reporting on Form 6252, *Installment Sale Income*, (the ordinary income from the covenant not-to-compete does not qualify for installment method treatment).

Use of installment method by shareholders in certain liquidations. Nate does not recognize gain on the installment method portion of the liquidation until payments are received from the installment note [IRC §453(h)]. This rule only applies if the installment note is acquired in respect of a sale or exchange by the corporation during the 12-month period beginning on the date a plan of complete liquidation is adopted, and the liquidation is completed during such 12-month period. This is true even though the corporation had to recognize gain at the time the installment note was given to Nate in exchange for his stock.

This rule requires Nate to allocate his basis in the stock among the two assets received (the installment method portion of the note and the cash plus ordinary income portion of the installment note). As a 55% shareholder, Nate's basis in his C corporation stock was \$55,000 prior to liquidation. The \$22,564 of cash plus \$22,000 of the installment note that represents ordinary income (the covenant not-to-compete portion) totals \$44,564. The other \$18,000 of the covenant not-to-compete was part of the \$52,000 down payment that the corporation received in cash on January 2, 2024. The \$44,564 amount represents 44% of Nate's total distribution. 44% of his \$55,000 basis equals \$24,200 ($\$55,000 \times 44\%$). He reports \$44,564 gross proceeds from the liquidation of his stock on Form 8949, *Sales and Other Dispositions of Capital Assets*, with a basis of \$24,200. These numbers then flow through to Schedule D (Form 1040) to compute a long-term capital gain of \$20,364.

Allocation of Nate's Liquidation Distribution

<i>Distribution Proceeds</i>	<i>Cash</i>	<i>Installment Note</i>	<i>Total Distribution</i>	<i>%</i>
Allocable to stock sale	\$22,564	\$22,000	\$44,564	44%
Allocable to installment note	\$ 0	\$56,000	\$56,000	56%
Total	\$22,564	\$78,000	\$100,564	100%

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Allocation of Nate's basis:

Original stock purchase.....	\$55,000
Allocation %.....	44%
Basis for stock sale.....	\$24,200
Original stock purchase.....	\$55,000
Less basis for stock sale.....	(24,200)
Plus covenant not-to-compete portion.....	22,000
Basis for installment sale.....	\$52,800

Nate also begins to receive payments from Sam on the installment note during the rest of 2024. He reports the interest portion of each payment on his Schedule B (Form 1040). The principal portion of each payment is reported on Form 6252, *Installment Sale Income*. His basis in the installment note is \$52,800 (\$55,000 – \$24,200 + \$22,000). His gross profit in the installment note is \$25,200 (\$78,000 – \$52,800 basis). His gross profit percentage equals 32.31% (\$25,200 ÷ \$78,000). Assume that during the rest of 2024, Nate received \$3,278 in principal and \$3,507 in interest from Sam. The gain calculated on his Form 6252 that is carried to Schedule D (Form 1040) is \$1,059 (\$3,278 × 32.31%). He also reports interest income on Schedule B in the amount of \$3,507.

Check Nate's calculations. Once Nate receives \$78,000 of total payments on the installment note, Nate will have reported total gain of \$25,202 on Form 6252 (\$78,000 × 32.31%). Add that to the \$20,364 of gain reported on Schedule D upon liquidation, and his total gain equals \$45,566 (\$25,202 + \$20,364). Nate's 55% share of the corporation assets at the time of liquidation equals \$100,564 (\$182,844 × 55%). His total gain is \$45,564 (\$100,564 minus \$55,000 stock basis). The \$2 difference is due to rounding percentages.

Tyler's tax return. Tyler received a \$82,280 cash liquidating distribution in exchange for his stock. His basis in the stock was \$45,000. Tyler reports the gain on Form 8949, *Sales and Other Dispositions of Capital Assets*, which is then carried to Schedule D (Form 1040) and lists \$82,280 as gross proceeds, with \$45,000 as basis for a long-term capital gain of \$37,280.

Sam's tax return. Since Sam is purchasing the assets from Greener Pastures, Inc. and not its stock, Sam treats the purchase of each asset on his tax return no different than any other purchase of business assets.

Purchase of inventory.....	\$14,600
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Sam reports this amount on the "purchases" line of the cost of goods sold section on his tax return.

Purchase of equipment, furnishings, etc.....	\$19,400
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He can elect to expense the entire amount under Section 179 in 2024 or depreciate the amount over seven years under MACRS. The depreciation method and amount claimed in prior years by the seller is irrelevant.

Payment for the covenant not-to-compete contract.....	\$40,000
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This is a contract that states Greener Pastures, Inc., and its two shareholders cannot start up a new business in the same line of work for five years from the date of sale. If this contract is broken, Sam's obligation to make payments under the installment note is cancelled. Sam amortizes the cost over 15 years as a Section 197 intangible, even though the agreement is for only five years.

Payment for goodwill.....	\$56,000
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Sam amortizes the cost over 15 years as a Section 197 intangible.

Interest on installment note paid in 2024.....	\$ 3,507
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Sam deducts this as business interest expense.

Filled in tax forms. See the filled in tax forms starting on page 28-11 for the corporation and individual tax returns filed as a result of the scenario described in this example.

S Corporation—Sale of Business Example

Greener Pastures, Inc. The two owners of Greener Pastures, Inc., are Nate, who owns 55% of the stock, and Tyler, who owns 45% of the stock. They started operation as a business on April 1, 2021. After being profitable for 2½ years, a buyer by the name of Sam approached them on October 1, 2023, with an offer, and both Nate and Tyler decide to sell.

Terms of the sales agreement. Nate and Tyler agree to sell all the assets, not including the cash, to Sam. The sale will take place on January 2, 2024, prior to the conduct of any business during the new year. Sam will purchase all the tangible and intangible assets of Greener Pastures, Inc. for \$130,000 and pay 40% down (\$52,000 cash), with the remaining 60% paid over five years, with a balloon payment for the balance due on December 2, 2029 (\$78,000 installment note at 5% annual interest). They agree to allocate \$40,000 of the purchase price to a covenant not-to-compete. Any liabilities of Greener Pastures, Inc. remain with Greener Pastures. The corporation will pay off liabilities with cash received from the down payment and then liquidate by distributing the remaining cash and installment note to Nate and Tyler on January 31, 2024.

Installment note—S corporations. The difference between the C corporation example and the S corporation example is that the S corporation does not recognize gain when it distributes the installment note upon liquidation [IRC §453B(h)]. The installment obligation must have been acquired by the S corporation during the 12-month period beginning on the date a plan of complete liquidation was adopted, and the liquidation must be completed within that 12-month period. The shareholder reports gain as payments are received on the installment obligation.

Sale of other assets. In the C corporation example, the C corporation paid tax on the sale of its assets to Sam. In this example, the S corporation passes the gain on the sale of its assets through to the shareholders.

Balance sheet prior to sale. For the S corporation example, the balance sheet per books and the balance sheet per tax are the same since the depreciation and amortization deductions are identical. As of January 2, 2024, Greener Pastures, Inc. has the following balance sheet prior to the sale.

Assets:	Book & Tax	FMV
Cash.....	\$100,000	\$100,000
Inventory.....	8,500	14,600
Equipment.....	23,600	13,000
Accumulated depreciation.....	(23,600)	0
Display shelving.....	8,950	3,500
Accumulated depreciation.....	(5,455)*	0
Office furniture.....	3,675	2,000
Accumulated depreciation.....	(2,240)*	0
Computers.....	3,890	900
Accumulated depreciation.....	(2,938)*	0
Organizational costs.....	4,500	0
Accumulated amortization.....	(4,500)	0
Start-up costs.....	1,660	0
Accumulated amortization.....	(1,660)	0
Goodwill (customer list, etc.).....	0	56,000
Covenant not-to-compete.....	0	40,000
Total assets.....	\$114,382	\$230,000
Total FMV of assets sold (everything except cash).....		\$130,000

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Liabilities:	Book & Tax	FMV
Withholding payable.....	\$ 1,800	n/a
SIMPLE employee deferrals payable.....	750	n/a
Sales tax payable.....	1,400	n/a
Loan payable.....	8,500	n/a
Total liabilities.....	\$ 12,450	
Equity:		
Common stock.....	\$100,000	n/a
Current earnings*.....	(1,060)	n/a
Retained earnings.....	2,992	n/a
Total equity.....	\$101,932	
Total liabilities + equity.....	\$114,382	

* Includes half-year tax depreciation under MACRS for year of sale.

Form 8594. The S corporation Form 8594 example is identical to the C corporation Form 8594 example. See Form 8594, page 28-11.

Income statement. After the sale to Sam, the final income statement for Greener Pastures, Inc. is as follows.

Revenue:	Book & Tax
Sales of inventory.....	\$ 14,600
Gain or (loss) on sale of equipment.....	13,000
Gain or (loss) on sale of display shelving.....	5
Gain or (loss) on sale of office furniture.....	565
Gain or (loss) on sale of computers.....	(52)
Sale of customer list*.....	0
Covenant not-to-compete income*.....	40,000
Gross income.....	\$68,118
Cost of goods sold:	
Beginning inventory.....	\$ 8,500
Purchases.....	0
Minus ending inventory.....	0
Cost of goods sold.....	\$ 8,500
Gross profit.....	\$59,618
Expenses:	
Depreciation (half-year for year of sale).....	\$ 1,060
Miscellaneous administrative expenses.....	2,500
Total expenses.....	\$ 3,560
Net income.....	\$56,058

* The \$56,000 capital gain portion of the installment note is not recognized as income until payments are received under the installment method. Since the S corporation does not recognize income when it distributes the installment note to the shareholders upon liquidation, the S corporation income statement does not record it as income. However, only capital gains qualify for installment method reporting. The covenant not-to-compete is ordinary income; therefore, that portion of the installment note must be reported as income in the year of sale.

Cash flow. The corporation cash flow for 2024 is as follows.

1/1/24 cash on hand.....	\$ 100,000
Cash received on date of sale (40% down payment).....	52,000
Pay off corporate liabilities.....	(12,450)
Miscellaneous administrative expenses.....	(2,500)
Cash available at liquidation.....	\$ 137,050

Note: The corporation checking account is the one asset that is not included in the sale. Thus, the cash stays with the corporation.

Balance sheet after sale. After the sale to Sam on January 2, 2024, and after corporation liabilities and miscellaneous administrative expenses are paid, Greener Pastures, Inc. has the following balance sheet per books prior to the final liquidation of the corporation on January 31, 2024.

Assets:	Per Books
Cash.....	\$137,050
Installment note.....	78,000
Total assets.....	\$215,050
Liabilities:	
Deferred income – installment note.....	\$ 56,000
Total liabilities.....	\$ 56,000
Equity:	
Common stock.....	\$100,000
Current earnings.....	56,058
Retained earnings.....	2,992
Total equity.....	\$159,050
Total liabilities + equity.....	\$215,050

Liquidation. Upon the final liquidation of the corporation, there are two assets; \$137,050 of cash and the installment note of \$78,000, for a total of \$215,050 available for distribution. Nate owns 55% of the outstanding stock and is entitled to \$118,278 ($\$215,050 \times 55\%$). Tyler owns 45% of the outstanding stock and is entitled to \$96,772 ($\$215,050 \times 45\%$). In this example, assume Nate agrees to take the \$78,000 installment note plus \$40,278 cash for his \$118,278 liquidation proceeds. Tyler receives a liquidating cash distribution of \$96,772.

Form 966. The corporation must file Form 966, *Corporate Dissolution or Liquidation*, within 30 days after the corporation adopts its plan to liquidate. For more information on Form 966 and corporate liquidations, see *Corporate Liquidations*, page 18-22.

Form 1099-DIV. The corporation must issue Form 1099-DIV, *Dividends and Distributions*, to the shareholders when it distributes the cash and the installment note to the shareholders upon liquidation. Cash distributed to the shareholders is reported in box 9, and noncash distributed (the installment note) is reported in box 10.

Nate's tax return. Nate received the installment note from the liquidating corporation. \$56,000 out of the \$78,000 installment note qualifies for installment method reporting on Form 6252, *Installment Sale Income*. The installment sale rule requires Nate to allocate his basis in the stock among the two assets received (the installment method portion of the note and the cash plus ordinary income portion of the installment note). See *Use of installment method by shareholders in certain liquidations*, page 28-6.

As an S corporation shareholder, Nate's basis in stock equals the initial cash contribution he made on April 1, 2021, of \$55,000, plus or minus all Schedule K-1 items of income or loss since that date, minus distributions. Assume Nate's stock basis as of December 31, 2023, equals \$56,646. His 2024 Schedule K-1 allocates \$30,832 to him ($\$56,058 \times 55\%$), for a total basis prior to liquidation of \$87,478.

The \$40,278 of cash plus \$22,000 of the installment note that represents ordinary income (the covenant not-to-compete portion) totals \$62,278. The other \$18,000 of the covenant not-to-compete was part of the \$52,000 down payment that the corporation received in cash on January 2, 2024. The \$62,278 amount represents 53% of Nate's total distribution. 53% of his \$87,478 basis equals \$46,363 ($\$87,478 \times 53\%$). He reports \$62,278 gross proceeds from the liquidation of his stock on Form 8949, *Sales and Other Dispositions of Capital Assets*, with a basis of \$46,363. These numbers then flow through to Schedule D (Form 1040) to compute a long-term capital gain of \$15,915.

Nate also begins to receive payments from Sam on the installment note during the rest of 2024. He reports the interest portion of each payment on his Schedule B (Form 1040). The principal portion of each payment is reported on Form 6252, *Installment Sale Income*. His basis in the installment note is \$63,115 ($\$87,478$ minus \$46,363 plus \$22,000). His gross profit in the installment note is \$14,885 ($\$78,000 - \$63,115$ basis). His gross profit percentage

equals 19.08% (\$14,885 ÷ \$78,000). Assume that during the rest of 2024, Nate received \$3,278 in principal and \$3,507 in interest from Sam. The gain calculated on his Form 6252 that is carried to Schedule D (Form 1040) is \$625 (\$3,278 × 19.08%). He also reports interest income on Schedule B in the amount of \$3,507.

Allocation of Nate's Liquidation Distribution

Distribution Proceeds	Cash	Installment Note	Total Distribution	%
Allocable to stock sale	\$40,278	\$22,000	\$ 62,278	53%
Allocable to installment note	\$ 0	\$56,000	\$ 56,000	47%
Total	\$40,278	\$78,000	\$118,278	100%

Allocation of Nate's basis:

12/31/2023 stock basis	\$56,646
2024 Schedule K-1 allocation	30,832
Basis prior to liquidation	87,478
Allocation %	53%
Basis for stock sale	\$46,363
Basis prior to liquidation	\$87,478
Less basis for stock sale	(46,363)
Plus covenant not-to-compete portion	22,000
Basis for installment sale	\$63,115

Check Nate's calculations. Once Nate receives \$78,000 of total payments on the installment note, he will have reported total gain of \$14,885 on Form 6252. Add that to the \$15,915 gain reported on Schedule D upon liquidation, and his total gain equals \$30,800 (\$14,885 + \$15,915). Nate's 55% share of the corporation at the time of liquidation equals \$118,278 (\$215,050 × 55%). His total gain is \$30,800 (\$118,278 – \$87,478 stock basis).

Filled in tax forms. See the filled in tax forms starting on page 28-16 for the S corporation and Nate's tax returns filed as a result of the scenario described in this example.

