

TRP 1

Corporate Tax Return Problem Solution

Note to Instructor: Part A requires the completion of pre-tax financial statements. This requirement may only be appropriate for accounting majors. You may wish to provide these statements to your students if you expect them to complete only the tax return in part B.

Part A: Following are the before-tax financial accounting income statement and balance sheet for Snap-It-Open Corporation as of December 31, 2012

Snap-It-Open Corporation
Income Statement
For the Year Ending December 31, 2012

Sales Revenue		\$1,535,000
Cost of Goods Sold (1)		<u>428,000</u>
Gross Profit on Sales		\$1,107,000
Expenses:		
Salaries and Wages	\$186,000	
FICA/FUTA (2)	25,698	
Rent	240,000	
Repairs and Maintenance	20,000	
Utilities	80,000	
Taxes and Licenses (excluding FICA and FUTA taxes)	10,000	
Health Insurance	16,000	
Advertising	40,000	
Travel (excluding meals)	20,000	
Meals and Entertainment	15,000	
Group Term Life Insurance	2,000	
Depreciation (3)	100,000	
Interest Expense	57,500	
Bad Debt Expense (4)	<u>30,700</u>	
Total Expenses		<u>842,898</u>
Net Income Before Tax		\$264,102

(1) Cost of Goods Sold:

Beginning Inventory	0
+ Purchases	\$360,000
- Purchase Returns	(5,000)
- Ending Inventory	(33,000)
+ Factory Salaries	<u>106,000</u>
Cost of Goods	\$428,000

(2) FICA = $\$292,000 \times .0765 = \$22,338$

FUTA = $8 \times \$7,000 \times .060 = \underline{3,360}$

Total $\$25,698$

(3) Depreciation: $(\$500,000 \times .10) + (\$400,000 \times .125) = \$100,000$

Taxation for Decision Makers Tax Return Problem Solutions

(4) Bad Debt Expense: $.02 \times \$1,535,000 = \$30,700$

Snap-It-Open Corporation Balance Sheet December 31, 2012

Current Assets:

Cash		\$374,302
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Accounts Receivable	\$355,000	
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Less: Allowance for Bad Debts	<u>30,700</u>	324,300
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Tax Deposits		40,000
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Inventory		<u>33,000</u>
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Total Current Assets		\$771,602
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Long-Term Assets:

Machinery	\$900,000	
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Less: Accumulated Depreciation	<u>100,000</u>	<u>\$800,000</u>
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Total Assets		<u>\$1,571,602</u>
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Current Liabilities:

Interest Payable		\$ 57,500
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Current Portion of Long-term Note Payable		<u>100,000</u>
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Total Current Liabilities		<u>\$157,000</u>
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Long-term Liabilities

Note Payable		<u>650,000</u>
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Total Liabilities		\$807,500
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Stockholder Equity:

Common Stock	\$100,000	
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Paid-in Capital	400,000	
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Retained Earnings	<u>264,102</u>	<u>764,102</u>
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Total Liabilities and Equities		<u>\$1,571,602</u>
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Part B Solution:

Required forms include Form 1120 and Form 4562. Note: Form 1125-A and Schedules E and G are not required.

Computations for tax return

Tax Depreciation = \$250,000 bonus depreciation; \$35,725 MACRS and \$116,577 Sec. 179 expensing. All depreciation (including bonus depreciation) is deducted prior to computing the Sec. 179 taxable income limitation; taxable income, excluding Sec. 179 expensing, is \$116,577 (\$1,107,000 - \$704,698 - (\$250,000 + \$35,725)); thus only \$116,577 of Sec. 179 expensing can be deducted this year; the \$283,423 (\$400,000 - \$116,577) remaining can be carried forward to 2013 and beyond subject to the Sec. 179 and taxable income limits in future years.
Used machines: \$116,577 Sec. 179 expense; \$283,423 carried forward.
New machines: (\$500,000 x 50% bonus depreciation) + .1429 (\$500,000 - \$250,000) MACRS depreciation) = \$285,725.

Note that the corporation could have elected not to claim any Sec. 179 expensing and have claimed regular MACRS depreciation (which is not subject to any income limitation) instead. If MACRS depreciation of \$57,160 (\$400,000 x .1429) had been claimed, taxable income would have been \$59,417 (\$116,577 - \$57,160 and there would be no Sec. 179 carryforward. Because the Sec. 179 expensing limit remains \$500,000 for 2013, it is probably more beneficial to elect the Sec. 179 expensing even though a significant amount must be carried forward (most likely, for one year only) as depreciation of the assets under MACRS would be deducted over 8 years.

