

TAX 655 Final Project Guidelines and Rubric

Overview

The final project for this course is the creation of a memorandum with an appendix of supporting IRS forms and schedules.

Working as an accounting associate in a financial organization requires the ability to apply accounting knowledge in unique ways. Being able to identify issues and communicate them effectively with members of your team and clients is essential for any financial career working in a privately held enterprise or working with privately held clients.

In the final project, you will demonstrate your ability to communicate your tax efficient investment and business strategy recommendations to a client. Your proposed strategy could save the client and his family millions of dollars over time, so it is imperative that you utilize your tax research skills and maintain compliance with all governing rules and regulations.

The project is divided into **four milestones**, which will be submitted at various points throughout the course to scaffold learning and ensure quality final submissions. These milestones will be submitted in **Modules Two, Four, Five, and Seven**. The comprehensive memorandum with appendix will be submitted in **Module Nine**.

The project will address the following course outcomes:

- Recommend appropriate taxable entities, based on comprehensive tax research, for new businesses resulting in optimum solutions that meet clients' desired economic outcomes
- Evaluate tax consequences between liquidating and non-liquidating corporate distributions for identifying their impact on clients' tax returns consistent with governing rules and regulations
- Apply best practices in accounting and moral reasoning for liquidating a business resulting in the best economic solution for the owner
- Illustrate solutions for addressing tax consequences resulting from gifts and inheritances, while maintaining compliance with governing rules and regulations
- Prepare appropriate tax returns as they apply to various business entities that result in the best economic solution for clients

Prompt

You are working as an accountant at a mid-size CPA firm. One of your clients is Bob Jones. Bob's personal information is as follows:

DOB: October 10, 1952

SSN: 444-00-4444

Marital Status: Single

Home Address: 5100 Lakeshore Drive, Pensacola, FL 32502

Bob has a very successful used car business located at 210 Ocean View Drive in Pensacola, Florida. Last year, you filed a Schedule C for Bob that had \$1,200,000 in taxable income. The business will have an income growth rate of 10% per year over the next several years. Bob's personal wealth, including investments in land, stocks, and bonds, is about \$14,000,000.

Last year, he reported interest income of \$20,000 and dividend income of \$6,000. The \$14,000,000 includes land worth \$9,000,000 that Bob bought in 1966 for \$450,000. The stocks and bonds have a tax basis of \$1,200,000 and they are currently worth \$5,000,000. All of the investments have been owned for more than a year. In addition to his investments, Bob paid \$140,000 for his home in 1972 and it is now worth \$600,000.

The used car business is currently valued at \$53,000,000 including the land and building, which are worth \$41,000,000. Bob's tax basis in the land and building is \$2,000,000 and \$400,000, respectively. The inventory is worth \$12,000,000, with a cost basis of \$10,000,000; the remaining assets, which include office furniture and equipment, make up the remainder of the business's total value. The office furniture and equipment are fully depreciated.

Bob wants your professional advice regarding whether he should continue to operate as a sole proprietor or convert the business to a partnership, an S corporation, or a C corporation. Based on one of the business entities selected, Bob wants to include Mandy—his daughter—in the business as an owner and manager with a possibility of 40% interest. One of his concerns is what would happen to his business after he passes away.

Mandy's personal tax information is as follows:

Mandy Jones

DOB: June 30, 1990

SSN: 999-99-9999

Marital Status: Single

Home Address: 5990 Langley Road, Pensacola, FL 35203

You will need to describe the tax and limited liability effects on a chosen business entity should Bob decide to reduce the amount of tax paid per year, as well as the protection of personal assets should there be a possible claim against the company's assets.

Prepare a memorandum to the client, recommending a type of business entity, including an appendix of supporting IRS tax schedules and forms.

