

IRS proposed changes to Forms 1120 and 1065. Which came first, the problem or the solution?

Tax Technologies, Inc. is redefining what it means to be “ahead of the game” with eLegalDirectory.

Overview

The IRS has released proposed revisions to Forms 1120 and 1065. These changes require additional corporate ownership information, changes to the ownership, and partnership allocation reporting. If approved, these requirements will become effective for the 2008 tax return year and thereafter.

Acknowledging the perennial evolution of corporate tax filing, we at Tax Technologies, Inc. (TTI) have made it one of our objectives to provide the **right** solutions that anticipate the addition of new filing requirements by the IRS, so that changes will have a minimal effect on the efficiency and timeliness of corporate tax return preparation.

The recent changes made to Forms 1120 and 1065 are perfect examples of how our Tax Series suite has the right solutions in place to make the substantial modifications to tax filing requirements by the IRS have virtually little to no effect on our clients. In essence, we have a strong tendency to put the right business solutions in place so that fundamental changes in tax filing requirements will not require our clients to change existing processes. In essence, we produced solutions before the problem even came into being. In this instance, that business solution is [eLegalDirectory](#).

Changes to Form 1120 and Form 1065

The IRS has proposed revisions to Schedule B and Schedule K of Forms 1120 and 1065. All changes made to these forms will be effective for the 2008 tax return year for calendar year companies. The most significant change involving these schedules is that companies will be required to report both direct and indirect ownership of an affiliated group.

IRS Releases Updated Drafts of Corporate and Partnership Tax Forms

IR-2008-92, July 30, 2008

WASHINGTON — The Internal Revenue Service has released for public comment draft revisions to Form 1065, U.S. Return of Partnership Income, Form 1120, U.S. Corporation Income Tax Return, and certain related schedules. Included in the release are new Schedule B for Form 1120 and Schedule C for Form 1065. These forms will be for use for tax years ending on or after Dec. 31, 2008.

The draft forms reflect changes suggested in comments received from the initial drafts released in August 2007.

“The draft revisions and new forms will increase transparency about the ownership and relationships between entities that make up complex enterprise business structures,” said Frank Y. Ng, Commissioner of the Large and Mid-Size Business Division of IRS. “This will enable IRS to better assess compliance risk.”

The major change to Form 1120 is to Schedule K and involves reporting direct and indirect ownership. When ownership meets certain percentage thresholds, it must be reported on Schedule K. Certain questions on Schedule K have been revised for this reporting.

The new Schedule B (Form 1120) is required of corporations that file Form 1120 Schedule M-3. Schedule B (Form 1120) will provide IRS information about allocations, transfers of interest, cost sharing arrangements, and changes in methods of accounting.

The major changes to the Form 1065 also involve ownership issues. When ownership meets certain percentage thresholds, it must be reported on Schedule B (Form 1065). The revised Schedule B (Form 1065) will also be used to provide information about cancelled debt, and like-kind exchanges that the partnership may have participated in at any time during the tax year. For small partnerships, the asset threshold for filing Schedules L, M-1 and M-2 with Form 1065 has been increased from \$600,000 to \$1,000,000.

The new Schedule C (Form 1065) will be required of Form 1065 filers that file Schedule M-3. Schedule C (Form 1065) will be used to report information about related party transactions, allocations, transfers of interest, cost sharing arrangements and changes in methods of accounting.

New instructions for Item J of Schedule K-1 (Form 1065) clarify how partnerships determine partners’ percentage share in the profit, loss, and capital at beginning and end of the partnership’s tax year.

The redesigned forms are available at the IRS Web site, [IRS.gov](http://irs.gov).

Questions and comments regarding these changes only should be e-mailed to the IRS at Judith.A.McNamara@irs.gov by August 25, 2008.

(For more information regarding the recent proposed modifications to Forms 1120 and 1065 by the IRS, click the following hyperlink: <http://www.irs.gov/businesses/article/0,,id=185271,00.html>.)

Based on the IRS’s announcement, most U.S. consolidated return filers will need to provide substantially more information regarding domestic and foreign corporate ownership and changes to the ownership. Further, under this reporting requirement, corporations will be required to maintain details of ownership changes and need to indicate both indirect and constructive ownership of stock in foreign

holding companies. Similarly, partnerships will also be expected to provide the IRS information pertaining to allocations, transfers of interest, cost sharing arrangements, and revisions in accounting procedures.

All of the proposed revisions to Forms 1120 and 1065 will demand that corporate tax departments gather and report far more data related to domestic and foreign ownership as well as related party transactions than in years past.

What is eLegalDirectory?

Recognizing the need for entity management within the tax processes, we designed and released a comprehensive tool with which corporations can maintain a database of legal entity information that can be shared across the globe. Although our existing clients have found eLegalDirectory to be a very useful tool in their tax filing procedures already, the new proposed revisions to Forms 1120 and 1065 further accentuate the necessity of this Tax Series module. By allowing users to manage legal entity information globally, eLegalDirectory makes the proposed changes to Form 1120 and Form 1065 of little concern to its users.

What specific aspects of eLegalDirectory satisfy the new proposed revisions to Forms 1120 and 1065?

eLegalDirectory allows users to maintain daily changes to corporate ownership along with any changes to corporate attributes (such as changes to partnership allocations). Furthermore, eLegalDirectory resides as part of Tax Series core database, thereby, allowing Schedule K to be populated automatically from the data available in eLegalDirectory by tax compliance teams.

eLegalDirectory also allows users to store and manage any electronic documents associated with corporate matters such as cost sharing agreements, partner allocation agreements, and other intercompany transaction agreements (required to be reported in Schedule B).

eLegalDirectory provides flexible reporting so that users can validate the accuracy of corporate information for all entities while possessing the capability to forewarn corporations of potential errors.

There are a number of different features within eLegalDirectory that can be instrumental in dealing with the proposed revisions to Forms 1120 and 1065 as well as other changes in tax processing yet to come.

Key Features of eLegalDirectory:

- Ability to update ownership information daily
- Capability to maintain corporate addresses
- Ability to make corporate name changes
- Capability to share details
- Ability to export to Microsoft Excel
- Capability to maintain corporate agreements

Other Features of eLegalDirectory:

- Ability to maintain the following legal entity data:
 - Officer and Director information
 - Corporate charter
 - Minutes
 - Tax filing jurisdiction
 - Local country registration information
 - Corporate addresses
 - Contact information
 - Corporate name changes
 - User-definable data elements
 - Multi-entity reporting
 - User-defined reports
 - Partnership allocation information
 - Corporate agreements
 - Change in accounting principles
- **Capability to produce an organizational structure**
 - Dynamically created based on daily changes to the ownership
 - User-definable presentation
 - Exportable to Excel
 - Exportable to Visio
 - Dynamic linking to entity detail information
 - Supports global security implementation
- **Web-native software**
 - Global access and corporate information capabilities
 - Flexible search capability
 - Sharing of corporate information
 - Multi-entity reporting
 - Reports exportable to Microsoft Excel
 - Reports exportable to PDF
 - Easy change management

**Changes in Tax Law Won't Wait for You to React.
Tax Technologies Inc. Won't Wait for Change to Occur.**

To learn more about eLegalDirectory and Tax Series, visit www.taxtechnologies.com or contact us directly at 1-866-239-4884 for more information.