ACCT 441 – Advanced Tax

C Corporation Tax Return

Banner, Inc. (a C corporation) is located at 90 Fifth Avenue, New York City, NY. The corporation uses the calendar year and accrual basis for both book and tax purposes. It is engaged in the sale of self-protection gear. Its employer identification number (EIN) is 12-12345687. The company was incorporated on January 1, 1941 and began business on April 1, 1941.

Banner, Inc. made the following estimated tax payments for 2017:

April 15, 2017	$100,000
June 15, 2017	200,000
September 15, 2017	235,000
December 15, 2017	235,000
Total	$770,000

Taxable income in 2016 was $1.4 million and the 2016 tax was $476,000. The corporation earned its 2017 taxable income evenly throughout the year. Therefore, it does not use the annualization or seasonal methods.

Inventory and Cost of Goods Sold:

The corporation uses the periodic inventory method and prices its inventory using the lower of FIFO cost or market. Only beginning inventory, ending inventory, and purchases should be reflected on the appropriate form. No other costs or expenses are allocated to cost of goods sold. The corporation is exempt from the uniform capitalization (UNICAP) rules because average gross income for the previous three years was less than $10 million. The following information should also be included on the applicable form:

Line 9 (a)	Check (ii)
(b),(c), & (d)	Not applicable
(e) & (f)	No

Compensation of Officers:

Officer	Social Security #	% Time Devoted to Business	% of Stock Owned	Amount of Compensation
Diana Banner	123-45-6789	100	50	$ 246,500
Peter Bruce	987-65-4321	100	25	153,000
Wayne Prince	123-98-4567	100	25	153,000

Bad Debts:

For tax purposes, the corporation uses the direct write-off method of deducting bad debts. For book purposes, the corporation uses an allowance for doubtful accounts. During 2017, the corporation charged $34,000 to the allowance account, such amount representing actual write-offs for 2017.

Additional information for Schedule K:

1b	Accrual	8	Do not check box
2a	451140	9	Fill in the correct amount
b	Retail Sales	10	3
c	Self-Protection Gear	11	Do not check box
3	No	12	Not applicable
4a	No	13-14	No
b	Yes, omit Schedule G	15a	No
5a	No	b	Do not check box
b	No	16-19	No
6-7	No		

Capital Gains and Losses:

The corporation sold 100 shares of Shield Corp. common stock on October 7, 2017 for $125,000. The corporation acquired the stock on December 15, 2016 for $95,000. The corporation also sold 75 shares of Metro Corp common stock on June 17, 2017 for $110,000. The corporation acquired this stock on September 18, 2015 for $117,000. The corporation has a $10,000 capital loss carryover from 2016. These transactions were not reported to the corporation on Form 1099-B.

Fixed Assets and Depreciation:

Book: The corporation uses straight-line deprecation over the useful lives of the assets as follows: store building, 50 years; equipment, ten years; and trucks, five years. The corporation takes a half-year's depreciation in the year of acquisition and the year of disposition and assumes no salvage value. The book financial statements reflect these calculations.

Tax: All assets are MACRS property as follows: store building, 39-year non-residential real property; equipment, seven-year property; and trucks, five-year property. The corporation acquired the store building for $1 million and placed it in services on January 2, 2014. The corporation acquired two pieces of equipment for $200,000 (Equipment 1) and $400,000 (Equipment 2) and placed them in service on January 2, 2014. The corporation acquired the trucks for $100,000 and placed them in service on July 18, 2015. The trucks are not listed property and are no subject to the limitation on luxury automobiles. The corporation did not make the expensing election under Sec. 179 or take bonus depreciation on any property acquired before 2017. Accumulated depreciation through December 31, 2016 on the properties is as follows:

Store building	$ 75,890
Equipment 1	112,540
Equipment 2d	225,080
Trucks	52,000

On October 16, 2017 the corporation sold Equipment 1 for $230,000. The corporation had no Sec. 1231 losses from prior years. In a separate transaction on October 17, 2017 the corporation acquired and placed in service a piece of equipment costing $ 500,000. Assume these transactions do not qualify as like-kind exchange. The new equipment is seven-year property. The corporation made the Sec. 179 expensing election for the entire cost of the property. Use published IRS depreciation tables to compute the 2017 depreciation.

The balance sheet is follows:

	January 1, 2017		December 31, 2017	
Account	**Debit**	**Credit**	**Debit**	**Credit**
Cash	$ 469,491	$	$ 953,648	
Accounts Receivable	340,000		425,000	
Allowance for doubtful accounts		17,000		21,250
Inventory	2,125,000		2,975,000	
Investment in corporate stock	262,000		50,000	
Investment in municpal bonds	30,000		30,000	
Cash surrender value of insurance policy	60,000		80,000	
Land	300,000		300,000	
Buildings	1,000,000		1,000,000	
Accumulated Depreciation - Buildings		50,000		70,000
Equipment	600,000		900,000	
Accumulated Depreciation - Equipment		150,000		165,000
Trucks	100,000		100,000	
Accumulated Depreciation - Trucks		30,000		50,000
Accounts payable		300,000		270,000
Notes payable (short-term)		700,000		560,000
Accrued payroll taxes		12,648		15,810
Accrued state income taxes		3,825		6,375
Accrued federal income taxes		2,125		103,943
Bonds payble (long-term)		1,400,000		900,000
Net deferred tax liability		70,893		134,719
Capital stock - common		850,000		850,000
Retained earnings -unappropriated		1,700,000		3,666,551
Total	$ 5,286,491	$ 5,286,491	$ 6,813,648	$ 6,813,648

The unaudited GAAP income statement for 2017 is as follows:

Sales		$ 8,500,000
Returns		(212,500)
Net sales		$ 8,287,500
Beginning inventory	$ 2,125,000	
Purchases	4,675,000	
Ending Inventory	(2,975,000)	
Cost of goods sold		$ (3,825,000)
Gross profit		$ 4,462,500
Expenses:		
Depreciation	$ 115,000	
Repairs	17,680	
Insurance	46,750	
Net premium-Officers' life insurance	25,500	
Officers' compensation	552,500	
Other salaries	340,000	
Utilities	61,200	
Advertising	40,800	
Legal and accounting fees	42,500	
Charitable contributions	25,500	
Payroll taxes	52,700	
Interest Expense	178,500	
Bad debt expense	38,750	
Total expenses		$ (1,536,880)
Gain on Sale of equipment		90,000
Interest on municpal bonds		4,250
Net gain on stock sales		23,000
Dividend income		10,200
Net income before income taxes		$ 3,053,070
Federal income tax expense		(937,769)
State income tax expense		(63,750)
Net income		$ 2,051,551

Other Information:

- The corporations's tax rate in 2017 was 34%.
- The corporation's activities do not qualify for the U.S. production activities deduction.
- Ignore the AMT and accumulated earnings tax.
- The corporation received dividends from taxable, domestic corporations, the stock of which Banner owns less than 20%.
- The corporation paid $ 85,000 in cash dividends to its shareholders during the year and charged the payment directly to retained earnings.
- The state income tax provided earlier is the exact amount of such taxes incurred during the year.

- The corporation is not entitled to any credits.
- Ignore the financial statement impact of any underpayment penalties incurred on the tax return.

Required: Prepare the 2017 corporate tax return for Banner, Inc. along with any necessary supporting schedules, forms, etc. Prepare both the Schedule M-3 and M-1 but you may omit Schedule B and Form 8916-A.

Notes:

1.) The dividends received deduction percentage in 2017 was 70% for less than 20% owned property.
2.) Omit Form 2220 and insert $4,898 penalty on Form 1120, Page 1, Line 33.