

## Tax Return Problem 9: Partnership

### Instructions:

Please complete AAA Fast Plumbing's 2019 tax return based upon the facts presented below. If required information is missing, use reasonable assumptions to fill in the gaps. Ignore all AMT calculations and AMT related reporting items.

Michael Rodriguez and Devontae Johnson have been life-long friends. Both Michael and Devontae started to work for the same national plumbing repair company immediately after graduating from technical college. After nearly a decade of working for that same company, Michael and Devontae decided to venture out on their own and form their own plumbing company called AAA Fast Plumbing Repair (AAA). They formed AAA as a limited liability company (LLC). Michael and Devontae each own 50% of the company. The company has been successful primarily based upon reputation and the fact that AAA is available 24 hours a day, seven days a week. Although AAA charges a premium for after normal business hour calls, most of its competitors will not perform services past 9 p.m. and, thus, AAA finds itself often as one of the only available choices for middle of the night emergencies.

AAA has several employees and because of implementing technology solutions to aid in its call dispatch program, AAA has been able to expand its service area to now include a three-county area instead of just one.

Information relating to AAA and its owners is as follows:

Name of Company:	AAA Fast Plumbing Repair, LLC
Address:	1456 East Buena Vista Blvd. Los Angeles, CA 90001 (has not changed since inception)
Company formed and started:	January 1, 2011
Accounting Method:	Cash
Tax-year end:	December 31
Employer Identification Number:	34-1234567

### Members' Information:

Michael Rodriguez  
1515 West Bloomington Street  
Los Angeles, CA 90001  
SSN- 585-31-6060  
Phone: 555-234-8745

Profit/Loss/Capital membership interest is 50%.

Devontae Johnson  
19 East Violet Circle  
Los Angeles, CA 90001  
SSN: 397-29-9239  
Phone: 555-213-0989

Profit/Loss/Capital membership interest is 50%.

Other information:

- AAA is a domestic limited liability company
- Michael and Devontae are not related.
- Michael and Devontae are both U.S. citizens.
- Both Michael and Devontae are managing members and use the GAAP-basis to track their capital accounts
- AAA has never had annual gross receipts in excess of \$25,000,000.
- AAA has not and did not file a Form 8893 or anything similar to it this year or in the past.
- AAA is not a publicly traded partnership.
- During the year, no debt was cancelled or forgiven in relation to AAA.
- All of AAA's activities constitute a qualified trade or business, and the salaries and wages expense represents W-2 wages paid by AAA in 2019.
- The total unadjusted basis for all assets placed in service for the prior 10 years matches the book value of all assets reported on the balance sheet.
- AAA is not required to file a Form 8918.
- AAA did not have or control a foreign bank account or have authority over any such financial account.
- AAA was not the grantor of or a transferor to a foreign trust.
- AAA has never made a Section 754 election.
- AAA has never entered a like-kind exchange or distributed a tenancy-in-common or other undivided interest in partnership property.
- AAA has never been required to file Form 8858.
- AAA was required to file Form(s) 1099 related to certain payments it made during the year and those forms were filed on a timely basis.
- AAA was not required to file any Form(s) 5471 during the year.
- Michael is the Partnership Representative.
- Both Michael and Devontae are active in the business and work full-time for AAA.
- The debt owed to First National Bank is a non-recourse obligation and neither Michael nor Devontae have guaranteed its repayment (see balance sheet below). This debt is not directly tied to any specific asset but is rather a debt secured against all of the assets of the company.
- During the year, Michael and Devontae each contributed \$20,000 to the capital of AAA
- AAA does not maintain any inventory. AAA purchases supplies and has a policy of expensing such purchases as paid for tax and book purposes consistent with existing tax law.
- AAA uses MACRS depreciation for both tax and book purposes.
- During the year, Michael and Devontae each received a \$75,000 distribution from AAA.
- During the year, AAA acquired the following assets (all assets were placed in service on the acquisition dates as indicated below):
  - Service vans-new (not Luxury Automobiles)      July 1, 2019      \$500,000
  - Plumbing machinery/equipment-new      July 1, 2019      \$250,000
- AAA did not claim Section 179 expense for any of the current year asset additions and has opted out of bonus depreciation for 3 and 5- year recovery period assets.

Financial Statements:

Balance Sheet

<u>Assets:</u>	<u>12/31/18</u>	<u>12/31/19</u>
Cash	\$ 30,000	\$ 45,000
Tax-exempt Securities	100,000	100,000
Building	4,000,000	4,000,000
Less: Acc. Depreciation	(551,282)	(653,842)
Equipment	2,500,000	3,250,000
Less: Acc. Depreciation	(1,481,400)	(2,138,800)
Land	<u>1,000,000</u>	<u>1,000,000</u>
Total Assets:	\$5,597,318	\$5,602,358

Liabilities and Capital:

Note Payable-First National Bank	\$4,267,318	\$4,046,673
Note Payable-Michael Rodriguez	300,000	300,000
Note Payable-Devontae Johnson	200,000	200,000
Capital Account-MR	415,000	527,842.50
Capital Account-DJ	<u>415,000</u>	<u>527,842.50</u>
Total Liabilities and Capital:	\$5,597,318	\$5,602,358

Income Statement for the year ending December 31, 2019

<u>Item</u>	<u>Amount</u>
Income:	
Service Revenue-Cash	\$ 343,565
Service Revenue-Credit Cards	\$1,922,710
Consulting Revenue-Cash	\$ 50,950
Consulting Revenue-Credit Cards	\$ 155,005
Interest Income-First National Bank	\$ 1,540
Municipal Bond Interest Income	<u>\$ 2,500</u>
Total Income:	\$2,476,270
Expenses:	
Employee Salaries	\$ 515,735
Guaranteed payment-MR	\$ 50,000
Guaranteed payment-DJ	\$ 50,000
Repairs and Maintenance-Trucks	\$ 113,415
Rent	\$ 35,000
Payroll Taxes	\$ 41,260
Licensing Fees	\$ 1,750
Property Taxes	\$ 77,000
Interest Expense	\$ 235,000
Depreciation	\$ 759,960
Office Supplies	\$ 3,420
Employee Training	\$ 5,675
Advertising	\$ 18,850
Plumbing supplies	\$ 15,125
Meals (prior to disallowance)	\$ 13,740
Travel	\$ 4,210
Gasoline	\$ 158,675
Utilities	\$ 24,940
Telephone	<u>\$ 16,830</u>
Total Expenses:	<u>\$2,140,585</u>
Net Income:	\$ 335,685