

TaxInsight



Tax Checkup

Has COVID-19 adversely affected your small business or one owned by a family member, friend or client? Does the measure of affect make closing the business the most logical decision? Choosing to close your small business is never easy and requires many steps. From a federal income tax perspective, properly report the closing of a small business with these IRS recommended steps.

- **File a final income tax return and related forms.** Since the business was in operation during the tax year, file a final tax return even if the business activity was insignificant. Examples of related forms to be filed include Form 4797, *Sales of Business Property*, to report the sale of any business property and Form 8594, *Asset Acquisition Statement Under Section 1060*, to report the asset acquisition if the business was sold.
- **Deposit and file employment taxes.** Determine in which calendar or fiscal quarter the business will pay final wages and make a deposit to cover final estimated employment taxes. At the end of the quarter, file Form 941, *Employer's Quarterly Federal Tax Return*, and at the end of the tax year, file Form 940, *Employer's Annual Federal Unemployment (FUTA) Tax Return*. Issue a W-2, *Wage and Tax Statement*, to each employee having received compensation and use Form W-3, *Transmittal of Wage and Tax Statements*, to report information from these forms to the IRS and Social Security Administration.
- **Report nonemployee compensation payments.** Business owners are required to annually file Form 1099-NEC, *Nonemployee Compensation*, or Form 1099-MISC, *Miscellaneous Income*, to many vendors and suppliers. Unless required to file Form 1099

electronically, use Form 1096, *Annual Summary and Transmittal of U.S. Information Returns*, to transmit all paper copies the business issued.

- **Close the business account.** Upon filing all tax returns, notify the IRS in writing of your decision and reason for closing the business. Such notices should be mailed to: Internal Revenue Service, Cincinnati, OH 45999.
- **Make final payments and maintain records.** Visit irs.gov/payments for information on ways to pay taxes. Generally, business owners should maintain tax records until the period of limitations expires. This period differs for different situations. A great rule of thumb is to maintain records for at least six tax years after the business has closed.

Properly closing a business from an income tax perspective is important. By following the IRS recommended steps to close a business, a taxpayer might prevent civil penalties for untimely filing of required tax and information returns. For sole proprietors, such penalties may include the levy or seizure of personal property. For more information, please refer to IRS Publications 5447, 5447-A and 5447-B.

Tax Notes

Before any new tax legislation is signed into law, there are many steps along the legislative process. Once tax legislation originates in the House of Representatives, it must pass through the Ways and Means Committee before a vote on the House floor. Likewise, the bill must pass through the Senate Finance Committee before a vote on the Senate floor and ultimately a signature by the president to make it a law.

Did You Know?

Get ready to warm up your ovens because December 4 is National Cookie Day. The English word “cookie” comes from the Dutch word koekie meaning “little cake.” Cookies arrived in America in the 17th century. Macaroons and gingerbread cookies were among the popular early American cookies.

Quote Corner

“Always focus on the front windshield and not the review mirror.”

~ Colin Powell