Partnership—Sale of Business Example

Greener Pastures Partnership. The two owners of Greener Pastures are Nate, who owns 55% of the partnership, and Tyler, who owns 45% of the partnership. They started operation as a business on April 1, 2021. After being profitable for 2½ years, a buyer by the name of Sam approached them on October 1, 2023, with an offer, and both Nate and Tyler decide to sell.

Terms of the sales agreement. Nate and Tyler agree to sell all the assets, not including the cash, to Sam. The sale will take place on January 2, 2024, prior to the conduct of any business during the new year. Sam will purchase all the tangible and intangible assets of Greener Pastures Partnership for \$130,000 and pay 40% down (\$52,000 cash), with the remaining 60% paid over five years with a balloon payment for the balance due on December 2, 2029 (\$78,000 installment note at 5% annual interest). They agree to allocate \$40,000 of the purchase price to a covenant not-to-compete. Any liabilities of Greener Pastures as a partnership remain with Greener Pastures. The partnership will pay off liabilities with cash received from the down payment and then terminate by distributing the remaining cash and installment note to Nate and Tyler on January 31, 2024.

Installment note. The partnership example is similar to the S corporation example. The installment note is transferred to Nate at no gain to the partnership upon termination [IRC §731(b)]. Nate recognizes gain as he receives payments from the installment note. Assume all other facts used in the following partnership example are the same as the S corporation example.

Balance sheet prior to sale. As of January 2, 2024, Greener Pastures has the following balance sheet prior to the sale.

Assets:	Book & Tax	FMV
Cash	\$100,000	\$100,000
Inventory	8,500	14,600
Equipment	23,600	13,000
Accumulated depreciation	(23,600)	0
Display shelving	8,950	3,500
Accumulated depreciation	(5,455)*	0
Office furniture	3,675	2,000
Accumulated depreciation	(2,240)*	0
Computers	3,890	900
Accumulated depreciation	(2,938)*	0
Organizational costs	4,500	0
Accumulated amortization	(4,500)	0
Start-up costs	1,660	0
Accumulated amortization	(1,660)	0
Goodwill (customer list, etc.)	0	56,000
Covenant not-to-compete	0	40,000
Total assets	\$114,382	\$230,000
Total FMV of assets sold (everything except cash)		\$130,000

Liabilities:

Withholding payable	\$ 1,800	n/a
SIMPLE employee deferrals payable	750	n/a
Sales tax payable	1,400	n/a
Loan payable	8,500	n/a
Total liabilities	\$ 12,450	

Equity:

Partnership capital accounts	\$101,932	n/a
Total equity	\$101,932	
Total liabilities + equity	\$114,382	

* Includes half-year tax depreciation under MACRS for year of sale.

Form 8594. The partnership Form 8594 example is identical to the C corporation Form 8594 example. See *Form 8594*, page 28-11.

Income statement. After the sale to Sam, the final income statement for Greener Pastures is as follows.

Revenue:	Book & Tax
Sales of inventory	\$14,600
Gain or (loss) on sale of equipment	13,000
Gain or (loss) on sale of display shelving	5
Gain or (loss) on sale of office furniture	565
Gain or (loss) on sale of computers	(52)
Sale of customer list*	0
Covenant not-to-compete income*	40,000
Gross income	\$68,118
Cost of goods sold:	
Beginning inventory	\$ 8,500
Purchases	0
Minus ending inventory	0
Cost of goods sold	\$ 8,500
Gross profit	\$59,618
Expenses:	
Depreciation (half-year for year of sale)	\$ 1,060
Miscellaneous administrative expenses	2,500
Total expenses	\$ 3,560
Net income	\$56,058

* The \$56,000 capital gain portion of the installment note is not recognized as income until payments are received under the installment method. Since the partnership does not recognize income when it distributes the installment note to the partners upon termination, the partnership income statement does not record it as income. However, only capital gains qualify for installment method reporting. The covenant not-to-compete is ordinary income, therefore, that portion of the installment note must be reported as income in the year of sale.

Cash flow. The partnership cash flow for 2024 is as follows.

1/1/24 cash on hand.....	\$100,000
Cash received on date of sale (40% down payment)	52,000
Pay off partnership liabilities.....	(12,450)
Miscellaneous administrative expenses	(2,500)
Cash available at liquidation.....	\$137,050

Balance sheet after sale. After the sale to Sam on January 2, 2024, and after liabilities and miscellaneous administrative expenses are paid, Greener Pastures has the following balance sheet per books prior to termination on January 31, 2024.

Assets:	Per Books
Cash.....	\$137,050
Installment note	78,000
Total assets.....	\$215,050
Liabilities:	
Deferred income – installment note	\$ 56,000
Total liabilities.....	\$ 56,000
Equity:	
Partnership capital accounts.....	\$159,050
Total liabilities + equity	\$215,050

Termination. Upon the termination of the partnership, there are two assets; \$137,050 of cash and the installment note of \$78,000, for a total of \$215,050 available for distribution. Nate owns 55% of the partnership and is entitled to \$118,278 ($\$215,050 \times 55\%$). Tyler owns 45% of the partnership and is entitled to \$96,772 ($\$215,050 \times 45\%$). In this example, assume Nate agrees to take the \$78,000 installment note plus \$40,278 cash for his \$118,278 total proceeds. Tyler receives a final cash distribution of \$96,772.

Nate's tax return. Nate received the installment note from the terminating partnership. \$56,000 out of the \$78,000 installment note qualifies for installment method reporting on Form 6252, *Installment Sale Income*. The installment sale rule requires Nate to allocate his basis in the partnership among the two assets received (the installment method portion of the note and the cash plus ordinary income portion of the installment note). See *Use of installment method by shareholders in certain liquidations*, page 28-6.

As a partner, Nate's basis equals the initial cash contribution he made on April 1, 2021, of \$55,000, plus or minus all Schedule K-1 items of income or loss since that date, minus distributions. Assume Nate's basis as of December 31, 2023, equals \$56,646. His 2024 Schedule K-1 allocates \$30,832 to him ($\$56,058 \times 55\%$), for a total basis prior to termination of \$87,478.

The \$40,278 of cash plus \$22,000 of the installment note that represents ordinary income (the covenant not-to-compete portion) totals \$62,278. The other \$18,000 of the covenant not-to-compete was part of the \$52,000 down payment that the partnership received in cash on January 2, 2024. The \$62,278 amount represents 53% of Nate's total distribution. 53% of his \$87,478 basis equals \$46,363 ($\$87,478 \times 53\%$). He reports \$62,278 gross proceeds from the liquidation of his partnership interest on Form 8949, *Sales and Other Dispositions of Capital Assets*, with a basis of \$46,363. These numbers then flow through to Schedule D (Form 1040) to compute a long-term capital gain of \$15,915.

Nate also begins to receive payments from Sam on the installment note during the rest of 2024. He reports the interest portion of each payment on his Schedule B (Form 1040). The principal portion of each payment is reported on Form 6252, *Installment Sale Income*. His basis in the installment note is \$63,115 ($\$87,478 - \$46,363 + \$22,000$). His gross profit in the installment note is \$14,885 ($\$78,000 - \$63,115$ basis). His gross profit percentage equals 19.08% ($\$14,885 \div \$78,000$). Assume that during the rest of 2024, Nate received \$3,278 in principal and \$3,507 in interest from Sam. The gain calculated on his Form 6252 that is carried to Schedule D (Form 1040) is \$625 ($\$3,278 \times 19.08\%$). He also reports interest income on Schedule B in the amount of \$3,507.

Allocation of Nate's Final Distribution

Distribution Proceeds	Cash	Installment Note	Total Distribution	%
Allocable to liquidation of partnership interest	\$40,278	\$22,000	\$ 62,278	53%
Allocable to installment note	\$ 0	\$56,000	\$ 56,000	47%
Total	\$40,278	\$78,000	\$118,278	100%

Allocation of Nate's basis:

12/31/2023 partnership basis.....	\$56,646
2024 Schedule K-1 allocation.....	30,832
Basis prior to liquidation.....	87,478
Allocation %	53%
Basis for partnership interest.....	\$46,363
Basis prior to liquidation.....	\$87,478
Less basis for liquidation of partnership interest.....	(46,363)
Plus covenant not-to-compete portion.....	22,000
Basis for installment sale	\$63,115

Check Nate's calculations. Once Nate receives \$78,000 of total payments on the installment note, he will have reported total gain of \$14,885 on Form 6252. Add that to the \$15,915 gain reported on Schedule D upon liquidation, and his total gain equals \$30,800 ($\$14,885 + \$15,915$). Nate's 55% share of the partnership at the time of liquidation equals \$118,278 ($\$215,050 \times 55\%$). His total gain is \$30,800 ($\$118,278 - \$87,478$ partnership basis).

Filled in tax forms. See the filled in tax forms starting on page 28-20 for the partnership and Nate's tax returns filed as a result of the scenario described in this example.

C Corporation—Sale of Business Example

Form 8594 (Rev. November 2021) Department of the Treasury Internal Revenue Service	Asset Acquisition Statement Under Section 1060 Attach to your income tax return. Go to www.irs.gov/Form8594 for instructions and the latest information.	OMB No. 1545-0074 Attachment Sequence No. 169
Name as shown on return Greener Pastures, Inc.		Identifying number as shown on return 31-2345678
Check the box that identifies you: <input type="checkbox"/> Purchaser <input checked="" type="checkbox"/> Seller		
Part I General Information		
1 Name of other party to the transaction Sam	Other party's identifying number xxx-xx-xxx3	
Address (number, street, and room or suite no.) 123 Prairie Point		
City or town, state, and ZIP code Farmdale, MN 55555		
2 Date of sale 1/2/2024	3 Total sales price (consideration) 130,000	
Part II Original Statement of Assets Transferred		
4 Assets	Aggregate fair market value (actual amount for Class I)	Allocation of sales price
Class I	\$ 0	\$ 0
Class II	\$ 0	\$ 0
Class III	\$ 0	\$ 0
Class IV	\$ 14,600	\$ 14,600
Class V	\$ 19,400	\$ 19,400
Class VI and VII	\$ 96,000	\$ 96,000
Total	\$ 130,000	\$ 130,000
5 Did the purchaser and seller provide for an allocation of the sales price in the sales contract or in another written document signed by both parties? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No If "Yes," are the aggregate fair market values (FMV) listed for each of asset Classes I, II, III, IV, V, VI, and VII the amounts agreed upon in your sales contract or in a separate written document? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No		
6 In the purchase of the group of assets (or stock), did the purchaser also purchase a license or a covenant not to compete, or enter into a lease agreement, employment contract, management contract, or similar arrangement with the seller (or managers, directors, owners, or employees of the seller)? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No If "Yes," attach a statement that specifies (a) the type of agreement and (b) the maximum amount of consideration (not including interest) paid or to be paid under the agreement. See instructions.		
For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 63768Z Form 8594 (Rev. 11-2021)		

C Corporation—Sale of Business Example

Draft as of July 22, 2024

Form 1120 Department of the Treasury Internal Revenue Service	U.S. Corporation Income Tax Return For calendar year 2024 or tax year beginning <u>1/1, 2024</u> , ending <u>1/31, 2024</u> Go to www.irs.gov/Form1120 for instructions and the latest information.	OMB No. 1545-0123 2024
A Check if: 1a Consolidated return (attach Form 951) <input type="checkbox"/> TYPE OR PRINT b Life/nonlife consolidated return <input type="checkbox"/> 2 Personal holding co. (attach Sch. PH) <input type="checkbox"/> 3 Personal service corp. (see instructions) <input type="checkbox"/> 4 Schedule M-3 attached <input type="checkbox"/>		B Employer identification number 31-2345678
Name Greener Pastures, Inc. Number, street, and room or suite no. If a P.O. box, see instructions. 123 Prairie Point City or town, state or province, country, and ZIP or foreign postal code Farmdale, MN 55555		C Date incorporated 4/1/21 D Total assets (see instructions) \$ 0
E Check if: (1) <input type="checkbox"/> Initial return (2) <input checked="" type="checkbox"/> Final return (3) <input type="checkbox"/> Name change (4) <input type="checkbox"/> Address change		
Income	1a Gross receipts or sales 1a 14,600 b Returns and allowances 1b c Balance. Subtract line 1b from line 1a 1c 14,600 2 Cost of goods sold (attach Form 1125-A) 2 8,500 3 Gross profit. Subtract line 2 from line 1c 3 6,100 4 Dividends and inclusions (Schedule C, line 23) 4 5 Interest 5 6 Gross rents 6 7 Gross royalties 7 8 Capital gain net income (attach Schedule D (Form 1120)) 8 56,000 9 Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797) 9 53,518 10 Other income (see instructions—attach statement) 10 11 Total income. Add lines 3 through 10. 11 115,618	
Deductions (See instructions for limitations on deductions.)	12 Compensation of officers (see instructions—attach Form 1125-E) 12 13 Salaries and wages (less employment credits) 13 14 Repairs and maintenance 14 15 Bad debts 15 16 Rents 16 17 Taxes and licenses 17 10,980 18 Interest (see instructions) 18 19 Charitable contributions 19 20 Depreciation from Form 4562 not claimed on Form 1125-A or elsewhere on return (attach Form 4562) 20 1,060 21 Depletion 21 22 Advertising 22 23 Pension, profit-sharing, etc., plans 23 24 Employee benefit programs 24 25 Energy efficient commercial buildings deduction (attach Form 7205) 25 26 Other deductions (attach statement) 26 2,500 27 Total deductions. Add lines 12 through 26. 27 14,540 28 Taxable income before net operating loss deduction and special deductions. Subtract line 27 from line 11. 28 101,078 29a Net operating loss deduction (see instructions) 29a b Special deductions (Schedule C, line 24) 29b c Add lines 29a and 29b 29c	
Tax, Refundable Credits, and Payments	30 Taxable income. Subtract line 29c from line 28. See instructions 30 101,078 31 Total tax (Schedule J, line 12) 31 21,226 32 Reserved for future use 32 33 Total payments and credits (Schedule J, line 23) 33 0 34 Estimated tax penalty. See instructions. Check if Form 2220 is attached <input type="checkbox"/> 34 35 Amount owed. If line 33 is smaller than the total of lines 31 and 34, enter amount owed 35 21,226 36 Overpayment. If line 33 is larger than the total of lines 31 and 34, enter amount overpaid 36 37 Enter amount from line 36 you want: Credited to 2025 estimated tax Refunded 37	
Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.		
Sign Here Rate CEO Signature of officer Date Title		May the IRS discuss this return with the preparer shown below? See instructions. <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Paid Preparer Use Only Print/Type preparer's name Preparer's signature Date PTIN Firm's name Firm's EIN Firm's address Phone no.		
For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 114500Q Form 1120 (2024)		