Sales Revenue		\$1,535,000
Cost of Goods Sold (1)		428,000
Gross Profit on Sales		\$1,107,000
Expenses:		
Salaries and Wages	\$186,000	
FICA/FUTA	25,698	
Rent	240,000	
Repairs and Maintenance	20,000	
Utilities	80,000	
Taxes and Licenses (excluding FICA and FUTA taxes)	10,000	
Health Insurance	16,000	
Advertising	40,000	
Travel (excluding meals)	20,000	
Meals and entertainment (50%)	7,500	
Group Term Life Insurance	2,000	
Depreciation	402,302	
Interest Expense	<u>57,500</u>	
Total Expenses		\$1,107,000
Taxable Income		-0-

Form 1120 Line 26 Other Deductions includes:

Utilities	\$80,000
Travel (excluding meals)	20,000
Meals and entertainment (50%)	<u>7,500</u>
Total other deductions	\$107,500

U. S. Production Activities Deduction: -0- as there is no taxable income.

Tax Provision:

By taking advantage of bonus depreciation, there is no taxable income and the corporation has a Section 179 carryover of \$283,423.

They will have a refund due for the \$40,000 of estimated payments or alternatively can treat it as a prepayment toward future estimated tax payments.

Permanent differences: \$7,500 nondeductible meals & entertainment expense

Temporary differences: \$30,700 nondeductible bad debt allowance $\times .39 = \$11,973$ deferred tax asset

\$283,423 carryforward of Section 179 expensing $\times .39 = \$110,535$ deferred tax asset

Total deferred tax assets = \$122,508 ($\$11,973 + \$110,535$)

\$302,302 excess deductible tax depreciation $\times .39 = \$117,898$ deferred tax liability

Book tax expense: \$0 current tax liability - \$122,508 deferred tax asset + \$117,898 deferred tax liability
= \$4,610 which is a negative tax expense or tax benefit

\$264,102 net income before taxes - (\$4,610) book tax expense (benefit) = \$268,712 after-tax book income

Reconciling net income per books to taxable income: $\$268,712 - \$4,610 + \$7,500 + \$30,700 - \$302,302 = \0 , taxable income.

Form 1120, page 5, line 6, Other Current Assets:

Deferred tax asset	\$122,508
Est. tax receivable	<u>40,000</u>
Total	\$162,508

Form 1120, page 5, line 18, Other Current Liabilities:

Interest payable	\$57,500
Deferred tax liability	<u>117,898</u>
Total	\$175,398

Changes for Tax Year 2013:

Bonus depreciation remains at 50% for new assets acquired in 2013 and the maximum Sec. 179 expense deduction remain at \$500,000. Under current law, this would be the best alternative and would provide the same result as in 2012. The law, however, is scheduled to change at the end of 2013. Bonus depreciation is scheduled to end after 2013 and the 179 deduction is scheduled to return to \$25,000; this latter, however, is most likely to be increased to a greater amount. If it doesn't, it could take in excess of 11 years to recover the Section 179 expensing carryforward. It could then be more beneficial to elect a lesser amount of Sec. 179 expensing for the used assets and use MACRS depreciation for the balance. By electing \$69,323 of Sec. 179 expense, the MACRS depreciation on \$330,677 is \$47,254 exactly equaling the \$116,577 Sec. 179 allowed to be deducted in 2012. This then would permit the full MACRS depreciation deductions in the next 7 years.

Temporary differences: \$30,700 nondeductible bad debt allowance $\times .39 = \$11,973$ deferred tax asset

There would be no carryforward of any Sec. 179 expense deduction. Total depreciation expense would remain \$402,302, but there would be no deferred tax asset for Sec. 179 expense.

Total deferred tax assets = \$11,973

\$302,302 excess deductible tax depreciation $\times .39 = \$117,898$ deferred tax liability

Book tax expense: \$0 current tax liability - \$11,973 deferred tax asset + \$117,898 deferred tax liability
= \$105,925 tax expense

\$264,102 net income before taxes - \$105,925 book tax expense = \$158,177 after-tax book income

Reconciling net income per books to taxable income: $\$158,177 + \$105,925 + \$7,500 + \$30,700 - \$302,302 = \0 taxable income.