Specifically, the following **critical elements** must be addressed:

I. Memorandum

- A. Use logical reasoning based on your tax research to explain why the client should choose your recommended **business entity**. Consider referencing appropriate tax code and regulations.
- B. Defend your business entity recommendation by describing the **accounting method**. Consider the advantages and disadvantages of the business entity based on the following:
 1. Cash basis vs. accrual
 2. The cost to prep the returns
 3. The tax benefits
 4. The limited liability protection
 5. Employee benefits
- C. Interpret the **tax law** pertaining to the type of business recommended and justify your recommendation using details consistent with tax law, code, and regulations.
- D. Explain the **tax effect** based on providing \$180,000 per year for the client's salary and \$70,000 per year for his daughter's salary if they **withdraw cash** from the business or **pay dividends** as appropriate.
- E. Justify the **percentage of ownership** the client's daughter should have in the business based on the type of business entity recommended. Consider the tax law in reference to the recommendation and how the decision will affect the daughter's tax return.
- F. Create a detailed **tax planning proposal** explaining how the client's family can experience tax savings should the client pass away. Cite relevant governing rules and regulations.
- G. Illustrate a **strategic plan** that addresses the need for a will in handling the estate. Detail what happens to the business, land, and investments consistent with tax codes and regulations. Consider extending the plan to address the client's estate tax, trust, and charitable contributions while minimizing estate tax.
- H. Recommend **estate planning strategies** consistent with tax codes and regulations for the purpose of reducing the taxable estate. Be sure to include gifting property to heirs in your response.
- I. Illustrate the best course of action if the client decides to leave the business in three years. Provide some advice to him should he decide to **gift** the business to his daughter **or transfer the assets** or common stock to her, depending on the business entity you have selected.
- J. Illustrate the best course of action if the client wishes to **sell the business**. Consider the tax consequences with regard to capital gains and losses, ordinary income issues, and selling an existing operating business.

II. Conclusion

- A. Compare and contrast the **advantages and disadvantages** of the sole proprietorship, the partnership, the S corporation, and the C corporation as a tax vehicle that could meet the client's need for accounting information about the business. Consider providing justification for why the client would not necessarily choose the other business entities.
- B. Summarize the alternative involving the possibility of **liquidating the business** using rationale based on tax research, codes, and regulations.
- C. Summarize the alternative of **transferring the business activity**, providing justification based on tax research, codes, and regulations.

- III. **Appendix:** To further justify your professional advice regarding whether the client should continue to operate as a sole proprietor or convert the business to a partnership, an S corporation, or a C corporation, complete the appropriate tax schedules using the most current tax forms for the requirements below.
- A. Prepare Bob's **Form 1040 with the appropriate tax schedules and Mandy's Form 1040** (based on the salary he wanted to pay her, \$70,000 per year). Assume that you are filing the tax returns using sole proprietorship for the business entity and treating Mandy as an employee, regardless of your initial recommendation for this client.
 - B. Prepare the appropriate **forms** in the event that the client decides **to convert the business** to a partnership, an S corporation, or a C corporation based on your recommendation. Also, include the tax effect, if any, of the money that the client and his daughter are taking from the business for their personal expenses. Include the owners' personal 1040 forms as well.
 - C. **Justify your recommendation using schedules and tax forms** you completed by explaining how the forms and schedules result in the best economic solution for the client consistent with IRS code and regulations.

Milestones

Milestone One: Business Entity, Accounting Method, and Tax Laws

In **Module Two**, you will submit a draft of your recommendation for the business entity you believe will meet the client's needs, based on your research. You will also select the accounting method that should be used to interpret the business transactions and for tax reporting. You will also need to summarize the tax law pertaining to the entity selected. This assignment will address Section I, Parts A, B, and C of the critical elements above. **This milestone is graded with the Milestone One Rubric.**

Milestone Two: Tax Effects and Ownership Interest

In **Module Four**, you will submit a draft explaining the tax effects of salaries if cash is withdrawn from a business. You must also explain the tax consequences of paying the owners based on the selected business entity, as well as the tax consequences for each individual's personal tax returns. This assignment will address Section I, Parts D and E of the critical elements. **This milestone is graded with the Milestone Two Rubric.**

Milestone Three: Strategic Planning, Gift Taxes, and Disposing of a Business

In **Module Five**, you will submit a draft of your tax planning proposal and strategic plan recommendation regarding the client's estate. You must also address the tax effects of selling the business prior to the death of the founder. This assignment will address Section I, Parts F through J of the critical elements. **This milestone is graded with the Milestone Three Rubric.**

Milestone Four: Conclusion

In **Module Seven**, you will submit a draft of your conclusion. You will compare and contrast the advantages of each type of business entity that the client may select, summarize the alternative involving the possibility of liquidating the business using rationale, and, finally, summarize the alternative of transferring the business activity providing justification based on tax research, code, and regulations. This assignment will address Section II of the critical elements. **This milestone is graded with the Milestone Four Rubric.**