C Corporation—Sale of Business Example

Draft as of June 26, 2024

Form 8949 (2024)		Attachment Sequence No. 12A		Page 2				
Name(s) shown on return. Name and SSN or taxpayer identification no. not required if shown on other side Greener Pastures, Inc.			Social security number or taxpayer identification number 31-2345678					
Before you check Box D, E, or F below, see whether you received any Form(s) 1099-B or substitute statement(s) from your broker. A substitute statement will have the same information as Form 1099-B. Either will show whether your basis (usually your cost) was reported to the IRS by your broker and may even tell you which box to check.								
Part II Long-Term. Transactions involving capital assets you held more than 1 year are generally long-term (see instructions). For short-term transactions, see page 1. Note: You may aggregate all long-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS and for which no adjustments or codes are required. Enter the totals directly on Schedule D, line 8a; you aren't required to report these transactions on Form 8949 (see instructions).								
You must check Box D, E, or F below. Check only one box. If more than one box applies for your long-term transactions, complete a separate Form 8949, page 2, for each applicable box. If you have more long-term transactions than will fit on this page for one or more of the boxes, complete as many forms with the same box checked as you need.								
<input type="checkbox"/> (D) Long-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS (see Note above) <input type="checkbox"/> (E) Long-term transactions reported on Form(s) 1099-B showing basis wasn't reported to the IRS <input checked="" type="checkbox"/> (F) Long-term transactions not reported to you on Form 1099-B								
1	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold or disposed of (Mo., day, yr.)	(d) Proceeds (sales price) (see instructions)	(e) Cost or other basis See the Note below and see Column (e) in the separate instructions.	(f) Code(s) from instructions	(g) Amount of adjustment	(h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g).
	Customer List	4/1/21	1/2/24	56,000	0			56,000
2 Totals. Add the amounts in columns (d), (e), (g), and (h) (subtract negative amounts). Enter each total here and include on your Schedule D, line 8b (if Box D above is checked), line 9 (if Box E above is checked), or line 10 (if Box F above is checked).				56,000	0			56,000
Note: If you checked Box D above but the basis reported to the IRS was incorrect, enter in column (e) the basis as reported to the IRS, and enter an adjustment in column (g) to correct the basis. See Column (g) in the separate instructions for how to figure the amount of the adjustment.								
Form 8949 (2024)								

C Corporation—Sale of Business Example

Draft as of June 20, 2024

SCHEDULE D (Form 1120)		Capital Gains and Losses		OMB No. 1545-0123	
Department of the Treasury Internal Revenue Service		Attach to Form 1120, 1120-C, 1120-F, 1120-FSC, 1120-H, 1120-IC-DISC, 1120-L, 1120-ND, 1120-PC, 1120-POL, 1120-REIT, 1120-RIC, 1120-SF, or certain Forms 990-T.		2024	
Name Greener Pastures, Inc.				Employer identification number 31-2345678	
Did the corporation dispose of any investment(s) in a qualified opportunity fund during the tax year? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No If "Yes," attach Form 8949 and see its instructions for additional requirements for reporting your gain or loss.					
Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less					
See instructions for how to figure the amounts to enter on the lines below. This form may be easier to complete if you round off cents to whole dollars.		(d) Proceeds (sales price)	(e) Cost (or other basis)	(g) Adjustments to gain or loss from Form(s) 8949, Part I, line 2, column (g)	(h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g)
1a Totals for all short-term transactions reported on Form 1099-B for which basis was reported to the IRS and for which you have no adjustments (see instructions). However, if you choose to report all these transactions on Form 8949, leave this line blank and go to line 1b					
1b Totals for all transactions reported on Form(s) 8949 with Box A checked					
2 Totals for all transactions reported on Form(s) 8949 with Box B checked					
3 Totals for all transactions reported on Form(s) 8949 with Box C checked					
4 Short-term capital gain from installment sales from Form 6252, line 26 or 37					4
5 Short-term capital gain or (loss) from like-kind exchanges from Form 8824					5
6 Unused capital loss carryover (attach computation)					6 ()
7 Net short-term capital gain or (loss). Combine lines 1a through 6 in column h					7
Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year					
See instructions for how to figure the amounts to enter on the lines below. This form may be easier to complete if you round off cents to whole dollars.		(d) Proceeds (sales price)	(e) Cost (or other basis)	(g) Adjustments to gain or loss from Form(s) 8949, Part II, line 2, column (g)	(h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g)
8a Totals for all long-term transactions reported on Form 1099-B for which basis was reported to the IRS and for which you have no adjustments (see instructions). However, if you choose to report all these transactions on Form 8949, leave this line blank and go to line 8b					
8b Totals for all transactions reported on Form(s) 8949 with Box D checked					
9 Totals for all transactions reported on Form(s) 8949 with Box E checked					
10 Totals for all transactions reported on Form(s) 8949 with Box F checked		56,000	0		56,000
11 Enter gain from Form 4797, line 7 or 9					11
12 Long-term capital gain from installment sales from Form 6252, line 26 or 37					12
13 Long-term capital gain or (loss) from like-kind exchanges from Form 8824					13
14 Capital gain distributions (see instructions)					14
15 Net long-term capital gain or (loss). Combine lines 8a through 14 in column h					15 56,000
Part III Summary of Parts I and II					
16 Enter excess of net short-term capital gain (line 7) over net long-term capital loss (line 15)					16
17 Net capital gain. Enter excess of net long-term capital gain (line 15) over net short-term capital loss (line 7)					17 56,000
18 Add lines 16 and 17. Enter here and on Form 1120, page 1, line 8, or the applicable line on other returns					18 56,000
Note: If losses exceed gains, see <i>Capital Losses</i> in the instructions.					
For Paperwork Reduction Act Notice, see the Instructions for Form 1120.		Cat. No. 11460M		Schedule D (Form 1120) 2024	

C Corporation—Sale of Business Example

Draft as of June 20, 2024

Form 4797 Department of the Treasury Internal Revenue Service	Sales of Business Property (Also Involuntary Conversions and Recapture Amounts Under Sections 179 and 280F(b)(2)) Attach to your tax return. Go to www.irs.gov/Form4797 for instructions and the latest information.	OMB No. 1545-0184 2024 Attachment Sequence No. 27					
Name(s) shown on return Greener Pastures, Inc.		Identifying number 31-2345678					
1a Enter the gross proceeds from sales or exchanges reported to you for 2024 on Form(s) 1099-B or 1099-S (or substitute statement) that you are including on line 2, 10, or 20. See instructions		1a					
b Enter the total amount of gain that you are including on lines 2, 10, and 24 due to the partial dispositions of MACRS assets		1b					
c Enter the total amount of loss that you are including on lines 2 and 10 due to the partial dispositions of MACRS assets		1c					
Part I Sales or Exchanges of Property Used in a Trade or Business and Involuntary Conversions From Other Than Casualty or Theft—Most Property Held More Than 1 Year (see instructions)							
2	(a) Description of property	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Gross sales price	(e) Depreciation allowed or allowable since acquisition	(f) Cost or other basis, plus improvements and expense of sale	(g) Gain or (loss) Subtract (f) from the sum of (d) and (e)
	Computers	4/1/21	1/2/24	900	2,938	3,890	(52)
3 Gain, if any, from Form 4684, line 39						3	
4 Section 1231 gain from installment sales from Form 6252, line 26 or 37						4	
5 Section 1231 gain or (loss) from like-kind exchanges from Form 8824						5	
6 Gain, if any, from line 32, from other than casualty or theft						6	
7 Combine lines 2 through 6. Enter the gain or (loss) here and on the appropriate line as follows						(52)	
Partnerships and S corporations. Report the gain or (loss) following the instructions for Form 1065, Schedule K, line 10, or Form 1120-S, Schedule K, line 9. Skip lines 8, 9, 11, and 12 below.							
Individuals, partners, S corporation shareholders, and all others. If line 7 is zero or a loss, enter the amount from line 7 on line 11 below and skip lines 8 and 9. If line 7 is a gain and you didn't have any prior year section 1231 losses, or they were recaptured in an earlier year, enter the gain from line 7 as a long-term capital gain on the Schedule D filed with your return and skip lines 8, 9, 11, and 12 below.							
8 Nonrecaptured net section 1231 losses from prior years. See instructions						8	
9 Subtract line 8 from line 7. If zero or less, enter -0-. If line 9 is zero, enter the gain from line 7 on line 12 below. If line 9 is more than zero, enter the amount from line 8 on line 12 below and enter the gain from line 9 as a long-term capital gain on the Schedule D filed with your return. See instructions						9 0	
Part II Ordinary Gains and Losses (see instructions)							
10 Ordinary gains and losses not included on lines 11 through 16 (include property held 1 year or less):							
Covenant not-to-compete	1/2/24	1/2/24	40,000	0	0	40,000	
11 Loss, if any, from line 7						11 (52)	
12 Gain, if any, from line 7 or amount from line 8, if applicable						12	
13 Gain, if any, from line 31						13 13,570	
14 Net gain or (loss) from Form 4684, lines 31 and 38a						14	
15 Ordinary gain from installment sales from Form 6252, line 25 or 36						15	
16 Ordinary gain or (loss) from like-kind exchanges from Form 8824						16	
17 Combine lines 10 through 16						17 53,518	
18 For all except individual returns, enter the amount from line 17 on the appropriate line of your return and skip lines a and b below. For individual returns, complete lines a and b below.							
a If the loss on line 11 includes a loss from Form 4684, line 35, column (b)(ii), enter that part of the loss here. Enter the loss from income-producing property on Schedule A (Form 1040), line 16. (Do not include any loss on property used as an employee.) Identify as from "Form 4797, line 18a." See instructions						18a	
b Redetermine the gain or (loss) on line 17 excluding the loss, if any, on line 18a. Enter here and on Schedule 1 (Form 1040), Part I, line 4						18b	
For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 130861 Form 4797 (2024)							

Sales, Dispositions, and Liquidations 28-13

C Corporation—Sale of Business Example

Draft as of June 20, 2024

Form 4797 (2024)		Page 2			
Part III Gain From Disposition of Property Under Sections 1245, 1250, 1252, 1254, and 1255 (see instructions)					
19	(a) Description of section 1245, 1250, 1252, 1254, or 1255 property:	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)		
A	Equipment	4/1/21	1/2/24		
B	Display Shelving	4/1/21	1/2/24		
C	Office Furniture	4/1/21	1/2/24		
D					
These columns relate to the properties on lines 19A through 19D.		Property A	Property B	Property C	Property D
20	Gross sales price (Note: See line 1a before completing.)	20 13,000	3,500	2,000	
21	Cost or other basis plus expense of sale	21 23,600	8,950	3,675	
22	Depreciation (or depletion) allowed or allowable	22 23,600	5,455	2,240	
23	Adjusted basis. Subtract line 22 from line 21.	23 0	3,495	1,435	
24	Total gain. Subtract line 23 from line 20	24 13,000	5	565	
25	If section 1245 property:				
a	Depreciation allowed or allowable from line 22	25a 23,600	5,455	2,240	
b	Enter the smaller of line 24 or 25a	25b 13,000	5	565	
26	If section 1250 property: If straight line depreciation was used, enter -0- on line 26g, except for a corporation subject to section 291.				
a	Additional depreciation after 1975. See instructions	26a			
b	Applicable percentage multiplied by the smaller of line 24 or line 26a. See instructions	26b			
c	Subtract line 26a from line 24. If residential rental property or line 24 isn't more than line 26a, skip lines 26d and 26e	26c			
d	Additional depreciation after 1969 and before 1976	26d			
e	Enter the smaller of line 26c or 26d	26e			
f	Section 291 amount (corporations only)	26f			
g	Add lines 26b, 26e, and 26f	26g			
27	If section 1252 property: Skip this section if you didn't dispose of farmland or if this form is being completed for a partnership.				
a	Soil, water, and land clearing expenses	27a			
b	Line 27a multiplied by applicable percentage. See instructions	27b			
c	Enter the smaller of line 24 or 27b	27c			
28	If section 1254 property:				
a	Intangible drilling and development costs, expenditures for development of mines and other natural deposits, mining exploration costs, and depletion. See instructions	28a			
b	Enter the smaller of line 24 or 28a	28b			
29	If section 1255 property:				
a	Applicable percentage of payments excluded from income under section 126. See instructions	29a			
b	Enter the smaller of line 24 or 29a. See instructions	29b			
Summary of Part III Gains. Complete property columns A through D through line 29b before going to line 30.					
30	Total gains for all properties. Add property columns A through D, line 24	30	13,570		
31	Add property columns A through D, lines 25b, 26g, 27c, 28b, and 29b. Enter here and on line 13	31	13,570		
32	Subtract line 31 from line 30. Enter the portion from casualty or theft on Form 4684, line 33. Enter the portion from other than casualty or theft on Form 4797, line 6	32	0		
Part IV Recapture Amounts Under Sections 179 and 280F(b)(2) When Business Use Drops to 50% or Less (see instructions)					
		(a) Section 179	(b) Section 280F(b)(2)		
33	Section 179 expense deduction or depreciation allowable in prior years	33			
34	Recomputed depreciation. See instructions	34			
35	Recapture amount. Subtract line 34 from line 33. See the instructions for where to report	35			
Form 4797 (2024)					

C Corporation—Sale of Business Example

Draft as of July 8, 2024

Form 1040 Department of the Treasury—Internal Revenue Service
U.S. Individual Income Tax Return **2024** OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 2024, or other tax year beginning _____, 2024, ending _____, 2024. See separate instructions.

Your first name and middle initial _____ Last name _____ Your social security number **xxx-xx-xxxx1**
 If joint return, spouse's first name and middle initial _____ Last name _____ Spouse's social security number _____

Home address (number and street). If you have a P.O. box, see instructions. _____ Apt. no. _____
 City, town, or post office. If you have a foreign address, also complete spaces below. _____ State _____ ZIP code _____
 Foreign country name _____ Foreign province/state/county _____ Foreign postal code _____

Filing Status Single Head of household (HOH)
 Check only one box. Married filing jointly (even if only one had income) Married filing separately (MFS) Qualifying surviving spouse (QSS)
 If you checked the MFS box, enter the name of your spouse. If you checked the HOH or QSS box, enter the child's name if the qualifying person is a child but not your dependent: _____
 If treating a nonresident alien or dual-status alien spouse as a U.S. resident for the entire tax year, check the box and enter their name (see instructions and attach statement if required): _____

Digital Assets At any time during 2024, did you: (a) receive (as a reward, award, or payment for property or services); or (b) sell, exchange, or otherwise dispose of a digital asset (or a financial interest in a digital asset)? Yes No

Standard Deduction **Someone can claim:** You as a dependent Your spouse as a dependent Spouse itemizes on a separate return or you were a dual-status alien

Age/Blindness You: Were born before January 2, 1960 Are blind **Spouse:** Was born before January 2, 1960 Is blind

Dependents (see instructions):
 (1) First name Last name (2) Social security number (3) Relationship to you (4) Check the box if qualifies for (see instructions):
 Child tax credit Credit for other dependents

Income

1a	Total amount from Form(s) W-2, box 1 (see instructions)	1a	
b	Household employee wages not reported on Form(s) W-2	1b	
c	Tip income not reported on line 1a (see instructions)	1c	
d	Medicaid waiver payments not reported on Form(s) W-2 (see instructions)	1d	
e	Taxable dependent care benefits from Form 2441, line 26	1e	
f	Employer-provided adoption benefits from Form 8839, line 29	1f	
g	Wages from Form 8919, line 6	1g	
h	Other earned income (see instructions)	1h	
i	Nontaxable combat pay election (see instructions)	1i	
z	Add lines 1a through 1h	1z	
2a	Tax-exempt interest	2a	
3a	Qualified dividends	3a	
4a	IRA distributions	4a	
5a	Pensions and annuities	5a	
6a	Social security benefits	6a	
c	If you elect to use the lump-sum election method, check here (see instructions)		
7	Capital gain or (loss). Attach Schedule D if required. If not required, check here	7	21,423
8	Additional income from Schedule 1, line 10	8	
9	Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your total income	9	24,930
10	Adjustments to income from Schedule 1, line 26	10	
11	Subtract line 10 from line 9. This is your adjusted gross income	11	24,930
12	Standard deduction or itemized deductions (from Schedule A)	12	14,600
13	Qualified business income deduction from Form 8995 or Form 8995-A	13	
14	Add lines 12 and 13	14	14,600
15	Subtract line 14 from line 11. If zero or less, enter -0-. This is your taxable income	15	10,330

Attach Sch. B if required.