There is no U.S. production activities deduction as in 2013. They will receive a \$40,000 tax refund (or can apply this amount toward estimated tax payments)

Form 1120 Department of the Treasury Internal Revenue Service		U.S. Corporation Income Tax Return For calendar year 2012 or tax year beginning _____, 2012, ending _____, 20 ► Information about Form 1120 and its separate instructions is at www.irs.gov/form1120 .		OMB No. 1545-0123 2012	
A Check if: 1a Consolidated return (attach Form 851) <input type="checkbox"/> b Life/nonlife consolidated return <input type="checkbox"/> 2 Personal holding co. (attach Sch. PH) <input type="checkbox"/> 3 Personal service corp. (see instructions) <input type="checkbox"/> 4 Schedule M-3 attached <input type="checkbox"/>		TYPE OR PRINT Name <u>Snap-It-Open Corporation</u> Number, street, and room or suite no. If a P.O. box, see instructions. <u>3701 Commerce Drive</u> City or town, state, and ZIP code <u>Baltimore, MD 23239</u>		B Employer identification number <u>69-7414447</u> C Date incorporated <u>1/10/12</u> D Total assets (see instructions) \$ _____	
E Check if: (1) <input type="checkbox"/> Initial return (2) <input type="checkbox"/> Final return (3) <input type="checkbox"/> Name change (4) <input type="checkbox"/> Address change					
Income	1a Gross receipts or sales	1a	<u>1,535,000</u>		
	b Returns and allowances	1b	<u>0</u>		
	c Balance. Subtract line 1b from line 1a	1c	<u>1,535,000</u>		
	2 Cost of goods sold (attach Form 1125-A)	2	<u>428,000</u>		
	3 Gross profit. Subtract line 2 from line 1c	3	<u>1,107,000</u>		
	4 Dividends (Schedule C, line 19)	4			
	5 Interest	5			
	6 Gross rents	6			
	7 Gross royalties	7			
	8 Capital gain net income (attach Schedule D (Form 1120))	8			
	9 Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797)	9			
10 Other income (see instructions—attach statement)	10				
11 Total income. Add lines 3 through 10	11	<u>1,107,000</u>			
Deductions (See instructions for limitations on deductions.)	12 Compensation of officers (see instructions—attach Form 1125-E)	12	<u>120,000</u>		
	13 Salaries and wages (less employment credits)	13	<u>66,000</u>		
	14 Repairs and maintenance	14	<u>20,000</u>		
	15 Bad debts	15			
	16 Rents	16	<u>240,000</u>		
	17 Taxes and licenses	17	<u>35,698</u>		
	18 Interest	18	<u>57,500</u>		
	19 Charitable contributions	19			
	20 Depreciation from Form 4562 not claimed on Form 1125-A or elsewhere on return (attach Form 4562)	20	<u>402,302</u>		
	21 Depletion	21			
	22 Advertising	22	<u>40,000</u>		
	23 Pension, profit-sharing, etc., plans	23			
	24 Employee benefit programs	24	<u>18,000</u>		
	25 Domestic production activities deduction (attach Form 8903)	25			
	26 Other deductions (attach statement)	26	<u>107,500</u>		
	27 Total deductions. Add lines 12 through 26	27	<u>1,107,000</u>		
	28 Taxable income before net operating loss deduction and special deductions. Subtract line 27 from line 11.	28	<u>0</u>		
29a Net operating loss deduction (see instructions)	29a				
b Special deductions (Schedule C, line 20)	29b				
c Add lines 29a and 29b	29c	<u>1,107,000</u>			
Tax, Refundable Credits, and Payments	30 Taxable income. Subtract line 29c from line 28 (see instructions)	30	<u>0</u>		
	31 Total tax (Schedule J, Part I, line 11)	31	<u>0</u>		
	32 Total payments and refundable credits (Schedule J, Part II, line 21)	32	<u>40,000</u>		
	33 Estimated tax penalty (see instructions). Check if Form 2220 is attached <input type="checkbox"/>	33			
	34 Amount owed. If line 32 is smaller than the total of lines 31 and 33, enter amount owed	34			
	35 Overpayment. If line 32 is larger than the total of lines 31 and 33, enter amount overpaid	35	<u>40,000</u>		
	36 Enter amount from line 35 you want: Credited to 2013 estimated tax <u>40,000</u> Refunded <input type="checkbox"/>	36			
Sign Here	Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.				
	Signature of officer _____		Date _____		Title _____
Paid Preparer Use Only	Print/Type preparer's name _____		Preparer's signature _____		Date _____
	Firm's name _____		Firm's EIN _____		Check <input type="checkbox"/> if self-employed
	Firm's address _____		Phone no. _____		PTIN _____

