**Abstract:** Sadly, many businesses have been forced to shut down recently due to the challenges of the economy, including the supply chain. To close a business, various tax responsibilities must be met, preferably with the help of a trusted tax advisor.

## The tax obligations if your business closes its doors

Sadly, many businesses have been forced to shut down recently due to the challenges of the economy, including the supply chain. If this is your situation, we can help you meet the various tax responsibilities that go with closing a business.

Of course, a business must file a final income tax return and some other related forms for the year it closes its doors. The type of return to be filed depends on the type of business you have. Here’s a rundown of the basic requirements.

**Sole Proprietorships.** You’ll need to file the usual Schedule C, “Profit or Loss from Business,” with your individual return for the year you close the business. You may also need to report self-employment tax.

**Partnerships.** A partnership must file Form 1065, “U.S. Return of Partnership Income,” for the year it closes. You also must report capital gains and losses on Schedule D. Indicate that this is the final return and do the same on Schedule K-1, “Partner’s Share of Income, Deductions, Credits, etc.”

**All Corporations.** Form 966, “Corporate Dissolution or Liquidation,” must be filed if you adopt a resolution or plan to dissolve a corporation or liquidate any of its stock.

**C Corporations.** File Form 1120, “U.S. Corporate Income Tax Return,” for the year you close. Report capital gains and losses on Schedule D. Indicate this is the final return.

**S Corporations.** File Form 1120-S, “U.S. Income Tax Return for an S Corporation,” for the year of closing. Report capital gains and losses on Schedule D. The “final return” box must be checked on Schedule K-1.

**All Businesses.** Other forms may need to be filed to report sales of business property and asset acquisitions if you sell your business.

**Employees and contract workers**

If you have employees, you must pay them final wages and compensation owed, make final federal tax deposits and report employment taxes. Failure to withhold or deposit employee income, Social Security and Medicare taxes can result in full personal liability for what’s known as the Trust Fund Recovery Penalty.

If you’ve paid any contractors at least $600 during the calendar year in which you close your business, you must report those payments on Form 1099-NEC, “Nonemployee Compensation.”

**Other tax issues**

If your business has a retirement plan for employees, you’ll want to terminate the plan and distribute benefits to participants. There are detailed notices, funding, timing and filing requirements that must be met by a terminating plan. There are also complex requirements related to flexible spending accounts, Health Savings Accounts, and other programs for your employees.

We can assist you with many other complicated tax issues related to closing your business, including debt cancellation, use of net operating losses, freeing up any remaining passive activity losses, depreciation recapture, and possible bankruptcy issues.

We can also advise you on the length of time you need to keep business records. You also must cancel your Employer Identification Number (EIN) and close your IRS business account.

If your business is unable to pay all the taxes it owes, we can explain the available payment options to you. Contact us to discuss these issues and get answers to any questions.

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