Standard Deduction for—
 • Single or Married filing separately, \$14,600
 • Married filing jointly or Qualifying surviving spouse, \$29,200
 • Head of household, \$21,900
 • If you checked any box under Standard Deduction, see instructions.

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form 1040 (2024)

C Corporation—Sale of Business Example

Draft as of June 26, 2024

Form 8949 (2024) Attachment Sequence No. **12A** Page **2**

Name(s) shown on return. Name and SSN or taxpayer identification no. not required if shown on other side **xxxx-xx-xxxx1**
Note Before you check Box D, E, or F below, see whether you received any Form(s) 1099-B or substitute statement(s) from your broker. A substitute statement will have the same information as Form 1099-B. Either will show whether your basis (usually your cost) was reported to the IRS by your broker and may even tell you which box to check.

Part II Long-Term. Transactions involving capital assets you held more than 1 year are generally long-term (see instructions). For short-term transactions, see page 1.
Note: You may aggregate all long-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS and for which no adjustments or codes are required. Enter the totals directly on Schedule D, line 8a; you aren't required to report these transactions on Form 8949 (see instructions).

You must check Box D, E, or F below. Check only one box. If more than one box applies for your long-term transactions, complete a separate Form 8949, page 2, for each applicable box. If you have more long-term transactions than will fit on this page for one or more of the boxes, complete as many forms with the same box checked as you need.

(D) Long-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS (see Note above)
 (E) Long-term transactions reported on Form(s) 1099-B showing basis **wasn't** reported to the IRS
 (F) Long-term transactions not reported to you on Form 1099-B

1	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold or disposed of (Mo., day, yr.)	(d) Proceeds (sales price) (see instructions)	(e) Cost or other basis See the Note below and see Column (f) in the separate instructions.	Adjustment, if any, to gain or loss If you enter an amount in column (g), enter a code in column (f). See the separate instructions.	(f) Code(s) from instructions	(g) Amount of adjustment	(h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g).
	55,000 shares Greener Pastures, Inc.	4/1/21	1/31/24	44,564	24,200			20,364	
2	Totals. Add the amounts in columns (d), (e), (g), and (h) (subtract negative amounts). Enter each total here and include on your Schedule D, line 8b (if Box D above is checked), line 9 (if Box E above is checked), or line 10 (if Box F above is checked).			44,564	24,200			20,364	

Note: If you checked Box D above but the basis reported to the IRS was incorrect, enter in column (e) the basis as reported to the IRS, and enter an adjustment in column (g) to correct the basis. See Column (g) in the separate instructions for how to figure the amount of the adjustment.

Form 8949 (2024)

Draft as of May 16, 2024

SCHEDULE D (Form 1040) Capital Gains and Losses OMB No. 1545-0074

Attach to Form 1040, 1040-SR, or 1040-NR.
 Use Form 8949 to list your transactions for lines 1b, 2, 3, 8b, 9, and 10.
 Go to www.irs.gov/ScheduleD for instructions and the latest information.

Department of the Treasury Internal Revenue Service
 Name(s) shown on return _____ Your social security number **xxxx-xx-xxxx1**
Note Did you dispose of any investment(s) in a qualified opportunity fund during the tax year? Yes No

Part II Long-Term Capital Gains and Losses—Generally Assets Held More Than One Year (see instructions)

See instructions for how to figure the amounts to enter on the lines below.
 This form may be easier to complete if you round off cents to whole dollars.

8b	(d) Proceeds (sales price)	(e) Cost (or other basis)	(g) Adjustments to gain or loss from Form(s) 8949, Part II, line 2, column (g)	(h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g).
8b Totals for all transactions reported on Form(s) 8949 with Box D checked				
9 Totals for all transactions reported on Form(s) 8949 with Box E checked				
10 Totals for all transactions reported on Form(s) 8949 with Box F checked.	44,564	24,200		20,364
11 Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824				1,059
12 Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1				
13 Capital gain distributions. See the instructions				
14 Long-term capital loss carryover. Enter the amount, if any, from line 13 of your Capital Loss Carryover Worksheet in the instructions				
15 Net long-term capital gain or (loss). Combine lines 8a through 14 in column (h). Then, go to Part III on the back.				21,423

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 11338H Schedule D (Form 1040) 2024

C Corporation—Sale of Business Example

Draft as of August 15, 2024

Form 6252	Installment Sale Income	OMB No. 1545-0228
Department of the Treasury Internal Revenue Service	Use a separate form for each sale or other disposition of property on the installment method. Go to www.irs.gov/Form6252 for the latest information.	2024 Attachment Sequence No. 67
Name(s) shown on return	Identifying number	
Greener Pastures, Inc. (Installment Note)	xxx-xx-xxxx1	
1 Description of property	Greener Pastures, Inc. (Installment Note)	
2a Date acquired (mm/dd/yyyy)	4/1/2021	b Date sold (mm/dd/yyyy) 1/31/2024
3 Was the property sold to a related party? See instructions. If "Yes," complete Part III for the year of sale and 2 years after the year of the sale unless you received the final payment during the tax year	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
4 Can the total selling price be determined by the close of the tax year in which such sale or other disposition occurs?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
Part I Gross Profit and Contract Price. Complete this part for all years of the installment agreement.		
5 Selling price including mortgages and other debts. Don't include interest, whether stated or unstated	5	78,000
6 Mortgages, debts, and other liabilities the buyer assumed or took the property subject to (see instructions)	6	
7 Subtract line 6 from line 5	7	78,000
8 Cost or other basis of property sold	8	52,800
9 Depreciation allowed or allowable	9	
10 Adjusted basis. Subtract line 9 from line 8	10	52,800
11 Commissions and other expenses of sale	11	
12 Income recapture from Form 4797, Part III (see instructions)	12	
13 Add lines 10, 11, and 12	13	52,800
14 Subtract line 13 from line 5. If zero or less, don't complete the rest of this form. See instructions	14	25,200
15 If the property described on line 1 above was your main home, enter the amount of your excluded gain. See instructions. Otherwise, enter -0-	15	0
16 Gross profit. Subtract line 15 from line 14	16	25,200
17 Subtract line 13 from line 6. If zero or less, enter -0-	17	
18 Contract price. Add line 7 and line 17	18	78,000
Part II Installment Sale Income. Complete this part for all years of the installment agreement.		
19 Gross profit percentage (expressed as a decimal amount). Divide line 16 by line 18. (For years after the year of sale, see instructions.)	19	0.3231
20 If this is the year of sale, enter the amount from line 17. Otherwise, enter -0-	20	0
21 Payments received during year (see instructions). Don't include interest, whether stated or unstated	21	3,278
22 Add lines 20 and 21	22	3,278
23 Payments received in prior years (see instructions). Don't include interest, whether stated or unstated	23	0
24 Installment sale income. Multiply line 22 by line 19. This amount cannot be zero or less. See instructions	24	1,059
25 Enter the part of line 24 that is ordinary income under the recapture rules. See instructions	25	
26 Subtract line 25 from line 24. Enter here and on Schedule D or Form 4797. See instructions	26	1,059
Part III Related Party Installment Sale Income. Don't complete if you received the final payment this tax year.		
27 Name, address, and taxpayer identifying number of related party		
28 Did the related party resell or dispose of the property ("second disposition") during this tax year?	<input type="checkbox"/> Yes <input type="checkbox"/> No	
29 If the answer to question 28 is "Yes," complete lines 30 through 37 below unless one of the following conditions is met. Check the box that applies.		
a <input type="checkbox"/> The second disposition was more than 2 years after the first disposition (other than dispositions of marketable securities). If this box is checked, enter the date of disposition (mm/dd/yyyy)		
b <input type="checkbox"/> The first disposition was a sale or exchange of stock to the issuing corporation.		
c <input type="checkbox"/> The second disposition was an involuntary conversion and the threat of conversion occurred after the first disposition.		
d <input type="checkbox"/> The second disposition occurred after the death of the original seller or buyer.		
e <input type="checkbox"/> It can be established to the satisfaction of the IRS that tax avoidance wasn't a principal purpose for either of the dispositions. If this box is checked, attach an explanation. See instructions.		
30 Selling price of property sold by related party (see instructions)	30	
31 Enter contract price from line 18 for year of first sale	31	
32 Enter the smaller of line 30 or line 31	32	
33 Total payments received by the end of this tax year (see instructions)	33	
34 Subtract line 33 from line 32. If zero or less, enter -0-	34	
35 Multiply line 34 by the gross profit percentage on line 19 for year of first sale	35	
36 Enter the part of line 35 that is ordinary income under the recapture rules. See instructions	36	
37 Subtract line 36 from line 35. Enter here and on Schedule D or Form 4797. See instructions	37	

For Paperwork Reduction Act Notice, see page 4.

Cat. No. 13601R

Form 6252 (2024)

C Corporation—Sale of Business Example

Draft as of July 8, 2024

Form 1040	Department of the Treasury—Internal Revenue Service	2024	OMB No. 1545-0074	IRS Use Only—Do not write or staple in this space.
For the year Jan. 1–Dec. 31, 2024, or other tax year beginning			2024, ending	20
Your first name and middle initial Tyler		Last name		Your social security number xxx xx xxx2
If joint return, spouse's first name and middle initial		Last name		Spouse's social security number
Home address (number and street). If you have a P.O. box, see instructions.			Apt. no.	Presidential Election Campaign
City, town, or post office. If you have a foreign address, also complete spaces below.			State	ZIP code
Foreign country name		Foreign province/state/county	Foreign postal code	
Filing Status		<input checked="" type="checkbox"/> Single <input type="checkbox"/> Head of household (HOH)		
Check only one box.		<input type="checkbox"/> Married filing jointly (even if only one had income)		
		<input type="checkbox"/> Married filing separately (MFS) <input type="checkbox"/> Qualifying surviving spouse (QSS)		
If you checked the MFS box, enter the name of your spouse. If you checked the HOH or QSS box, enter the child's name if the qualifying person is a child but not your dependent:				
<input type="checkbox"/> If treating a nonresident alien or dual-status alien spouse as a U.S. resident for the entire tax year, check the box and enter their name (see instructions and attach statement if required):				
Digital Assets		At any time during 2024, did you: (a) receive (as a reward, award, or payment for property or services); or (b) sell, exchange, or otherwise dispose of a digital asset (or a financial interest in a digital asset)? (See instructions.) <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No		
Standard Deduction		Someone can claim: <input type="checkbox"/> You as a dependent <input type="checkbox"/> Your spouse as a dependent <input type="checkbox"/> Spouse itemizes on a separate return or you were a dual-status alien		
Age/Blindness		You: <input type="checkbox"/> Were born before January 2, 1960 <input type="checkbox"/> Are blind Spouse: <input type="checkbox"/> Was born before January 2, 1960 <input type="checkbox"/> Is blind		
Dependents (see instructions):		(2) Social security number	(3) Relationship to you	(4) Check the box if qualifies for (see instructions):
If more than four dependents, see instructions and check here <input type="checkbox"/>	(1) First name	Last name	Child tax credit	Credit for other dependents
			<input type="checkbox"/>	<input type="checkbox"/>
			<input type="checkbox"/>	<input type="checkbox"/>
			<input type="checkbox"/>	<input type="checkbox"/>
			<input type="checkbox"/>	<input type="checkbox"/>
Income		1a Total amount from Form(s) W-2, box 1 (see instructions)		
Attach Form(s) W-2G and 1099-R if tax was withheld.		b Household employee wages not reported on Form(s) W-2		
If you did not get a Form W-2, see instructions.		c Tip income not reported on line 1a (see instructions)		
		d Medicaid waiver payments not reported on Form(s) W-2 (see instructions)		
		e Taxable dependent care benefits from Form 2441, line 26		
		f Employer-provided adoption benefits from Form 8839, line 29		
		g Wages from Form 8919, line 6		
		h Other earned income (see instructions)		
		i Nontaxable combat pay election (see instructions)		
		z Add lines 1a through 1h		
Attach Sch. B if required.	2a Tax-exempt interest	2a	b Taxable interest	2b
	3a Qualified dividends	3a	b Ordinary dividends	3b
	4a IRA distributions	4a	b Taxable amount	4b
	5a Pensions and annuities	5a	b Taxable amount	5b
	6a Social security benefits	6a	b Taxable amount	6b
	c If you elect to use the lump-sum election method, check here (see instructions)			
	7 Capital gain or (loss). Attach Schedule D if required. If not required, check here		<input type="checkbox"/>	7 37,280
	8 Additional income from Schedule 1, line 10			8
	9 Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your total income			9 37,280
	10 Adjustments to income from Schedule 1, line 26			10
	11 Subtract line 10 from line 9. This is your adjusted gross income			11 37,280
	12 Standard deduction or itemized deductions (from Schedule A)			12 14,600
	13 Qualified business income deduction from Form 8995 or Form 8995-A			13
	14 Add lines 12 and 13			14 14,600
	15 Subtract line 14 from line 11. If zero or less, enter -0-. This is your taxable income			15 22,680

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions.

Cat. No. 11320B

Form 1040 (2024)

C Corporation—Sale of Business Example

Draft as of June 26, 2024

Form 8949 (2024) Attachment Sequence No. **12A** Page **2**

Name(s) shown on return. Name and SSN or taxpayer identification no. not required if shown on other side
Tyler Social security number or taxpayer identification number
xxx-xx-xxx2

Before you check Box D, E, or F below, see whether you received any Form(s) 1099-B or substitute statement(s) from your broker. A substitute statement will have the same information as Form 1099-B. Either will show whether your basis (usually your cost) was reported to the IRS by your broker and may even tell you which box to check.

Part II Long-Term. Transactions involving capital assets you held more than 1 year are generally long-term (see instructions). For short-term transactions, see page 1.
Note: You may aggregate all long-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS and for which no adjustments or codes are required. Enter the totals directly on Schedule D, line 8a; you aren't required to report these transactions on Form 8949 (see instructions).

You must check Box D, E, or F below. Check only one box. If more than one box applies for your long-term transactions, complete a separate Form 8949, page 2, for each applicable box. If you have more long-term transactions than will fit on this page for one or more of the boxes, complete as many forms with the same box checked as you need.

(D) Long-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS (see Note above)
 (E) Long-term transactions reported on Form(s) 1099-B showing basis **wasn't** reported to the IRS
 (F) Long-term transactions not reported to you on Form 1099-B

1	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold or disposed of (Mo., day, yr.)	(d) Proceeds (sales price) (see instructions)	(e) Cost or other basis See the Note below and see Column (g) in the separate instructions.	(f) Code(s) from instructions	(g) Amount of adjustment	(h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g).
	45,000 shares Greener Pastures, Inc.	4/1/21	1/31/24	82,280	45,000			37,280
2 Totals.	Add the amounts in columns (d), (e), (g), and (h) (subtract negative amounts). Enter each total here and include on your Schedule D, line 8b (if Box D above is checked), line 9 (if Box E above is checked), or line 10 (if Box F above is checked).			82,280	45,000			37,280

Note: If you checked Box D above but the basis reported to the IRS was incorrect, enter in column (e) the basis as reported to the IRS, and enter an adjustment in column (g) to correct the basis. See Column (g) in the separate instructions for how to figure the amount of the adjustment.

Form 8949 (2024)

Draft as of May 16, 2024

SCHEDULE D (Form 1040) Capital Gains and Losses OMB No. 1545-0074

Attach to Form 1040, 1040-SR, or 1040-NR.
 Use Form 8949 to list your transactions for lines 1b, 2, 3, 8b, 9, and 10.
 Go to www.irs.gov/ScheduleD for instructions and the latest information.

