

480 words

Abstract: Businesses shut down for many reasons, including the owner’s retirement, an expired lease, staffing shortages, partner conflicts and increased supply costs. Closing a business means taking care of various tax obligations that must be met. This article provides a rundown.

Is your business closing? Here are your final tax responsibilities

Businesses shut down for many reasons. Here are just a few:

- An owner’s retirement,
- A lease expiration,
- Staffing shortages,
- Partner conflicts, and
- Increased supply costs.

If you’ve decided to close your business, you might need assistance with some steps in the process, including handling various tax obligations. For example, a final income tax return and related forms must be filed for the year of closing. The correct return to file depends on the type of business. Here’s a rundown of the requirements.

Sole proprietorships. You must file the usual Schedule C, “Profit or Loss from Business,” with your individual return for the year of closing. 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 of closing and report capital gains and losses on Schedule D. Indicate that this is the final return and do the same on Schedules 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 of closing. 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. If you sell your business, other forms may need to be filed to report the sales.

Worker-related duties

Businesses with employees must pay the final wages and compensation owed, make final federal tax deposits and report employment taxes. Failure to withhold or deposit all employment taxes due can result in severe penalties.

Generally, payments of \$600 or more to contractors during the calendar year of closure must be reported on Form 1099-NEC, “Nonemployee Compensation.”

More tax issues to consider

The list of tax issues related to closing a business is long and often complex, but we’re available to guide you through the steps. For example, a business that has an employee retirement plan will need to terminate the plan and distribute the benefits to participants. Flexible Spending Accounts and Health Savings Accounts must also be terminated.

There may be debt cancellation issues to wrestle with. Other possibilities include dealing with net operating losses, passive activity losses, depreciation recapture and possible bankruptcy issues.

You need to be aware of how long to retain business records. And finally, you may need to know how to navigate payment options if your business is unable to pay the remaining taxes owed.

We can help

Closing a business typically brings up a lot of questions. Contact us for the answers.

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