Schedule C Dividends and Special Deductions (see instructions)		(a) Dividends received	(b) %	(c) Special deductions (a) × (b)
1	Dividends from less-than-20%-owned domestic corporations (other than debt-financed stock)		70	
2	Dividends from 20%-or-more-owned domestic corporations (other than debt-financed stock)		80	
3	Dividends on debt-financed stock of domestic and foreign corporations		see instructions	
4	Dividends on certain preferred stock of less-than-20%-owned public utilities		42	
5	Dividends on certain preferred stock of 20%-or-more-owned public utilities		48	
6	Dividends from less-than-20%-owned foreign corporations and certain FSCs		70	
7	Dividends from 20%-or-more-owned foreign corporations and certain FSCs		80	
8	Dividends from wholly owned foreign subsidiaries		100	
9	Total. Add lines 1 through 8. See instructions for limitation			
10	Dividends from domestic corporations received by a small business investment company operating under the Small Business Investment Act of 1958		100	
11	Dividends from affiliated group members		100	
12	Dividends from certain FSCs		100	
13	Dividends from foreign corporations not included on lines 3, 6, 7, 8, 11, or 12			
14	Income from controlled foreign corporations under subpart F (attach Form(s) 5471)			
15	Foreign dividend gross-up			
16	IC-DISC and former DISC dividends not included on lines 1, 2, or 3			
17	Other dividends			
18	Deduction for dividends paid on certain preferred stock of public utilities			
19	Total dividends. Add lines 1 through 17. Enter here and on page 1, line 4 ▶			
20	Total special deductions. Add lines 9, 10, 11, 12, and 18. Enter here and on page 1, line 29b ▶			

Schedule J Tax Computation and Payment (see instructions)**Part I—Tax Computation**

1	Check if the corporation is a member of a controlled group (attach Schedule O (Form 1120))	<input type="checkbox"/>		
2	Income tax. Check if a qualified personal service corporation (see instructions)	<input type="checkbox"/>	2	0
3	Alternative minimum tax (attach Form 4626)		3	
4	Add lines 2 and 3		4	0
5a	Foreign tax credit (attach Form 1118)	5a		
b	Credit from Form 8834, line 30 (attach Form 8834)	5b		
c	General business credit (attach Form 3800)	5c		
d	Credit for prior year minimum tax (attach Form 8827)	5d		
e	Bond credits from Form 8912	5e		
6	Total credits. Add lines 5a through 5e		6	0
7	Subtract line 6 from line 4		7	0
8	Personal holding company tax (attach Schedule PH (Form 1120))		8	
9a	Recapture of investment credit (attach Form 4255)	9a		
b	Recapture of low-income housing credit (attach Form 8611)	9b		
c	Interest due under the look-back method—completed long-term contracts (attach Form 8697)	9c		
d	Interest due under the look-back method—income forecast method (attach Form 8866)	9d		
e	Alternative tax on qualifying shipping activities (attach Form 8902)	9e		
f	Other (see instructions—attach statement)	9f		
10	Total. Add lines 9a through 9f		10	0
11	Total tax. Add lines 7, 8, and 10. Enter here and on page 1, line 31		11	0

Part II—Payments and Refundable Credits

12	2011 overpayment credited to 2012	12		
13	2012 estimated tax payments	13	40,000	
14	2012 refund applied for on Form 4466	14	(0)	
15	Combine lines 12, 13, and 14	15	40,000	
16	Tax deposited with Form 7004	16		
17	Withholding (see instructions)	17		
18	Total payments. Add lines 15, 16, and 17	18	40,000	
19	Refundable credits from:			
a	Form 2439	19a		
b	Form 4136	19b		
c	Form 8827, line 8c	19c		
d	Other (attach statement—see instructions).	19d		
20	Total credits. Add lines 19a through 19d	20	0	
21	Total payments and credits. Add lines 18 and 20. Enter here and on page 1, line 32	21	40,000	