Department of the Treasury Internal Revenue Service
 Name(s) shown on return
Tyler Your social security number
xxx-xx-xxx2

Did you dispose of any investment(s) in a qualified opportunity fund during the tax year? Yes No

Part II Long-Term Capital Gains and Losses—Generally Assets Held More Than One Year (see instructions)

See instructions for how to figure the amounts to enter on the lines below.
 This form may be easier to complete if you round off cents to whole dollars.

8b	(d) Proceeds (sales price)	(e) Cost (or other basis)	(g) Adjustments to gain or loss from Form(s) 8949, Part II, line 2, column (g)	(h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g)
Totals for all transactions reported on Form(s) 8949 with Box D checked				
Totals for all transactions reported on Form(s) 8949 with Box E checked				
Totals for all transactions reported on Form(s) 8949 with Box F checked	82,280	45,000		37,280
11 Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824				11
12 Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1				12
13 Capital gain distributions. See the instructions				13
14 Long-term capital loss carryover. Enter the amount, if any, from line 13 of your Capital Loss Carryover Worksheet in the instructions				14
15 Net long-term capital gain or (loss). Combine lines 8a through 14 in column (h). Then, go to Part III on the back.				15 37,280

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 11338H Schedule D (Form 1040) 2024

S Corporation—Sale of Business Example

Draft as of July 18, 2024

Form **1120-S** U.S. Income Tax Return for an S Corporation OMB No. 1545-0123

Do not file this form unless the corporation has filed or is attaching Form 2553 to elect to be an S corporation.
 Go to www.irs.gov/Form1120S for instructions and the latest information.

Department of the Treasury Internal Revenue Service
2024

For calendar year 2024 or tax year beginning **1/1**, 2024, ending **1/31**, 2024

A S election effective date **4/1/21** Name **Greener Pastures, Inc.** D Employer identification number **31-2345678**

B Business activity code number (see instructions) **444200** TYPE OR PRINT **123 Prairie Point** E Date incorporated **4/1/21**

City or town, state or province, country, and ZIP or foreign postal code **Farmdale, MN 55555** F Total assets (see instructions) **\$ 0**

C Check if Sch. M-3 attached

G Is the corporation electing to be an S corporation beginning with this tax year? See instructions. Yes No

H Check if: (1) Final return (2) Name change (3) Address change (4) Amended return (5) S election termination

I Enter the number of shareholders who were shareholders during any part of the tax year **2**

J Check if corporation: (1) Aggregated activities for section 465 at-risk purposes (2) Grouped activities for section 469 passive activity purposes

Caution: Include only trade or business income and expenses on lines 1a through 22. See the instructions for more information.

Income	1a	1b	1c
Gross receipts or sales	14,600		14,600
Cost of goods sold (attach Form 1125-A)			8,500
Gross profit. Subtract line 2 from line 1c			6,100
Net gain (loss) from Form 4797, Part II, line 17 (attach Form 4797)			53,518 *
Other income (loss) (see instructions—attach statement)			
Total income (loss). Add lines 3 through 5			59,618

Deductions (see instructions)	14	15	16	17	18	19	20	21	22
Depreciation from Form 4562 not claimed on Form 1125-A or elsewhere on return (attach Form 4562)									1,060
Depletion (do not deduct oil and gas depletion)									
Advertising									
Pension, profit-sharing, etc., plans									
Employee benefit programs									
Energy efficient commercial buildings deduction (attach Form 7205)									
Other deductions (attach statement)								2,500	
Total deductions. Add lines 7 through 20								3,560	
Ordinary business income (loss). Subtract line 21 from line 6								56,058	

Tax	24z
Add lines 24a through 24d	
Estimated tax penalty (see instructions). Check if Form 2220 is attached <input type="checkbox"/>	
Amount owed. If line 24z is smaller than the total of lines 23c and 25, enter amount owed	0
Overpayment. If line 24z is larger than the total of lines 23c and 25, enter amount overpaid	
Enter amount from line 27: Credited to 2025 estimated tax Refunded	

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Sign Here **Nate** **CEO**
 Signature of officer Date Title
 May the IRS discuss this return with the preparer shown below? See instructions. Yes No

* Form 4797 is identical to the C Corporation Example, page 28-13.

CORRECTED (if checked)

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.
Greener Pastures, Inc.
123 Prairie Point
Farmdale, MN 55555

1a Total ordinary dividends \$
 1b Qualified dividends \$
 2a Total capital gain distr. \$
 2c Section 1202 gain \$
 2e Section 897 ordinary dividends \$
 3 Nondividend distributions \$

Form **1099-DIV** (Rev. January 2024)
 For calendar year **2024**

2b Unrecap. Sec. 1250 gain \$
 2d Collectibles (28%) gain \$
 2f Section 897 capital gain \$
 4 Federal income tax withheld \$

PAYER'S TIN **31-2345678** RECIPIENT'S TIN **xxx-xx-xxx1**

RECIPIENT'S name **Nate**

9 Cash liquidation distributions \$ **40,278** 10 Noncash liquidation distributions \$ **78,000**

Dividends and Distributions
 Copy B For Recipient
 This is important tax information and is

this income is taxable and the IRS determines that it has

S Corporation—Sale of Business Example

Draft as of July 18, 2024

Schedule K-1 (Form 1120-S) 2024 Department of the Treasury Internal Revenue Service For calendar year 2024, or tax year beginning <u>1/1/2024</u> ending <u>1/31/2024</u>		671124 <input checked="" type="checkbox"/> Final K-1 <input type="checkbox"/> Amended K-1 OMB No. 1545-0123	
Part III Shareholder's Share of Current Year Income, Deductions, Credits, and Other Items			
1	Ordinary business income (loss)	13	Credits
	30,832		
2	Net rental real estate income (loss)		
3	Other net rental income (loss)		
4	Interest income		
5a	Ordinary dividends		
5b	Qualified dividends	14	Schedule K-3 is attached if checked <input type="checkbox"/>
6	Royalties	15	Alternative minimum tax (AMT) items
7	Net short-term capital gain (loss)		
8a	Net long-term capital gain (loss)		
8b	Collectibles (28%) gain (loss)		
8c	Unrecaptured section 1250 gain		
9	Net section 1231 gain (loss)	16	Items affecting shareholder basis
10	Other income (loss)		
11	Section 179 deduction	17	Other information STMT
12	Other deductions		
18	<input type="checkbox"/> More than one activity for at-risk purposes* <input type="checkbox"/> More than one activity for passive activity purposes*		
* See attached statement for additional information.			
Part I Information About the Corporation			
A	Corporation's employer identification number 31-2345678		
B	Corporation's name, address, city, state, and ZIP code Greener Pastures, Inc. 123 Prairie Point Farmdale, MN 55555		
C	IRS Center where corporation filed return e-file		
D	Corporation's total number of shares Beginning of tax year 100,000 End of tax year 0		
Part II Information About the Shareholder			
E	Shareholder's identifying number xxx-xx-xxx1		
F1	Shareholder's name, address, city, state, and ZIP code Nate		
F2	If the shareholder is a disregarded entity, a trust, an estate, or a nominee or similar person, enter the individual or entity responsible for reporting: TIN _____ Name _____		
F3	What type of entity is this shareholder? Individual		
G	Current year allocation percentage 55%		
H	Shareholder's number of shares Beginning of tax year 55,000 End of tax year 0		
I	Loans from shareholder Beginning of tax year \$ 0 End of tax year \$ 0		
Shareholder basis computation 1/1/24 beginning basis \$56,646 Ordinary income 30,832 Basis prior to allocation \$87,478			
For Paperwork Reduction Act Notice, see the Instructions for Form 1120-S. www.irs.gov/Form1120S Cat. No. 11520D Schedule K-1 (Form 1120-S) 2024			

Note: For purposes of this example, assume a Section 179 deduction was never claimed. If it had been, the shareholder, rather than the S corporation, would report the sale. See instructions for Form 4797.

S Corporation—Sale of Business Example

Statement A—QBI Pass-Through Entity Reporting		
Pass-through entity's name: Greener Pastures, Inc.		Pass-through entity's EIN: 31-2345678
Shareholder's name: Nate		Shareholder's identifying number: xxx-xx-xxx1
Shareholder's share of:		
<input type="checkbox"/> PTP <input type="checkbox"/> Aggregated <input type="checkbox"/> SSTB	Trade or Business 1	<input type="checkbox"/> PTP <input type="checkbox"/> Aggregated <input type="checkbox"/> SSTB
QBI or qualified PTP items subject to shareholder-specific determinations:		
Ordinary business income (loss)	30,832	
Rental income (loss)		
Royalty income (loss)		
Section 1231 gain (loss)		
Other income (loss)		
Section 179 deduction		
Charitable contributions		
Other deductions		
W-2 wages	0	
UBIA of qualified property	0	
Section 199A dividends		

Draft as of July 8, 2024

Form 1040 Department of the Treasury—Internal Revenue Service		2024 OMB No. 1545-0074	IRS Use Only—Do not write or staple in this space.
For the year Jan. 1–Dec. 31, 2024, or other tax year beginning _____, 2024, ending _____, 20			See separate instructions.
Your first name and middle initial Nate		Last name	Your social security number xxx xx xxx1
If joint return, spouse's first name and middle initial		Last name	Spouse's social security number
Home address (number and street). If you have a P.O. box, see instructions.			Apt. no.
City, town, or post office. If you have a foreign address, also complete spaces below.			State ZIP code
Foreign country name		Foreign province/state/county	Foreign postal code
Filing Status <input checked="" type="checkbox"/> Single <input type="checkbox"/> Married filing jointly (even if only one had income) <input type="checkbox"/> Head of household (HOH)			
Check only			

Digital Assets	At any time during 2024, did you: (a) receive (as a reward, award, or payment for property or services); or (b) sell, exchange, or otherwise dispose of a digital asset (or a financial interest in a digital asset)? (See instructions.)	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
-----------------------	---	---

Attach Sch. B if required.		z Add lines 1a through 1h	1z
2a	Tax-exempt interest	2a	2b 3,507
3a	Qualified dividends	3a	3b
4a	IRA distributions	4a	4b
5a	Pensions and annuities	5a	5b
6a	Social security benefits	6a	6b
c	If you elect to use the lump-sum election method, check here (see instructions) <input type="checkbox"/>		
7	Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/>	7	16,540
8	Additional income from Schedule 1, line 10	8	30,832
9	Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your total income	9	50,879
10	Adjustments to income from Schedule 1, line 26	10	
11	Subtract line 10 from line 9. This is your adjusted gross income	11	50,879
12	Standard deduction or itemized deductions (from Schedule A)	12	14,600
13	Qualified business income deduction from Form 8995 or Form 8995-A	13	3,948
14	Add lines 12 and 13	14	18,548
15	Subtract line 14 from line 11. If zero or less, enter -0-. This is your taxable income	15	32,331
For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form 1040 (2024)			

S Corporation—Sale of Business Example

Draft as of June 21, 2024

SCHEDULE 1 (Form 1040)		Additional Income and Adjustments to Income		OMB No. 1545-0074	
Department of the Treasury Internal Revenue Service		Attach to Form 1040, 1040-SR, or 1040-NR. Go to www.irs.gov/Form1040 for instructions and the latest information.		2024 Attachment Sequence No. 01	
Name(s) shown on Form 1040, 1040-SR, or 1040-NR			Your social security number		
None			xxx-xx-xxxx1		
For 2024, enter the amount reported to you on Form(s) 1099-K that was included in error or for personal items sold at a loss					
Note: The remaining amounts reported to you on Form(s) 1099-K should be reported elsewhere on your return depending on the nature of the transaction. See www.irs.gov/1099k .					
Part I Additional Income					
1	Taxable refunds, credits, or offsets of state and local income taxes	1			
2a	Alimony received	2a			
b	Date of original divorce or separation agreement (see instructions):				
3	Business income or (loss). Attach Schedule C	3			
4	Other gains or (losses). Attach Form 4797	4			
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	5		30,832	
9 Total other income. Add lines 8a through 8z					
10 Combine lines 1 through 7 and 9. This is your additional income . Enter here and on Form 1040, 1040-SR, or 1040-NR, line 8					
10 30,832					
For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 71479F Schedule 1 (Form 1040) 2024					

Draft as of July 1, 2024

Schedule E (Form 1040) 2024		Attachment Sequence No. 13		Page 2		
Name(s) shown on return. Do not enter name and social security number if shown on other side.		Your social security number				
None		xxx-xx-xxxx1				
Caution: The IRS compares amounts reported on your tax return with amounts shown on Schedule(s) K-1.						
Part II Income or Loss From Partnerships and S Corporations						
Note: If you report a loss, receive a distribution, dispose of stock, or receive a loan repayment from an S corporation, you must check the box in column (e) on line 28 and attach the required basis computation. If you report a loss from an at-risk activity for which any amount is not at risk, you must check the box in column (f) on line 28 and attach Form 6198 . See instructions.						
27	Are you reporting any loss not allowed in a prior year due to the at-risk or basis limitations, a prior year unallowed loss from a passive activity (if that loss was not reported on Form 8582), or unreimbursed partnership expenses? If you answered "Yes," see instructions before completing this section					
	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No					
28	(a) Name	(b) Enter P for partnership, S for S corporation	(c) Check if foreign partnership	(d) Employer identification number	(e) Check if basis computation is required	(f) Check if any amount is not at risk
A	Greener Pastures, Inc.	S		31-2345678	<input checked="" type="checkbox"/>	<input type="checkbox"/>
B			<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
C			<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
D			<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Passive Income and Loss			Nonpassive Income and Loss			
	(g) Passive loss allowed (attach Form 8582 if required)	(h) Passive income from Schedule K-1	(i) Nonpassive loss allowed (see Schedule K-1)	(j) Section 179 expense deduction from Form 4562	(k) Nonpassive income from Schedule K-1	
A					30,832	
B						
C						
D						
29a	Totals				30,832	
b	Totals				30,832	
30	Add columns (h) and (k) of line 29a				30	30,832
31	Add columns (g), (i), and (j) of line 29b				31	
32	Total partnership and S corporation income or (loss). Combine lines 30 and 31				32	30,832

Part V Summary			
40	Net farm rental income or (loss) from Form 4835. Also, complete line 42 below	40	
41	Total income or (loss). Combine lines 26, 32, 37, 39, and 40. Enter the result here and on Schedule 1 (Form 1040), line 5	41	30,832
42	Reconciliation of farming and fishing income. Enter your gross farming and fishing income reported on Form 4835, line 7; Schedule K-1 (Form 1065), box 14, code B; Schedule K-1 (Form 1120-S), box 17, code AN; and Schedule K-1 (Form 1041), box 14, code F. See instructions	42	
43	Reconciliation for real estate professionals. If you were a real estate professional (see instructions), enter the net income or (loss) you reported anywhere on Form 1040, Form 1040-SR, or Form 1040-NR from all rental real estate activities in which you materially participated under the passive activity loss rules	43	
Schedule E (Form 1040) 2024			