Final Submission: Memorandum With Appendix

In **Module Nine**, you will complete all necessary tax forms according to Section III of the critical elements. You will then submit a comprehensive memorandum to the client that covers all critical elements and includes an appendix of IRS tax forms and schedules necessary to support your advice. You may also submit tax forms and schedules to illustrate the tax effects of continuing to operate the business as a sole proprietorship. The final submission should be a complete document containing all of the critical elements of the final project. Feedback gained during the course should be reflected in your final submission. **This submission will be graded using the Final Project Rubric.**

Note: The textbook includes tax return forms for the prior year in the appendix because of publishing deadlines. Use the most current tax forms to arrive at your answers.

Deliverables

Milestone	Deliverable	Module Due	Grading
One	Business Entity, Accounting Method, and Tax Laws	Two	Graded separately; Milestone One Rubric
Two	Tax Effects and Ownership Interest	Four	Graded separately; Milestone Two Rubric
Three	Strategic Planning, Gift Taxes, and Disposing of a Business	Five	Graded separately; Milestone Three Rubric
Four	Conclusion	Seven	Graded separately; Milestone Four Rubric
	Final Submission: Memorandum With Appendix	Nine	Graded separately; Final Project Rubric

Final Project Rubric

Guidelines for Submission: Submit your memorandum with standard formatting: 7–10 pages, double-spaced, in APA format, with one-inch margins, 12-point Times New Roman font, and an appendix containing electronic versions of the appropriate IRS tax schedules and forms.

Critical Elements	Exemplary	Proficient	Needs Improvement	Not Evident	Value
Memo: Business Entity	Meets “Proficient” criteria and references appropriate tax code and regulations in justification (100%)	Explains why the recommended entity is the most appropriate choice using logical reasoning (90%)	Explains why the recommended entity is the most appropriate choice but details either lack relevance or are cursory (70%)	Does not explain why the recommended entity is the most appropriate choice (0%)	6
Memo: Accounting Method	Meets “Proficient” criteria and details cover the advantages and disadvantages (100%)	Defends the decision to choose the recommended entity by describing the accounting method (90%)	Defends the decision to choose the recommended entity but details are inaccurate or cursory (70%)	Does not defend the decision to choose the recommended entity (0%)	6

Memo: Tax Law	Meets “Proficient” criteria and details illustrate versatility of thought when using tax law, code, and regulations (100%)	Interprets tax law pertaining to the selected business entity using tax law, code, and regulations as justification (90%)	Interprets and justifies tax law pertaining to the selected business entity but details are either inaccurate or irrelevant (70%)	Does not interpret and justify tax law pertaining to the selected business entity (0%)	6
Memo: Tax Effect on Cash Withdrawals or Dividends	Meets “Proficient” criteria and provides, in detail, more than one option (100%)	Explains the tax effect based on providing the client and his daughter salaries if they withdraw cash from the company or pay dividends (90%)	Explains the tax effect based on providing the client and his daughter salaries but details are inaccurate or cursory (70%)	Does not explain the tax effect based on providing the client and his daughter salaries (0%)	6
Memo: Percentage of Ownership	Meets “Proficient” criteria and details explain how the decision will affect the client’s daughter’s tax return (100%)	Justifies the percentage of ownership the client’s daughter should have based on the business recommended (90%)	Justifies the percentage of ownership the client’s daughter should have but details are irrelevant or cursory (70%)	Does not justify the percentage of ownership the client’s daughter should have (0%)	6
Memo: Tax Planning Proposal	Meets “Proficient” criteria and details include relevant governing rules and regulations (100%)	Creates a tax planning proposal explaining how the family can experience tax savings should the client pass away (90%)	Creates a tax planning proposal but details are inaccurate or irrelevant (70%)	Does not create a tax planning proposal (0%)	6
Memo: Strategic Plan	Meets “Proficient” criteria and extends the plan to address the estate tax, trust, and charitable contributions while minimizing inheritance tax (100%)	Illustrates a strategic plan that addresses the need for a will in handling the estate, which includes the business, land, and investments, consistent with governing code and regulations (90%)	Illustrates a strategic plan that addresses the need for a will, but details lack coverage of business, land, or investments or are not consistent with governing code and regulations (70%)	Does not illustrate a strategic plan that addresses the need for a will (0%)	6
Memo: Estate Planning Strategies	Meets “Proficient” criteria and details exemplify gift-giving strategies that reduce the taxable estate (100%)	Recommends estate planning strategies consistent with governing code and regulations, including gifting property to heirs (90%)	Recommends estate planning strategies but details are inaccurate or cursory (70%)	Does not recommend estate planning strategies (0%)	6
Memo: Gift or Transfer the Assets	Meets “Proficient” criteria and provides justification of both the gifting and transferring of assets (100%)	Illustrates the best course of action the client should take including advice on gifting or transferring assets if he leaves the business in three years (90%)	Illustrates a course of action the client should take if he leaves the business in three years but details are either inaccurate or irrelevant (70%)	Does not illustrate the best course of action the client should take if he leaves the business in three years (0%)	6