Schedule K Other Information (see instructions)

1	Check accounting method: a <input type="checkbox"/> Cash b <input checked="" type="checkbox"/> Accrual c <input type="checkbox"/> Other (specify) ▶	Yes	No
2	See the instructions and enter the:		
a	Business activity code no. ▶ 339900		
b	Business activity ▶ Manufacturing		
c	Product or service ▶ Custom Umbrellas		
3	Is the corporation a subsidiary in an affiliated group or a parent-subsidiary controlled group? If "Yes," enter name and EIN of the parent corporation ▶		✓
4	At the end of the tax year:		
a	Did any foreign or domestic corporation, partnership (including any entity treated as a partnership), trust, or tax-exempt organization own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of the corporation's stock entitled to vote? If "Yes," complete Part I of Schedule G (Form 1120) (attach Schedule G)		✓
b	Did any individual or estate own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of the corporation's stock entitled to vote? If "Yes," complete Part II of Schedule G (Form 1120) (attach Schedule G)	✓	

Schedule K Other Information *continued* (see instructions)

				Yes	No
5 At the end of the tax year, did the corporation:					
a Own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of stock entitled to vote of any foreign or domestic corporation not included on Form 851 , Affiliations Schedule? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (iv) below.					
(i) Name of Corporation	(ii) Employer Identification Number (if any)	(iii) Country of Incorporation	(iv) Percentage Owned in Voting Stock		
b Own directly an interest of 20% or more, or own, directly or indirectly, an interest of 50% or more in any foreign or domestic partnership (including an entity treated as a partnership) or in the beneficial interest of a trust? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (iv) below.					
(i) Name of Entity	(ii) Employer Identification Number (if any)	(iii) Country of Organization	(iv) Maximum Percentage Owned in Profit, Loss, or Capital		
6 During this tax year, did the corporation pay dividends (other than stock dividends and distributions in exchange for stock) in excess of the corporation's current and accumulated earnings and profits? (See sections 301 and 316.)					✓
If "Yes," file Form 5452 , Corporate Report of Nondividend Distributions.					
If this is a consolidated return, answer here for the parent corporation and on Form 851 for each subsidiary.					
7 At any time during the tax year, did one foreign person own, directly or indirectly, at least 25% of (a) the total voting power of all classes of the corporation's stock entitled to vote or (b) the total value of all classes of the corporation's stock?					✓
For rules of attribution, see section 318. If "Yes," enter:					
(i) Percentage owned ▶ _____ and (ii) Owner's country ▶ _____					
(c) The corporation may have to file Form 5472 , Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business. Enter the number of Forms 5472 attached ▶ _____					
8 Check this box if the corporation issued publicly offered debt instruments with original issue discount <input type="checkbox"/>					
If checked, the corporation may have to file Form 8281 , Information Return for Publicly Offered Original Issue Discount Instruments.					
9 Enter the amount of tax-exempt interest received or accrued during the tax year ▶ \$ _____					
10 Enter the number of shareholders at the end of the tax year (if 100 or fewer) ▶ _____					
11 If the corporation has an NOL for the tax year and is electing to forego the carryback period, check here <input type="checkbox"/>					
If the corporation is filing a consolidated return, the statement required by Regulations section 1.1502-21(b)(3) must be attached or the election will not be valid.					
12 Enter the available NOL carryover from prior tax years (do not reduce it by any deduction on line 29a.) ▶ \$ _____					
13 Are the corporation's total receipts (line 1c plus lines 4 through 10 on page 1) for the tax year and its total assets at the end of the tax year less than \$250,000?					✓
If "Yes," the corporation is not required to complete Schedules L, M-1, and M-2 on page 5. Instead, enter the total amount of cash distributions and the book value of property distributions (other than cash) made during the tax year ▶ \$ _____					
14 Is the corporation required to file Schedule UTP (Form 1120), Uncertain Tax Position Statement (see instructions)?					✓
If "Yes," complete and attach Schedule UTP.					
15a Did the corporation make any payments in 2012 that would require it to file Form(s) 1099?					✓
b If "Yes," did or will the corporation file required Forms 1099?					
16 During this tax year, did the corporation have an 80% or more change in ownership, including a change due to redemption of its own stock?					✓
17 During or subsequent to this tax year, but before the filing of this return, did the corporation dispose of more than 65% (by value) of its assets in a taxable, non-taxable, or tax deferred transaction?					✓
18 Did the corporation receive assets in a section 351 transfer in which any of the transferred assets had a fair market basis or fair market value of more than \$1 million?					✓