S Corporation—Sale of Business Example

Draft as of June 26, 2024

Form 8949 (2024)		Attachment Sequence No. 12A		Page 2				
Name(s) shown on return. Name and SSN or taxpayer identification no. not required if shown on other side		Social security number or taxpayer identification number						
None		xxx-xx-xxxx1						
Before you check Box D, E, or F below, see whether you received any Form(s) 1099-B or substitute statement(s) from your broker. A substitute statement will have the same information as Form 1099-B. Either will show whether your basis (usually your cost) was reported to the IRS by your broker and may even tell you which box to check.								
Part II Long-Term. Transactions involving capital assets you held more than 1 year are generally long-term (see instructions). For short-term transactions, see page 1.								
Note: You may aggregate all long-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS and for which no adjustments or codes are required. Enter the totals directly on Schedule D, line 8a; you aren't required to report these transactions on Form 8949 (see instructions).								
You must check Box D, E, or F below. Check only one box. If more than one box applies for your long-term transactions, complete a separate Form 8949, page 2, for each applicable box. If you have more long-term transactions than will fit on this page for one or more of the boxes, complete as many forms with the same box checked as you need.								
<input type="checkbox"/> (D) Long-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS (see Note above)								
<input type="checkbox"/> (E) Long-term transactions reported on Form(s) 1099-B showing basis wasn't reported to the IRS								
<input checked="" type="checkbox"/> (F) Long-term transactions not reported to you on Form 1099-B								
1	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold or disposed of (Mo., day, yr.)	(d) Proceeds (sales price) (see instructions)	(e) Cost or other basis (See the Note below and see Column (g) in the separate instructions.)	(f) Code(s) from instructions	(g) Amount of adjustment	(h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g).
	55,000 shares Greener Pastures, Inc.	4/1/21	1/31/24	62,278	46,363			15,915
2	Totals. Add the amounts in columns (d), (e), (g), and (h) (subtract negative amounts). Enter each total here and include on your Schedule D, line 8b (if Box D above is checked), line 9 (if Box E above is checked), or line 10 (if Box F above is checked)							
				62,278	46,363			15,915
Note: If you checked Box D above but the basis reported to the IRS was incorrect, enter in column (e) the basis as reported to the IRS, and enter an adjustment in column (g) to correct the basis. See Column (g) in the separate instructions for how to figure the amount of the adjustment.								
Form 8949 (2024)								

Draft as of May 16, 2024

SCHEDULE D (Form 1040)		Capital Gains and Losses				OMB No. 1545-0074	
Department of the Treasury Internal Revenue Service		Attach to Form 1040, 1040-SR, or 1040-NR. Use Form 8949 to list your transactions for lines 1b, 2, 3, 8b, 9, and 10. Go to www.irs.gov/ScheduleD for instructions and the latest information.				2024 Attachment Sequence No. 12	
Name(s) shown on return		Your social security number					
None		xxx-xx-xxxx1					
Did you dispose of any investment(s) in a qualified opportunity fund during the tax year? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No							
Part II Long-Term Capital Gains and Losses—Generally Assets Held More Than One Year (see instructions)							
See instructions for how to figure the amounts to enter on the lines below.				(d) Proceeds (sales price)	(e) Cost (or other basis)	(g) Adjustments to gain or loss from Form(s) 8949, Part II, line 2, column (g)	(h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g)
This form may be easier to complete if you round off cents to whole dollars.							
8b	Totals for all transactions reported on Form(s) 8949 with Box D checked						
9	Totals for all transactions reported on Form(s) 8949 with Box E checked						
10	Totals for all transactions reported on Form(s) 8949 with Box F checked.			62,278	46,363		15,915
11	Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824						625
12	Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1						12
13	Capital gain distributions. See the instructions						13
14	Long-term capital loss carryover. Enter the amount, if any, from line 13 of your Capital Loss Carryover Worksheet in the instructions						14 ()
15	Net long-term capital gain or (loss). Combine lines 8a through 14 in column (h). Then, go to Part III on the back						15 16,540
For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 11338H Schedule D (Form 1040) 2024							

S Corporation—Sale of Business Example

Draft as of September 18, 2024

Form 8995 Department of the Treasury Internal Revenue Service	Qualified Business Income Deduction Simplified Computation Attach to your tax return. Go to www.irs.gov/Form8995 for instructions and the latest information.	OMB No. 1545-2294 2024 Attachment Sequence No. 55	
Name(s) shown on return Nate		Your taxpayer identification number xxx-xx-xxxx	
Note: You can claim the qualified business income deduction only if you have qualified business income from a qualified trade or business, real estate investment trust dividends, publicly traded partnership income, or a domestic production activities deduction passed through from an agricultural or horticultural cooperative. See instructions. Use this form if your taxable income, before your qualified business income deduction, is at or below \$191,950 (\$383,900 if married filing jointly), and you aren't a patron of an agricultural or horticultural cooperative.			
	(a) Trade, business, or aggregation name	(b) Taxpayer identification number	(c) Qualified business income or (loss)
i	Greener Pastures, Inc.	31-2345678	30,832
ii			
iii			
iv			
v			
2	Total qualified business income or (loss). Combine lines 1i through 1v, column (c)	2 30,832	
3	Qualified business net (loss) carryforward from the prior year	3 ()	
4	Total qualified business income. Combine lines 2 and 3. If zero or less, enter -0-	4 30,832	
5	Qualified business income component. Multiply line 4 by 20% (0.20)		5 6,166
6	Qualified REIT dividends and publicly traded partnership (PTP) income or (loss) (see instructions)	6 ()	
7	Qualified REIT dividends and qualified PTP (loss) carryforward from the prior year	7 ()	
8	Total qualified REIT dividends and PTP income. Combine lines 6 and 7. If zero or less, enter -0-	8 ()	
9	REIT and PTP component. Multiply line 8 by 20% (0.20)	9 ()	
10	Qualified business income deduction before the income limitation. Add lines 5 and 9	10 6,166	
11	Taxable income before qualified business income deduction (see instructions)	11 36,279	
12	Enter your net capital gain, if any, increased by any qualified dividends (see instructions)	12 19,739	
13	Subtract line 12 from line 11. If zero or less, enter -0-	13 ()	
14	Income limitation. Multiply line 13 by 20% (0.20)	14 3,948	
15	Qualified business income deduction. Enter the smaller of line 10 or line 14. Also enter this amount on the applicable line of your return (see instructions)	15 3,948	
16	Total qualified business (loss) carryforward. Combine lines 2 and 3. If greater than zero, enter -0-	16 ()	
17	Total qualified REIT dividends and PTP (loss) carryforward. Combine lines 6 and 7. If greater than zero, enter -0-	17 ()	
For Privacy Act and Paperwork Reduction Act Notice, see instructions. Cat. No. 37806C Form 8995 (2024)			

S Corporation—Sale of Business Example

Draft as of August 15, 2024

Form 6252 Department of the Treasury Internal Revenue Service	Installment Sale Income Attach to your tax return. Use a separate form for each sale or other disposition of property on the installment method. Go to www.irs.gov/Form6252 for the latest information.	OMB No. 1545-0228 2024 Attachment Sequence No. 67
Name(s) shown on return Nate		Identifying number xxx-xx-xxxx1
1	Description of property Greener Pastures, Inc. (Installment Note)	
2a	Date acquired (mm/dd/yyyy) 4/1/2021	b Date sold (mm/dd/yyyy) 1/31/2024
3	Was the property sold to a related party? See instructions. If "Yes," complete Part III for the year of sale and 2 years after the year of the sale unless you received the final payment during the tax year <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
4	Can the total selling price be determined by the close of the tax year in which such sale or other disposition occurs? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
Part I Gross Profit and Contract Price. Complete this part for all years of the installment agreement.		
5	Selling price including mortgages and other debts. Don't include interest, whether stated or unstated	5 78,000
6	Mortgages, debts, and other liabilities the buyer assumed or took the property subject to (see instructions)	6 ()
7	Subtract line 6 from line 5	7 78,000
8	Cost or other basis of property sold	8 63,115
9	Depreciation allowed or allowable	9 ()
10	Adjusted basis. Subtract line 9 from line 8	10 63,115
11	Commissions and other expenses of sale	11 ()
12	Income recapture from Form 4797, Part III (see instructions)	12 ()
13	Add lines 10, 11, and 12	13 63,115
14	Subtract line 13 from line 5. If zero or less, don't complete the rest of this form. See instructions	14 14,885
15	If the property described on line 1 above was your main home, enter the amount of your excluded gain. See instructions. Otherwise, enter -0-	15 ()
16	Gross profit. Subtract line 15 from line 14	16 14,885
17	Subtract line 13 from line 6. If zero or less, enter -0-	17 ()
18	Contract price. Add line 7 and line 17	18 78,000
Part II Installment Sale Income. Complete this part for all years of the installment agreement.		
19	Gross profit percentage (expressed as a decimal amount). Divide line 16 by line 18. (For years after the year of sale, see instructions.)	19 0.1908
20	If this is the year of sale, enter the amount from line 17. Otherwise, enter -0-	20 0
21	Payments received during year (see instructions). Don't include interest, whether stated or unstated	21 3,278
22	Add lines 20 and 21	22 3,278
23	Payments received in prior years (see instructions). Don't include interest, whether stated or unstated	23 0
24	Installment sale income. Multiply line 22 by line 19. This amount cannot be zero or less. See instructions	24 625
25	Enter the part of line 24 that is ordinary income under the recapture rules. See instructions	25 ()
26	Subtract line 25 from line 24. Enter here and on Schedule D or Form 4797. See instructions	26 625
Part III Related Party Installment Sale Income. Don't complete if you received the final payment this tax year.		
27	Name, address, and taxpayer identifying number of related party	
28	Did the related party resell or dispose of the property ("second disposition") during this tax year? <input type="checkbox"/> Yes <input type="checkbox"/> No	
29	If the answer to question 28 is "Yes," complete lines 30 through 37 below unless one of the following conditions is met. Check the box that applies.	
a	<input type="checkbox"/> The second disposition was more than 2 years after the first disposition (other than dispositions of marketable securities). If this box is checked, enter the date of disposition (mm/dd/yyyy)	
b	<input type="checkbox"/> The first disposition was a sale or exchange of stock to the issuing corporation.	
c	<input type="checkbox"/> The second disposition was an involuntary conversion and the threat of conversion occurred after the first disposition.	
d	<input type="checkbox"/> The second disposition occurred after the death of the original seller or buyer.	
e	<input type="checkbox"/> It can be established to the satisfaction of the IRS that tax avoidance wasn't a principal purpose for either of the dispositions. If this box is checked, attach an explanation. See instructions.	
30	Selling price of property sold by related party (see instructions)	30 ()
31	Enter contract price from line 18 for year of first sale	31 ()
32	Enter the smaller of line 30 or line 31	32 ()
33	Total payments received by the end of this tax year (see instructions)	33 ()
34	Subtract line 33 from line 32. If zero or less, enter -0-	34 ()
35	Multiply line 34 by the gross profit percentage on line 19 for year of first sale	35 ()
36	Enter the part of line 35 that is ordinary income under the recapture rules. See instructions	36 ()
37	Subtract line 36 from line 35. Enter here and on Schedule D or Form 4797. See instructions	37 ()
For Paperwork Reduction Act Notice, see page 4. Cat. No. 13601R Form 6252 (2024)		

S Corporation—Sale of Business Example

Form 7203 (Rev. December 2022) Department of the Treasury Internal Revenue Service Name of shareholder Nate	S Corporation Shareholder Stock and Debt Basis Limitations Attach to your tax return. Go to www.irs.gov/Form7203 for instructions and the latest information.	OMB No. 1545-2302 Attachment Sequence No. 203	
Identifying number xxx-xx-xxx1		Employer identification number 31-2345678	
A Name of S corporation Greener Pastures, Inc.			
C Stock block (see instructions): 55,000 shares Greener Pastures, Inc.			
D Check applicable box(es) to indicate how stock was acquired: (1) <input checked="" type="checkbox"/> Original shareholder (2) <input type="checkbox"/> Purchased (3) <input type="checkbox"/> Inherited (4) <input type="checkbox"/> Gift (5) <input type="checkbox"/> Other:			
E Check if you have a Regulations section 1.1367-1(g) election in effect during the tax year for this S corporation <input type="checkbox"/>			
Part I Shareholder Stock Basis			
1	Stock basis at the beginning of the corporation's tax year	1 56,646	
2	Basis from any capital contributions made or additional stock acquired during the tax year	2	
3a	Ordinary business income (enter losses in Part III)	3a 30,832	
b	Net rental real estate income (enter losses in Part III)	3b	
c	Other net rental income (enter losses in Part III)	3c	
d	Interest income	3d	
e	Ordinary dividends	3e	
f	Royalties	3f	
g	Net capital gains (enter losses in Part III)	3g	
h	Net section 1231 gain (enter losses in Part III)	3h	
i	Other income (enter losses in Part III)	3i	
j	Excess depletion adjustment	3j	
k	Tax-exempt income	3k	
l	Recapture of business credits	3l	
m	Other items that increase stock basis	3m	
4	Add lines 3a through 3m	4 30,832	
5	Stock basis before distributions. Add lines 1, 2, and 4	5 87,478	
6	Distributions (excluding dividend distributions) Note: If line 6 is larger than line 5, subtract line 5 from line 6 and report the result as a capital gain on Form 8949 and Schedule D. See instructions.	6	
7	Stock basis after distributions. Subtract line 6 from line 5. If the result is zero or less, enter -0-, skip lines 8 through 14, and enter -0- on line 15	7 87,478	
8a	Nondeductible expenses	8a	
b	Depletion for oil and gas	8b	
c	Business credits (sections 50(c)(1) and (5))	8c	
9	Add lines 8a through 8c	9	
10	Stock basis before loss and deduction items. Subtract line 9 from line 7. If the result is zero or less, enter -0-, skip lines 11 through 14, and enter -0- on line 15	10 87,478	
11	Allowable loss and deduction items. Enter the amount from line 47, column (c)	11	
12	Debt basis restoration (see net increase in instructions for line 23)	12	
13	Other items that decrease stock basis	13 87,478	
14	Add lines 11, 12, and 13	14 87,478	
15	Stock basis at the end of the corporation's tax year. Subtract line 14 from line 10. If the result is zero or less, enter -0-	15 0	
Part II Shareholder Debt Basis			
Section A—Amount of Debt (If more than three debts, see instructions.)			
	(a) Debt 1 <input type="checkbox"/> Formal note <input type="checkbox"/> Open account	(b) Debt 2 <input type="checkbox"/> Formal note <input type="checkbox"/> Open account	(c) Debt 3 <input type="checkbox"/> Formal note <input type="checkbox"/> Open account
			(d) Total
16	Loan balance at the beginning of the corporation's tax year		
17	Additional loans (see instructions)		
18	Loan balance before repayment. Add lines 16 and 17		
19	Principal portion of debt repayment (this line doesn't include interest)		
20	Loan balance at the end of the corporation's tax year. Subtract line 19 from line 18		
For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 56396V Form 7203 (Rev. 12-2022)			

