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Certified Public Accountants

Accounting Considerations for Pass-Through Entity Tax

In recent years, there have been many changes made to pass-through entity taxes, both from the federal and state sides. Though the federal government has been fairly tame in terms of changes following the tax breaks put into place by President Trump, there have been many states that have put state-level taxes into place for pass-through entities. How will where you do business impact your pass-through taxes? Let's take a look at the matter, taking accounting into special consideration so that you can make smarter decisions in planning your accounting process.

Accounting Considerations for Your Pass-Through Tax Entity

When you need to consider your accounting practices, strategies and processes, a strong factor is what impact those tasks will have on your taxes at the end of the fiscal year. Among the accounting considerations you should make for taxes in your pass-through entity are those laid out in FASB ASC Topic 740, which provides guidance to business owners with regard to income taxes. In general, this topic will cover the income taxes that can be attributed to pass-through income taxes for businesses, including the income taxes that are attributed to the pass-through entity's owners, which are typically treated as business transactions.

There are, however, several factors that your entity will need to consider when determining whether pass-through entity taxes may be attributed to your entity under ASC Topic 740. The factors when reporting these transactions as either taxable or equity transactions include:

Those indicating **Entity** attribution:

- Owner is **not** required to file a tax return and/or permitted to claim payment of tax by entity against the owner's taxes.
- Tax liability is not joint and severally liable to the business owners by use of a pass-through entity.
- Income of entity for which tax was paid by entity is excluded from owner’s income tax return.
- Laws and regulations indicate that the tax payment made is not on behalf of its owners.
- The tax base is determined without regard to the attributes of the pass-through entity owners.

Those indicating **Owner** attribution:

- Owner permitted to file tax return and claim payment of tax by entity as payment against owner’s income taxes.
- Laws and regulations indicate that the tax payment made is on behalf of its owners.
- Tax base is determined by the attributes of the pass-through entity owners.

Though these are not the only factors that you'll need to carefully ponder when making accounting considerations for your pass-through entity's taxes, they do give you a solid starting point and what you should consider for your accounting practices with regard to these matters. This allows you to make smarter decisions on your accounting practices to help limit your tax liability.

In some states, income tax assessments are now often related to either the pass-through entity or the entity's owners. In these situations, it's very important to determine what accounting practices to follow based on your policy election where you can select one or the other as your reporting method. Though your considerations may seem very complex, it doesn't mean that you need to determine every step of your accounting practices on your own.

If you need help finding the right way to approach your tax accounting strategy or if you have any questions, please contact at Frankel Zacharia, LLC, 402.496.9100.