Schedule L Balance Sheets per Books		Beginning of tax year		End of tax year	
Assets		(a)	(b)	(c)	(d)
1	Cash		New Corporation		374,302
2a	Trade notes and accounts receivable			355,000	
b	Less allowance for bad debts	()		(30,700)	324,300
3	Inventories				33,000
4	U.S. government obligations				
5	Tax-exempt securities (see instructions)				
6	Other current assets (attach statement)				162,508
7	Loans to shareholders				
8	Mortgage and real estate loans				
9	Other investments (attach statement)				
10a	Buildings and other depreciable assets			900,000	
b	Less accumulated depreciation	()		(100,000)	800,000
11a	Depletable assets				
b	Less accumulated depletion	()		()	
12	Land (net of any amortization)				
13a	Intangible assets (amortizable only)				
b	Less accumulated amortization	()		()	
14	Other assets (attach statement)				
15	Total assets				1,694,110
Liabilities and Shareholders' Equity					
16	Accounts payable				
17	Mortgages, notes, bonds payable in less than 1 year				100,000
18	Other current liabilities (attach statement)				175,398
19	Loans from shareholders				
20	Mortgages, notes, bonds payable in 1 year or more				650,000
21	Other liabilities (attach statement)				
22	Capital stock: a Preferred stock				
	b Common stock			100,000	100,000
23	Additional paid-in capital				400,000
24	Retained earnings—Appropriated (attach statement)				
25	Retained earnings—Unappropriated				268,712
26	Adjustments to shareholders' equity (attach statement)				
27	Less cost of treasury stock		()		()
28	Total liabilities and shareholders' equity				1,694,110

Schedule M-1 Reconciliation of Income (Loss) per Books With Income per Return**Note:** Schedule M-3 required instead of Schedule M-1 if total assets are \$10 million or more—see instructions

1	Net income (loss) per books	268,712	7	Income recorded on books this year not included on this return (itemize):	
2	Federal income tax per books	(4,610)		Tax-exempt interest \$ _____	
3	Excess of capital losses over capital gains			_____	
4	Income subject to tax not recorded on books this year (itemize): _____		8	Deductions on this return not charged against book income this year (itemize):	
5	Expenses recorded on books this year not deducted on this return (itemize):			a Depreciation . . . \$ 302,302	
a	Depreciation \$ _____			b Charitable contributions \$ _____	
b	Charitable contributions . . . \$ _____			_____	
c	Travel and entertainment . . . \$ 7,500		9	Add lines 7 and 8	302,302
	Bad debt allowance 30,700	38,200	10	Income (page 1, line 28)—line 6 less line 9	0
6	Add lines 1 through 5	302,302			

Schedule M-2 Analysis of Unappropriated Retained Earnings per Books (Line 25, Schedule L)

1	Balance at beginning of year	0	5	Distributions: a Cash	0
2	Net income (loss) per books	268,712		b Stock	0
3	Other increases (itemize): _____			c Property	0
	_____		6	Other decreases (itemize): _____	0
	_____		7	Add lines 5 and 6	
4	Add lines 1, 2, and 3	268,712	8	Balance at end of year (line 4 less line 7)	268,712

Information on Certain Persons Owning the
Corporation’s Voting Stock

OMB No. 1545-0123

▶ Attach to Form 1120.
▶ See instructions on page 2.

Name	Employer identification number (EIN)
Snap-It-Open Corporation	69-7414447

Part I **Certain Entities Owning the Corporation’s Voting Stock.** (Form 1120, Schedule K, Question 4a). Complete columns (i) through (v) below for any foreign or domestic corporation, partnership (including any entity treated as a partnership), trust, or tax-exempt organization that owns directly 20% or more, or owns, directly or indirectly, 50% or more of the total voting power of all classes of the corporation’s stock entitled to vote (see instructions).