Partnership—Sale of Business Example

Draft as of June 20, 2024

Form 1065 Department of the Treasury Internal Revenue Service	U.S. Return of Partnership Income For calendar year 2024, or tax year beginning <u>1/1</u> , 2024, ending <u>1/31</u> , 2024 Go to www.irs.gov/Form1065 for instructions and the latest information.	OMB No. 1545-0123 2024			
A Principal business activity Retail Sales		D Employer identification number 31-2345678			
B Principal product or service Lawn & Garden Supplies		E Date business started 4/1/21			
C Business code number 444200		F Total assets (see instructions) \$ 0			
G Check applicable boxes: (1) <input type="checkbox"/> Initial return (2) <input checked="" type="checkbox"/> Final return (3) <input type="checkbox"/> Name change (4) <input type="checkbox"/> Address change (5) <input type="checkbox"/> Amended return					
H Check accounting method: (1) <input checked="" type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify):					
I Number of Schedules K-1. Attach one for each person who was a partner at any time during the tax year: 2					
J Check if Schedules C and M-3 are attached <input type="checkbox"/>					
K Check if partnership: (1) <input type="checkbox"/> Aggregated activities for section 465 at-risk purposes (2) <input type="checkbox"/> Grouped activities for section 469 passive activity purposes					
Caution: Include only trade or business income and expenses on lines 1a through 23 below. See instructions for more information.					
Income	1a	Gross receipts or sales 14,600	b Less returns and allowances	c Balance	1c 14,600
	2	Cost of goods sold (attach Form 1125-A)			2 8,500
	3	Gross profit. Subtract line 2 from line 1c			3 6,100
	4	Ordinary income (loss) from other partnerships, estates, and trusts (attach statement)			4
	5	Net farm profit (loss) (attach Schedule F (Form 1040))			5
	6	Net gain (loss) from Form 4797, Part II, line 17 (attach Form 4797)			6 53,518*
	7	Other income (loss) (attach statement)			7
	8	Total income (loss). Combine lines 3 through 7			8 59,618
Deductions (see instructions for limitations)	9	Salaries and wages (other than to partners) (less employment credits)			9
	10	Guaranteed payments to partners			10
	11	Repairs and maintenance			11
	12	Bad debts			12
	13	Rent			13
	14	Taxes and licenses			14
	15	Interest (see instructions)			15
	16a	Depreciation (if required, attach Form 4562)	16a 1,060		
	b	Less depreciation reported on Form 1125-A and elsewhere on return	16b		16c 1,060
	17	Depletion (Do not deduct oil and gas depletion.)			17
	18	Retirement plans, etc.			18
	19	Employee benefit programs			19
	20	Energy efficient commercial buildings deduction (attach Form 7205)			20
	21	Other deductions (attach statement)			21 2,500
	22	Total deductions. Add the amounts shown in the far right column for lines 9 through 21			22 3,560
23	Ordinary business income (loss). Subtract line 22 from line 8			23 56,058	
Tax and Payment	24	Interest due under the look-back method—completed long-term contracts (attach Form 8697)			24
	25	Interest due under the look-back method—income forecast method (attach Form 8866)			25
	26	BBA AAR imputed underpayment (see instructions)			26
	27	Other taxes (see instructions)			27
	28	Total balance due. Add lines 24 through 27			28 0
	29	Elective payment election amount from Form 3800			29
	30	Payment (see instructions)			30
	31	Amount owed. If the sum of line 29 and line 30 is smaller than line 28, enter amount owed			31 0
	32	Overpayment. If the sum of line 29 and line 30 is larger than line 28, enter overpayment			32
	Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than partner or limited liability company member) is based on all information of which preparer has any knowledge.				
Sign Here	Signature of partner or limited liability company member Nate		Date		May the IRS discuss this return with the preparer shown below? See instructions. <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Paid Preparer Use Only	Print/Type preparer's name		Preparer's signature		Date
	Firm's name		Firm's EIN		Check <input type="checkbox"/> if self-employed PTIN
	Firm's address		Phone no.		
For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11390Z Form 1065 (2024)					

* Form 4797 is identical to the C Corporation Example, page 28-13.

Partnership—Sale of Business Example

Draft as of June 20, 2024

Form 1065 (2024)		Page 5	
Schedule K Partners' Distributive Share Items		Total amount	
Income (Loss)	1 Ordinary business income (loss) (page 1, line 23)	1	56,058
	2 Net rental real estate income (loss) (attach Form 8825)	2	
	3a Other gross rental income (loss)	3a	
	b Expenses from other rental activities (attach statement)	3b	
	c Other net rental income (loss). Subtract line 3b from line 3a	3c	
	4 Guaranteed payments: a Services 4a b Capital 4b	4b	
	c Total. Add lines 4a and 4b	4c	
	5 Interest income	5	
	6 Dividends and dividend equivalents: a Ordinary dividends b Qualified dividends 6b c Dividend equivalents 6c	6a	
	7 Royalties	7	
	8 Net short-term capital gain (loss) (attach Schedule D (Form 1065))	8	
9a Net long-term capital gain (loss) (attach Schedule D (Form 1065))	9a		
b Collectibles (28%) gain (loss)	9b		
c Unrecaptured section 1250 gain (attach statement)	9c		
10 Net section 1231 gain (loss) (attach Form 4797)	10		
11 Other income (loss) (see instructions) Type:	11		
Deductions	12 Section 179 deduction (attach Form 4562)	12	
	13a Cash contributions	13a	
	b Noncash contributions	13b	
	c Investment interest expense	13c	
	d Section 59(e)(2) expenditures: (1) Type: (2) Amount: 13d(2)	13d(2)	
e Other deductions (see instructions) Type: 13e	13e		
Self-Employment	14a Net earnings (loss) from self-employment	14a	2,540
	b Gross farming or fishing income	14b	
	c Gross nonfarm income	14c	6,100
Credits	15a Low-income housing credit (section 42(j)(5))	15a	
	b Low-income housing credit (other)	15b	
	c Qualified rehabilitation expenditures (rental real estate) (attach Form 3468, if applicable)	15c	
	d Other rental real estate credits (see instructions) Type: 15d	15d	
	e Other rental credits (see instructions) Type: 15e	15e	
	f Other credits (see instructions) Type: 15f	15f	
International	16 Attach Schedule K-2 (Form 1065), Partners' Distributive Share Items—International, and check this box to indicate that you are reporting items of international tax relevance		
Alternative Minimum Tax (AMT) Items	17a Post-1986 depreciation adjustment	17a	
	b Adjusted gain or loss	17b	
	c Depletion (other than oil and gas)	17c	
	d Oil, gas, and geothermal properties—gross income	17d	
	e Oil, gas, and geothermal properties—deductions	17e	
	f Other AMT items (attach statement)	17f	
Other Information	18a Tax-exempt interest income	18a	
	b Other tax-exempt income	18b	
	c Nondeductible expenses	18c	
	19a Distributions of cash and marketable securities	19a	137,050
	b Distributions of other property	19b	78,000
20a Investment income	20a		
b Investment expenses	20b		
21 Total foreign taxes paid or accrued	21		

Form 1065 (2024)

Partnership—Sale of Business Example

Draft as of June 6, 2024

Form 1065 (2024)		Page 5	
Schedule K-1 (Form 1065) 2024		Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items	
Department of the Treasury Internal Revenue Service		OMB No. 1545-0123	
For calendar year 2024, or tax year beginning 1/1/2024 ending 1/31/2024		1 Ordinary business income (loss)	14 Self-employment earnings (loss)
Partner's Share of Income, Deductions, Credits, etc. See separate instructions.		30,832	A 1,397
Part I Information About the Partnership		2 Net rental real estate income (loss)	C 3,355
A Partnership's employer identification number 31-2345678		3 Other net rental income (loss)	15 Credits
B Partnership's name, address, city, state, and ZIP code Greener Pastures Partnership 123 Prairie Point Farmdale, MN 55555		4a Guaranteed payments for services	
C IRS center where partnership filed return: e-file		4b Guaranteed payments for capital	16 Schedule K-3 is attached if checked
D Check if this is a publicly traded partnership (PTP)		4c Total guaranteed payments	17 Alternative minimum tax (AMT) items
Part II Information About the Partner		5 Interest income	
E Partner's SSN or TIN (Do not use TIN of a disregarded entity. See instructions.) xxx-xx-xxxx		6a Ordinary dividends	
F Name, address, city, state, and ZIP code for partner entered in E. See instructions. Nate		6b Qualified dividends	18 Tax-exempt income and nondeductible expenses
G General partner or LLC member-manager Limited partner or other LLC member		6c Dividend equivalents	
H1 Domestic partner Foreign partner		7 Royalties	
H2 If the partner is a disregarded entity (DE), enter the partner's TIN Name		8 Net short-term capital gain (loss)	19 Distributions
I1 What type of entity is this partner? Individual		9a Net long-term capital gain (loss)	A 40,278
I2 If this partner is a retirement plan (IRA/SEP/Keogh/etc.), check here		9b Collectibles (28%) gain (loss)	C 78,000
J Partner's share of profit, loss, and capital (see instructions):		9c Unrecaptured section 1250 gain	20 Other information
Beginning Ending		10 Net section 1231 gain (loss)	Z* STMT
Profit 55% 55%		11 Other income (loss)	
Loss 55% 55%		12 Section 179 deduction	21 Foreign taxes paid or accrued
Capital 55% 55%		13 Other deductions	
Check if decrease is due to: Sale or Exchange of partnership interest. See instructions.		22 More than one activity for at-risk purposes*	
K1 Partner's share of liabilities: Beginning Ending		23 More than one activity for passive activity purposes*	
Nonrecourse \$ 2,173 \$ 0		*See attached statement for additional information.	
Qualified nonrecourse financing \$ \$		For IRS Use Only	
Recourse \$ 4,675 \$ 0		**\$30,800 Total reported gain on sale	
K2 Check this box if item K1 includes liability amounts from lower-tier partnerships			
K3 Check if any of the above liability is subject to guarantees or other payment obligations by the partner. See instructions			
L Partner's Capital Account Analysis			
Beginning capital account \$ 56,646			
Capital contributed during the year \$ 0			
Current year net income (loss) \$ 30,832			
Other increase (decrease) (attach explanation) \$ 30,800**			
Withdrawals and distributions \$ (118,278)			
Ending capital account \$ 0			
M Did the partner contribute property with a built-in gain (loss)? Yes No X No If "Yes," attach statement. See instructions.			
N Partner's Share of Net Unrecognized Section 704(c) Gain or (Loss)			
Beginning \$			
Ending \$			

For Paperwork Reduction Act Notice, see the Instructions for Form 1065. www.irs.gov/Form1065 Cat. No. 11394R Schedule K-1 (Form 1065) 2024

Note: For purposes of this example, assume a Section 179 deduction was never claimed. If it had been, the partner, rather than the partnership, would report the sale. See instructions for Form 4797.

Partnership—Sale of Business Example

Statement A—QBI Pass-Through Entity Reporting			
Partnership's name: Greener Pastures Partnership		Partnership's EIN: 31-2345678	
Partner's name: Nate		Partner's identifying number: xxx-xx-xxx1	
Partner's share of:	Trade or Business 1	Trade or Business 2	Trade or Business 3
	<input type="checkbox"/> PTP	<input type="checkbox"/> PTP	<input type="checkbox"/> PTP
	<input type="checkbox"/> Aggregated	<input type="checkbox"/> Aggregated	<input type="checkbox"/> Aggregated
	<input type="checkbox"/> SSTB	<input type="checkbox"/> SSTB	<input type="checkbox"/> SSTB
QBI or qualified PTP items subject to partner-specific determinations:			
Ordinary business income (loss)	30,832		
Rental income (loss)			
Royalty income (loss)			
Section 1231 gain (loss)			
Other income (loss)			
Section 179 deduction			
Charitable contributions			
Other deductions			
W-2 wages	0		
UBIA of qualified property	0		
Section 199A dividends			

Draft as of July 8, 2024

Form 1040 U.S. Individual Income Tax Return 2024		OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.	
For the year Jan. 1–Dec. 31, 2024, or other tax year beginning _____, 2024, ending _____, 20		See separate instructions.	
Your first name and middle initial Nate	Last name	Your social security number xxx xx xxx1	
If joint return, spouse's first name and middle initial	Last name	Spouse's social security number	
Home address (number and street). If you have a P.O. box, see instructions.		Apt. no.	Presidential Election Campaign
City, town, or post office. If you have a foreign address, also complete spaces below.		State	Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund.
Foreign country name	Foreign province/state/country	Foreign postal code	<input type="checkbox"/> You <input type="checkbox"/> Spouse
Filing Status	<input checked="" type="checkbox"/> Single <input type="checkbox"/> Head of household (HOH)		
Check only	<input type="checkbox"/> Married filing jointly (even if only one had income)		

Digital Assets At any time during 2024, did you: (a) receive (as a reward, award, or payment for property or services); or (b) sell, exchange, or otherwise dispose of a digital asset (or a financial interest in a digital asset)? (See instructions.) Yes No

z Add lines 1a through 1h		1z	
Attach Sch. B if required.	2a Tax-exempt interest	2a	
	3a Qualified dividends	3a	
	4a IRA distributions	4a	
	5a Pensions and annuities	5a	
	6a Social security benefits	6a	
Standard Deduction for—	c If you elect to use the lump-sum election method, check here (see instructions)		
• Single or Married filing separately, \$14,600	<input type="checkbox"/>	7	16,540
• Married filing jointly or Qualifying surviving spouse, \$29,200	<input type="checkbox"/>	8	30,832
• Head of household, \$21,900	<input type="checkbox"/>	9	50,879
• If you checked any box under Standard Deduction, see instructions.		10	99
	11 Subtract line 10 from line 9. This is your adjusted gross income	11	50,780
	12 Standard deduction or itemized deductions (from Schedule A)	12	14,600
	13 Qualified business income deduction from Form 8995 or Form 8995-A	13	3,928
	14 Add lines 12 and 13	14	18,528
	15 Subtract line 14 from line 11. If zero or less, enter -0-. This is your taxable income	15	32,252
For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions.		Cat. No. 11320B Form 1040 (2024)	

Partnership—Sale of Business Example

Draft as of June 21, 2024

SCHEDULE 1 (Form 1040)		Additional Income and Adjustments to Income		OMB No. 1545-0074	
Department of the Treasury Internal Revenue Service		Attach to Form 1040, 1040-SR, or 1040-NR.		2024	
		Go to www.irs.gov/Form1040 for instructions and the latest information.		Attachment Sequence No. 01	
Name(s) shown on Form 1040, 1040-SR, or 1040-NR		Your social security number			
Nate		xxx-xx-xxx1			
For 2024, enter the amount reported to you on Form(s) 1099-K that was included in error or for personal items sold at a loss					
Note: The remaining amounts reported to you on Form(s) 1099-K should be reported elsewhere on your return depending on the nature of the transaction. See www.irs.gov/1099k .					
Part I Additional Income					
1	Taxable refunds, credits, or offsets of state and local income taxes	1			
2a	Alimony received	2a			
b	Date of original divorce or separation agreement (see instructions):				
3	Business income or (loss). Attach Schedule C	3			
4	Other gains or (losses). Attach Form 4797	4			
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	5		30,832	
6	Farm income or (loss). Attach Schedule F	6			
7	Unemployment compensation	7			
8	Other income:				
a	Net operating loss	8a	()		
b	Gambling	8b			
c	Cancellation of debt	8c			
9	Total other income. Add lines 8a through 8z	9			
10	Combine lines 1 through 7 and 9. This is your additional income . Enter here and on Form 1040, 1040-SR, or 1040-NR, line 8	10		30,832	
For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 71479F Schedule 1 (Form 1040) 2024					

Schedule 1 (Form 1040) 2024		Page 2	
Part II Adjustments to Income			
11	Educator expenses	11	
12	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106	12	
13	Health savings account deduction. Attach Form 8889	13	
14	Moving expenses for members of the Armed Forces. Attach Form 3903	14	
15	Deductible part of self-employment tax. Attach Schedule SE	15	99
16	Self-employed SEP, SIMPLE, and qualified plans	16	
17	Self-employed health insurance deduction	17	
18	Penalty on early withdrawal of savings	18	
19a	Alimony paid	19a	
b	Recipient's SSN		
c	Date of original divorce or separation agreement (see instructions):		
20	IRA deduction	20	

h	Attorney fees and court costs for actions involving certain unlawful discrimination claims (see instructions)	24h	
i	Attorney fees and court costs you paid in connection with an award from the IRS for information you provided that helped the IRS detect tax law violations	24i	
j	Housing deduction from Form 2555	24j	
k	Excess deductions of section 67(e) expenses from Schedule K-1 (Form 1041)	24k	
z	Other adjustments. List type and amount:	24z	
25	Total other adjustments. Add lines 24a through 24z	25	
26	Add lines 11 through 23 and 25. These are your adjustments to income . Enter here and on Form 1040, 1040-SR, or 1040-NR, line 10	26	99
Schedule 1 (Form 1040) 2024			

