

Tax responsibilities if your business is closing amid the pandemic

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Unfortunately, the COVID-19 pandemic has forced many businesses to shut down. If this is your situation, we're here to assist you in any way we can, including taking care of the various tax obligations that must be met.

Of course, a business must file a final income tax return and some other related forms for the year it closes. The type of return to be filed depends on the type of business you have. Here's a rundown of the basic requirements.

Sole Proprietorships. You'll need to file the usual Schedule C, "Profit or Loss from Business," with your individual return for the year you close the business. You may also need to report self-employment tax.

Partnerships. A partnership must file Form 1065, "U.S. Return of Partnership Income," for the year it closes. You also must report capital gains and losses on Schedule D. Indicate that this is the final return and do the same on Schedules K-1, "Partner's Share of Income, Deductions, Credits, Etc."

All Corporations. Form 966, "Corporate Dissolution or Liquidation," must be filed if you adopt a resolution or plan to dissolve a corporation or liquidate any of its stock.

C Corporations. File Form 1120, "U.S. Corporate Income Tax Return," for the year you close. Report capital gains and losses on Schedule D. Indicate this is the final return.

S Corporations. File Form 1120-S, "U.S. Income Tax Return for an S Corporation" for the year of closing. Report capital gains and losses on Schedule D. The "final return" box must be checked on Schedule K-1.

All Businesses. Other forms may need to be filed to report sales of business property and asset acquisitions if you sell your business.

Employees and contract workers

If you have employees, you must pay them final wages and compensation owed, make final federal tax deposits and report employment taxes. Failure to withhold or deposit employee income, Social Security and Medicare taxes can result in full personal liability for what's known as the Trust Fund Recovery Penalty.

If you've paid any contractors at least \$600 during the calendar year in which you close your business, you must report those payments on Form 1099-NEC, "Nonemployee Compensation."

Other tax issues

If your business has a retirement plan for employees, you'll want to terminate the plan and distribute benefits to participants. There are detailed notice, funding, timing and filing requirements that must be met by a terminating plan. There are also complex requirements related to flexible spending accounts, Health Savings Accounts, and other programs for your employees.

We can assist you with many other complicated tax issues related to closing your business, including Paycheck Protection Plan loans, the COVID-19 employee retention tax credit, employment tax deferral, debt cancellation, use of net operating losses, freeing up any remaining passive activity losses, depreciation recapture, and possible bankruptcy issues.

We can advise you on the length of time you need to keep business records. You also must cancel your Employer Identification Number and close your IRS business account.

If your business is unable to pay all the taxes it owes, we can explain the available payment options to you. Please contact us to discuss these issues and get answers to any questions.

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