(i) Name of Entity	(ii) Employer Identification Number (if any)	(iii) Type of Entity	(iv) Country of Organization	(v) Percentage Owned in Voting Stock

Part II **Certain Individuals and Estates Owning the Corporation’s Voting Stock.** (Form 1120, Schedule K, Question 4b). Complete columns (i) through (iv) below for any individual or estate that owns directly 20% or more, or owns, directly or indirectly, 50% or more of the total voting power of all classes of the corporation’s stock entitled to vote (see instructions).

(i) Name of Individual or Estate	(ii) Identifying Number (if any)	(iii) Country of Citizenship (see instructions)	(iv) Percentage Owned in Voting Stock
Jaon Sprull	333-33-3333	USA	50%
Martin Winsock	555-55-5555	USA	50%

(Rev. December 2012)
Department of the Treasury
Internal Revenue Service▶ **Attach to Form 1120, 1120-C, 1120-F, 1120S, 1065, or 1065-B.**
▶ **Information about Form 1125-A and its instructions is at www.irs.gov/form1125a.**

Name Snap-It-Open Corporation		Employer identification number 69-7414447	
1	Inventory at beginning of year	1	0
2	Purchases	2	355,000
3	Cost of labor	3	106,000
4	Additional section 263A costs (attach schedule)	4	0
5	Other costs (attach schedule)	5	0
6	Total. Add lines 1 through 5	6	461,000
7	Inventory at end of year	7	33,000
8	Cost of goods sold. Subtract line 7 from line 6. Enter here and on Form 1120, page 1, line 2 or the appropriate line of your tax return (see instructions)	8	428,000

9a Check all methods used for valuing closing inventory:

(i) ☒ Cost

(ii) ☐ Lower of cost or market

(iii) ☐ Other (Specify method used and attach explanation.) ▶ _____

b Check if there was a writedown of subnormal goods ▶ ☐

c Check if the LIFO inventory method was adopted this tax year for any goods (if checked, attach Form 970) ▶ ☐

d If the LIFO inventory method was used for this tax year, enter amount of closing inventory computed under LIFO **9d** _____

e If property is produced or acquired for resale, do the rules of section 263A apply to the entity (see instructions)? . . . ☐ Yes ☒ No

f Was there any change in determining quantities, cost, or valuations between opening and closing inventory? If "Yes," attach explanation ☐ Yes ☒ No

Section references are to the Internal Revenue Code unless otherwise noted.

General Instructions**Purpose of Form**

Use Form 1125-A to calculate and deduct cost of goods sold for certain entities.

Who Must File

Filers of Form 1120, 1120-C, 1120-F, 1120S, 1065, or 1065-B, must complete and attach Form 1125-A if the applicable entity reports a deduction for cost of goods sold.

Inventories

Generally, inventories are required at the beginning and end of each tax year if the production, purchase, or sale of merchandise is an income-producing factor. See Regulations section 1.471-1. If inventories are required, you generally must use an accrual method of accounting for sales and purchases of inventory items.

Exception for certain taxpayers. If you are a qualifying taxpayer or a qualifying small business taxpayer (defined below), you can adopt or change your accounting method to account for inventoriable items in the same manner as materials and supplies that are not incidental.

Under this accounting method, inventory costs for raw materials purchased for use in producing finished goods and merchandise purchased for resale are deductible in the year the finished goods or merchandise are sold (but not before the year you paid for the raw materials or merchandise, if you are also using the cash method).

If you account for inventoriable items in the same manner as materials and supplies that are not incidental, you can currently deduct expenditures for direct labor and all indirect costs that would otherwise be included in inventory costs. See the instructions for lines 2 and 7.

For additional guidance on this method of accounting, see Pub. 538, Accounting Periods and Methods. For guidance on adopting or changing to this method of accounting, see Form 3115, Application for Change in Accounting Method, and its instructions.

Qualifying taxpayer. A qualifying taxpayer is a taxpayer that, (a) for each prior tax year ending after December 16, 1998, has average annual gross receipts of \$1 million or less for the 3 prior tax years and (b) its business is not a tax shelter (as defined in section 448(d)(3)). See Rev. Proc. 2001-10, 2001-2 I.R.B. 272.**Qualifying small business taxpayer.** A qualifying small business taxpayer is a taxpayer that, (a) for each prior tax year

ending on or after December 31, 2000, has average annual gross receipts of \$10 million or less for the 3 prior tax years, (b) whose principal business activity is not an ineligible activity, and (c) whose business is not a tax shelter (as defined in section 448(d)(3)). See Rev. Proc. 2002-28, 2002-18 I.R.B. 815.