Partnership—Sale of Business Example

Draft as of July 1, 2024

Schedule E (Form 1040) 2024		Attachment Sequence No. 13		Page 2		
Name(s) shown on return. Do not enter name and social security number if shown on other side. Name			Your social security number xxx-xx-xxxx			
Caution: The IRS compares amounts reported on your tax return with amounts shown on Schedule(s) K-1.						
Part II Income or Loss From Partnerships and S Corporations						
Note: If you report a loss, receive a distribution, dispose of stock, or receive a loan repayment from an S corporation, you must check the box in column (e) on line 28 and attach the required basis computation. If you report a loss from an at-risk activity for which any amount is not at risk, you must check the box in column (f) on line 28 and attach Form 6198. See instructions.						
27 Are you reporting any loss not allowed in a prior year due to the at-risk or basis limitations, a prior year unallowed loss from a passive activity (if that loss was not reported on Form 8582), or unreimbursed partnership expenses? If you answered "Yes," see instructions before completing this section <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No						
28 (a) Name		(b) Enter P for partnership; S for S corporation	(c) Check if foreign partnership	(d) Employer identification number	(e) Check if basis computation is required	(f) Check if any amount is not at risk
A Greener Pastures Partnership		P	<input type="checkbox"/>	31-2345678	<input type="checkbox"/>	<input type="checkbox"/>
B			<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
C			<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
D			<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Passive Income and Loss			Nonpassive Income and Loss			
(g) Passive loss allowed (attach Form 8582 if required)		(h) Passive income from Schedule K-1	(i) Nonpassive loss allowed (see Schedule K-1)	(j) Section 179 expense deduction from Form 4562	(k) Nonpassive income from Schedule K-1	
A					30, 832	
B						
C						
D						
29a Totals					30, 832	
b Totals						
30 Add columns (h) and (k) of line 29a				30	30, 832	
31 Add columns (g), (i), and (j) of line 29b				31		
32 Total partnership and S corporation income or (loss). Combine lines 30 and 31				32	30, 832	
Part III Income or Loss From Estates and Trusts						
33 (a) Name		(b) Employer identification number				
A						
B						
Passive Income and Loss			Nonpassive Income and Loss			
(c) Passive deduction or loss allowed (attach Form 8582 if required)		(d) Passive income from Schedule K-1	(e) Deduction or loss from Schedule K-1	(f) Other income from Schedule K-1		
A						
B						
34a Totals						
b Totals						
35 Add columns (d) and (f) of line 34a				35		
36 Add columns (c) and (e) of line 34b				36		
37 Total estate and trust income or (loss). Combine lines 35 and 36				37		
Part IV Income or Loss From Real Estate Mortgage Investment Conduits (REMICs)—Residual Holder						
38 (a) Name		(b) Employer identification number	(c) Excess inclusion from Schedules Q, line 2c (see instructions)	(d) Taxable income (net loss) from Schedules Q, line 1b	(e) Income from Schedules Q, line 3b	
A						
B						
39 Combine columns (d) and (e) only. Enter the result here and include in the total on line 41 below 39						
Part V Summary						
40 Net farm rental income or (loss) from Form 4835. Also, complete line 42 below				40		
41 Total income or (loss). Combine lines 26, 32, 37, 39, and 40. Enter the result here and on Schedule 1 (Form 1040), line 5				41	30, 832	
42 Reconciliation of farming and fishing income. Enter your gross farming and fishing income reported on Form 4835, line 7; Schedule K-1 (Form 1065), box 14, code B; Schedule K-1 (Form 1120-S), box 17, code AN; and Schedule K-1 (Form 1041), box 14, code F. See instructions				42		
43 Reconciliation for real estate professionals. If you were a real estate professional (see instructions), enter the net income or (loss) you reported anywhere on Form 1040, Form 1040-SR, or Form 1040-NR from all rental real estate activities in which you materially participated under the passive activity loss rules				43		

Schedule E (Form 1040) 2024

Partnership—Sale of Business Example

Draft as of June 26, 2024

Form 8949 (2024)		Attachment Sequence No. 12A		Page 2				
Name(s) shown on return. Name and SSN or taxpayer identification no. not required if shown on other side. Name			Social security number or taxpayer identification number xxx-xx-xxxx					
Before you check Box D, E, or F below, see whether you received any Form(s) 1099-B or substitute statement(s) from your broker. A substitute statement will have the same information as Form 1099-B. Either will show whether your basis (usually your cost) was reported to the IRS by your broker and may even tell you which box to check.								
Part II Long-Term. Transactions involving capital assets you held more than 1 year are generally long-term (see instructions). For short-term transactions, see page 1.								
Note: You may aggregate all long-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS and for which no adjustments or codes are required. Enter the totals directly on Schedule D, line 8a; you aren't required to report these transactions on Form 8949 (see instructions).								
You must check Box D, E, or F below. Check only one box. If more than one box applies for your long-term transactions, complete a separate Form 8949, page 2, for each applicable box. If you have more long-term transactions than will fit on this page for one or more of the boxes, complete as many forms with the same box checked as you need.								
<input type="checkbox"/> (D) Long-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS (see Note above)								
<input type="checkbox"/> (E) Long-term transactions reported on Form(s) 1099-B showing basis wasn't reported to the IRS								
<input checked="" type="checkbox"/> (F) Long-term transactions not reported to you on Form 1099-B								
1	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold or disposed of (Mo., day, yr.)	(d) Proceeds (sales price) (see instructions)	(e) Cost or other basis (See the Note below and see Column (e) in the separate instructions.)	(f) Code(s) from instructions	(g) Amount of adjustment	(h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g).
	55% Greener Pastures Partnership	4/1/21	1/31/24	62,278	46,363			15,915
2 Totals. Add the amounts in columns (d), (e), (g), and (h) (subtract negative amounts). Enter each total here and include on your Schedule D, line 8b (if Box D above is checked), line 9 (if Box E above is checked), or line 10 (if Box F above is checked).				62,278	46,363			15,915
Note: If you checked Box D above but the basis reported to the IRS was incorrect, enter in column (e) the basis as reported to the IRS, and enter an adjustment in column (g) to correct the basis. See Column (g) in the separate instructions for how to figure the amount of the adjustment.								

Form 8949 (2024)

Draft as of May 16, 2024

SCHEDULE D (Form 1040)		Capital Gains and Losses		OMB No. 1545-0074		
		2024		Attachment Sequence No. 12		
		Use Form 8949 to list your transactions for lines 1b, 2, 3, 8b, 9, and 10. Go to www.irs.gov/ScheduleD for instructions and the latest information.				
Department of the Treasury Internal Revenue Service			Name(s) shown on return			
Name			Your social security number xxx-xx-xxxx			
Did you dispose of any investment(s) in a qualified opportunity fund during the tax year? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No						
Part II Long-Term Capital Gains and Losses—Generally Assets Held More Than One Year (see instructions)						
See instructions for how to figure the amounts to enter on the lines below.						
This form may be easier to complete if you round off cents to whole dollars.						
		(d) Proceeds (sales price)	(e) Cost (or other basis)	(g) Adjustments to gain or loss from Form(s) 8949, Part II, line 2, column (g)	(h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g)	
8b Totals for all transactions reported on Form(s) 8949 with Box D checked						
9 Totals for all transactions reported on Form(s) 8949 with Box E checked						
10 Totals for all transactions reported on Form(s) 8949 with Box F checked		62,278	46,363		15,915	
11 Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824					11 625	
12 Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1					12	
13 Capital gain distributions. See the instructions					13	
14 Long-term capital loss carryover. Enter the amount, if any, from line 13 of your Capital Loss Carryover Worksheet in the instructions					14	
15 Net long-term capital gain or (loss). Combine lines 8a through 14 in column (h). Then, go to Part III on the back					15 16,540	
For Paperwork Reduction Act Notice, see your tax return instructions.						

Cat. No. 11338H

Schedule D (Form 1040) 2024

Partnership—Sale of Business Example

Draft as of September 18, 2024

Form 8995	Qualified Business Income Deduction Simplified Computation	OMB No. 1545-2294 2024 Attachment Sequence No. 55
Department of the Treasury Internal Revenue Service		
Attach to your tax return. Go to www.irs.gov/Form8995 for instructions and the latest information.		
Name(s) shown on return Nate		Your taxpayer identification number xxx-xx-xxxx
Note: You can claim the qualified business income deduction only if you have qualified business income from a qualified trade or business, real estate investment trust dividends, publicly traded partnership income, or a domestic production activities deduction passed through from an agricultural or horticultural cooperative. See instructions.		
Use this form if your taxable income, before your qualified business income deduction, is at or below \$191,950 (\$383,900 if married filing jointly), and you aren't a patron of an agricultural or horticultural cooperative.		
1	(a) Trade, business, or aggregation name	(b) Taxpayer identification number
i	Greener Pastures, Inc.	31-2345678
ii		
iii		
iv		
v		
2	Total qualified business income or (loss). Combine lines 1i through 1v, column (c)	2 30,733
3	Qualified business net (loss) carryforward from the prior year	3 ()
4	Total qualified business income. Combine lines 2 and 3. If zero or less, enter -0-	4 30,733
5	Qualified business income component. Multiply line 4 by 20% (0.20)	5 6,147
6	Qualified REIT dividends and publicly traded partnership (PTP) income or (loss) (see instructions)	6 ()
7	Qualified REIT dividends and qualified PTP (loss) carryforward from the prior year	7 ()
8	Total qualified REIT dividends and PTP income. Combine lines 6 and 7. If zero or less, enter -0-	8 ()
9	REIT and PTP component. Multiply line 8 by 20% (0.20)	9 ()
10	Qualified business income deduction before the income limitation. Add lines 5 and 9	10 6,147
11	Taxable income before qualified business income deduction (see instructions)	11 36,180
12	Enter your net capital gain, if any, increased by any qualified dividends (see instructions)	12 16,540
13	Subtract line 12 from line 11. If zero or less, enter -0-	13 ()
14	Income limitation. Multiply line 13 by 20% (0.20)	14 3,928
15	Qualified business income deduction. Enter the smaller of line 10 or line 14. Also enter this amount on the applicable line of your return (see instructions)	15 ()
16	Total qualified business (loss) carryforward. Combine lines 2 and 3. If greater than zero, enter -0-	16 (3,928)
17	Total qualified REIT dividends and PTP (loss) carryforward. Combine lines 6 and 7. If greater than zero, enter -0-	17 ()
For Privacy Act and Paperwork Reduction Act Notice, see instructions. Cat. No. 37806C Form 8995 (2024)		

End

Partnership—Sale of Business Example

Draft as of August 15, 2024

Form 6252	Installment Sale Income	OMB No. 1545-0228 2024 Attachment Sequence No. 67
Department of the Treasury Internal Revenue Service		
Use a separate form for each sale or other disposition of property on the installment method. Go to www.irs.gov/Form6252 for the latest information.		
Name(s) shown on return Nate		Identifying number xxx-xx-xxxx
1	Description of property Greener Pastures Partnership (Installment Note)	
2a	Date acquired (mm/dd/yyyy) 4/1/2021	Date sold (mm/dd/yyyy) 1/31/2024
3	Was the property sold to a related party? See instructions. If "Yes," complete Part III for the year of sale and 2 years after the year of the sale unless you received the final payment during the tax year <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
4	Can the total selling price be determined by the close of the tax year in which such sale or other disposition occurs? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
Part I Gross Profit and Contract Price. Complete this part for all years of the installment agreement.		
5	Selling price including mortgages and other debts. Don't include interest, whether stated or unstated	5 78,000
6	Mortgages, debts, and other liabilities the buyer assumed or took the property subject to (see instructions)	6 ()
7	Subtract line 6 from line 5	7 78,000
8	Cost or other basis of property sold	8 63,115
9	Depreciation allowed or allowable	9 ()
10	Adjusted basis. Subtract line 9 from line 8	10 63,115
11	Commissions and other expenses of sale	11 ()
12	Income recapture from Form 4797, Part III (see instructions)	12 ()
13	Add lines 10, 11, and 12	13 63,115
14	Subtract line 13 from line 5. If zero or less, don't complete the rest of this form. See instructions	14 14,885
15	If the property described on line 1 above was your main home, enter the amount of your excluded gain. See instructions. Otherwise, enter -0-	15 ()
16	Gross profit. Subtract line 15 from line 14	16 14,885
17	Subtract line 13 from line 6. If zero or less, enter -0-	17 ()
18	Contract price. Add line 7 and line 17	18 78,000
Part II Installment Sale Income. Complete this part for all years of the installment agreement.		
19	Gross profit percentage (expressed as a decimal amount). Divide line 16 by line 18. (For years after the year of sale, see instructions.)	19 0.1908
20	If this is the year of sale, enter the amount from line 17. Otherwise, enter -0-	20 0
21	Payments received during year (see instructions). Don't include interest, whether stated or unstated.	21 3,278
22	Add lines 20 and 21	22 3,278
23	Payments received in prior years (see instructions). Don't include interest, whether stated or unstated	23 0
24	Installment sale income. Multiply line 22 by line 19. This amount cannot be zero or less. See instructions	24 625
25	Enter the part of line 24 that is ordinary income under the recapture rules. See instructions	25 ()
26	Subtract line 25 from line 24. Enter here and on Schedule D or Form 4797. See instructions	26 625
Part III Related Party Installment Sale Income. Don't complete if you received the final payment this tax year.		
27	Name, address, and taxpayer identifying number of related party	
28	Did the related party resell or dispose of the property ("second disposition") during this tax year? <input type="checkbox"/> Yes <input type="checkbox"/> No	
29	If the answer to question 28 is "Yes," complete lines 30 through 37 below unless one of the following conditions is met. Check the box that applies.	
a	<input type="checkbox"/> The second disposition was more than 2 years after the first disposition (other than dispositions of marketable securities). If this box is checked, enter the date of disposition (mm/dd/yyyy)	
b	<input type="checkbox"/> The first disposition was a sale or exchange of stock to the issuing corporation.	
c	<input type="checkbox"/> The second disposition was an involuntary conversion and the threat of conversion occurred after the first disposition.	
d	<input type="checkbox"/> The second disposition occurred after the death of the original seller or buyer.	
e	<input type="checkbox"/> It can be established to the satisfaction of the IRS that tax avoidance wasn't a principal purpose for either of the dispositions. If this box is checked, attach an explanation. See instructions.	
30	Selling price of property sold by related party (see instructions)	30 ()
31	Enter contract price from line 18 for year of first sale	31 ()
32	Enter the smaller of line 30 or line 31	32 ()
33	Total payments received by the end of this tax year (see instructions)	33 ()
34	Subtract line 33 from line 32. If zero or less, enter -0-	34 ()
35	Multiply line 34 by the gross profit percentage on line 19 for year of first sale	35 ()
36	Enter the part of line 35 that is ordinary income under the recapture rules. See instructions	36 ()
37	Subtract line 36 from line 35. Enter here and on Schedule D or Form 4797. See instructions	37 ()
For Paperwork Reduction Act Notice, see page 4. Cat. No. 13601R Form 6252 (2024)		