Memo: Sell the Business	Meets “Proficient” criteria and addresses ordinary income issues, and capital gains and losses consistent with tax code and regulations (100%)	Illustrates the best course of action if the client wishes to sell the business and includes tax consequences when selling an existing operating business (90%)	Illustrates a course of action if the client wishes to sell the business, but details are inaccurate or cursory (70%)	Does not illustrate a course of action if the client wishes to sell the business (0%)	6
Conclusion: Advantages and Disadvantages	Meets “Proficient” criteria and shows keen insight into the advantages and disadvantages of choosing the other business entities (100%)	Compares and contrasts advantages and disadvantages of all the business entities as tax vehicles to meet the client’s needs (90%)	Compares and contrasts advantages and disadvantages of all the business entities but details are either incomplete or inaccurate (70%)	Does not compare and contrast advantages and disadvantages of all the business entities (0%)	6
Conclusion: Liquidating the Business	Meets “Proficient” criteria and is written in an appropriate voice for the target audience (100%)	Summarizes the alternative choice involving liquidating the business, using tax research, governing rules, and regulations (90%)	Summarizes the alternative choice involving liquidating the business but details are either unclear for target audience or cursory (70%)	Does not summarize the alternative choice involving liquidating the business (0%)	6
Conclusion: Transferring the Business Activity	Meets “Proficient” criteria and is written in an appropriate voice for the target audience (100%)	Summarizes the alternative choice involving transferring the business activity using tax research, governing rules, and regulations (90%)	Summarizes the alternative choice involving transferring the business activity but details are either unclear or cursory (70%)	Does not summarize the alternative choice involving transferring the business activity (0%)	6
Appendix: Form 1040 and Tax Schedules		Prepares the appropriate pages of Form 1040 and the tax schedules accurately and completely based on the sole proprietorship business entity (100%)	Prepares the appropriate pages of Form 1040 and tax schedules based on the sole proprietorship business entity but details are either incomplete or inaccurate (70%)	Does not complete the appropriate pages of Form 1040 based on the sole proprietorship business entity (0%)	6
Appendix: Forms to Convert the Business		Prepares the appropriate remaining forms for a partnership, S corporation, or C corporation accurately and completely (100%)	Prepares the appropriate remaining forms for a partnership, S corporation, or C corporation but details are incomplete or inaccurate (70%)	Does not prepare the appropriate remaining forms (0%)	6
Appendix: Justification of Schedules and Tax Forms	Meets “Proficient” criteria and references relevant IRS code and regulations (100%)	Justifies the selected schedules and tax forms by explaining how the schedules and forms result in the best economic solution for the client (90%)	Justifies the selection of the schedules and tax forms but details are either inaccurate or cursory (70%)	Does not justify the selection of the schedules and tax forms (0%)	6

Articulation of Response	Submission is free of errors related to citations, grammar, spelling, syntax, and organization and is presented in a professional and easy-to-read format (100%)	Submission has no major errors related to citations, grammar, spelling, syntax, or organization (90%)	Submission has major errors related to citations, grammar, spelling, syntax, or organization that negatively impact readability and articulation of main ideas (70%)	Submission has critical errors related to citations, grammar, spelling, syntax, or organization that prevent understanding of ideas (0%)	4
Total					100%