Uniform capitalization rules. The uniform capitalization rules of section 263A generally require you to capitalize, or include in inventory, certain costs incurred in connection with the following.

- The production of real property and tangible personal property held in inventory or held for sale in the ordinary course of business.
- Real property or personal property (tangible and intangible) acquired for resale.
- The production of real property and tangible personal property by a corporation for use in its trade or business or in an activity engaged in for profit.

See the discussion on section 263A uniform capitalization rules in the instructions for your tax return before completing Form 1125-A. Also see Regulations sections 1.263A-1 through 1.263A-3. See Regulations section 1.263A-4 for rules for property produced in a farming business.

Depreciation and Amortization
(Including Information on Listed Property)

▶ See separate instructions.

▶ Attach to your tax return.

Name(s) shown on return

Business or activity to which this form relates

Identifying number

Snap-It-Open Corporation

Manufacturing

69-7414447

Part I Election To Expense Certain Property Under Section 179**Note:** If you have any listed property, complete Part V before you complete Part I.

1	Maximum amount (see instructions)	1	500,000
2	Total cost of section 179 property placed in service (see instructions)	2	400,000
3	Threshold cost of section 179 property before reduction in limitation (see instructions)	3	2,000,000
4	Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-	4	0
5	Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0-. If married filing separately, see instructions	5	500,000
6	(a) Description of property	(b) Cost (business use only)	(c) Elected cost
	Used Assembly Machines	400,000	400,000
7	Listed property. Enter the amount from line 29	7	0
8	Total elected cost of section 179 property. Add amounts in column (c), lines 6 and 7	8	400,000
9	Tentative deduction. Enter the smaller of line 5 or line 8	9	400,000
10	Carryover of disallowed deduction from line 13 of your 2011 Form 4562	10	0
11	Business income limitation. Enter the smaller of business income (not less than zero) or line 5 (see instructions)	11	0
12	Section 179 expense deduction. Add lines 9 and 10, but do not enter more than line 11	12	116,577
13	Carryover of disallowed deduction to 2013. Add lines 9 and 10, less line 12 ▶	13	283,423

Note: Do not use Part II or Part III below for listed property. Instead, use Part V.**Part II Special Depreciation Allowance and Other Depreciation (Do not include listed property.)** (See instructions.)

14	Special depreciation allowance for qualified property (other than listed property) placed in service during the tax year (see instructions)	14	250,000
15	Property subject to section 168(f)(1) election	15	
16	Other depreciation (including ACRS)	16	

Part III MACRS Depreciation (Do not include listed property.) (See instructions.)**Section A**

17	MACRS deductions for assets placed in service in tax years beginning before 2012	17	
18	If you are electing to group any assets placed in service during the tax year into one or more general asset accounts, check here <input type="checkbox"/>		

Section B—Assets Placed in Service During 2012 Tax Year Using the General Depreciation System

(a) Classification of property	(b) Month and year placed in service	(c) Basis for depreciation (business/investment use only—see instructions)	(d) Recovery period	(e) Convention	(f) Method	(g) Depreciation deduction
19a 3-year property						
b 5-year property						
c 7-year property		250,000	7 yrs	MY	MACRS	35,725
d 10-year property						
e 15-year property						
f 20-year property						
g 25-year property			25 yrs.		S/L	
h Residential rental property			27.5 yrs.	MM	S/L	
i Nonresidential real property			27.5 yrs.	MM	S/L	
			39 yrs.	MM	S/L	
				MM	S/L	

Section C—Assets Placed in Service During 2012 Tax Year Using the Alternative Depreciation System

20a Class life					S/L	
b 12-year			12 yrs.		S/L	
c 40-year			40 yrs.	MM	S/L	

Part IV Summary (See instructions.)

21	Listed property. Enter amount from line 28	21	
22	Total. Add amounts from line 12, lines 14 through 17, lines 19 and 20 in column (g), and line 21. Enter here and on the appropriate lines of your return. Partnerships and S corporations—see instructions	22	402,302
23	For assets shown above and placed in service during the current year, enter the portion of the basis attributable to section 263A costs	23	0