

28 Sales, Dispositions, and Liquidations

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Tax Treatment for Sellers and Buyers

Asset	Seller's Tax Treatment of Gain	Buyer's Tax Treatment of Cost
Inventory	Taxed as ordinary income.	Deductible.
Equipment	The amount that represents prior depreciation is recaptured as ordinary income. Any excess is a capital gain.	Generally depreciable over 5 or 7 years, or currently deductible under Section 179 or using the special depreciation allowance.
Buildings	The amount that represents prior depreciation is unrecaptured IRC section 1250 gain. Any excess is a capital gain.	Generally depreciable over 27.5 or 39 years. Buildings used in farming may have shorter depreciable periods.
Land	Taxed as a capital gain.	Not deductible. Cost is capitalized until sold.
Covenant not-to-compete	Taxed as ordinary income.	Amortized over 15 years.
Self-created goodwill and other intangibles	<ul style="list-style-type: none"> Self-created goodwill is taxed as a capital gain. A self-created patent, invention, model or design, secret formula or process, copyright, composition, letter, or memo, is not considered a capital asset and a gain from the sale will be taxed as ordinary income. 	Amortized over 15 years.
Acquired Section 197 intangibles	The amount that represents prior amortization is recaptured as ordinary income. Any excess is a capital gain.	Amortized over 15 years.

Tax rates for sellers who are individuals:

- Ordinary income is taxed at the taxpayer's highest marginal rate, which can be up to 37%.
- The maximum capital gain rate on assets held more than one year is 20%.
- The maximum capital gain rate on unrecaptured IRC section 1250 gain is 25%.

Losses. A loss on the sale of any business asset is an ordinary loss under IRC section 1231. A loss on the disposition of a Section 197 intangible asset that was acquired along with other Section 197 intangible assets is not allowed until the last Section 197 asset is sold.

Closing a Business

Cross References

- Form 966, *Corporate Dissolution or Liquidation*
- Form 4797, *Sales of Business Property*
- Form 8594, *Asset Acquisition Statement Under Section 1060*
- IRS Pub. 5447, *How to Close a Sole Proprietorship*
- IRS Pub. 5447-A, *How to Close a Partnership*
- IRS Pub. 5447-B, *How to Close a Corporation*

Related Topics

- Corporate Liquidations, Tab 18
- S Corporation Liquidation, Tab 19
- Terminating a Partnership, Tab 20

Closing a Business Checklist

An annual return must be filed for the final year of business. If the business has employees, final employment tax returns must also be filed, as well as deposits made. Also attach a statement to the return showing the name of the person keeping the payroll records and the address where those records will be kept.

Checkboxes. For the tax year in which the business ceases to exist, check the box on page 1 of the entity's tax return that indicates this return is the final return. If there are Schedule K-1s, check the final return box on each one of them as well.

Actions to Take When Closing a Business

Action to Take	Applicable Forms
• Make final federal tax deposits.	• Electronic Federal Tax Payment System (EFTPS), see <i>Payroll Tax Deposits</i> , page 23-2.
• File final quarterly or annual employment tax forms.	• Form 940, <i>Employer's Annual Federal Unemployment (FUTA) Tax Return</i> . • Form 941, <i>Employer's Quarterly Federal Tax Return</i> .
• Issue final wage and withholding information to employees.	• Form W-2, <i>Wage and Tax Statement</i> .
• Report information for Forms W-2 issued.	• Form W-3, <i>Transmittal of Wage and Tax Statements</i> .
• File final tip income and allocated tips information return.	• Form 8027, <i>Employer's Annual Information Return of Tip Income and Allocated Tips</i> .
• Report capital gains or losses.	• Schedule D (Form 1040, 1065, 1120, or 1120-S), <i>Capital Gains and Losses</i> . • Form 8949, <i>Sales and Other Dispositions of Capital Assets</i> .
• File final annual return. Check box indicating final return.	• Schedule C (Form 1040), no check box. • Forms 1120, 1120-S, 1065.
• Report partner's/shareholder's shares.	• Schedule K-1 (Form 1065), <i>Partner's Share of Income, Deductions, Credits, etc.</i> • Schedule K-1 (Form 1120-S), <i>Shareholder's Share of Income, Deduction, Credits, etc.</i>
• File final employee pension/benefit plan.	• Form 5500, <i>Annual Return/Report of Employee Benefit Plan</i> .
• Issue payment information to sub-contractors.	• Form 1099-NEC, <i>Nonemployee Compensation</i>

continued on next page

Actions to Take When Closing a Business continued	
Action to Take	Applicable Forms
• Report information for Forms 1099 issued.	• Form 1096, <i>Annual Summary and Transmittal of U.S. Information Returns</i> .
• Report corporate dissolution or liquidation.	• Form 966, <i>Corporate Dissolution or Liquidation</i> .
• Consider allowing S corporation election to terminate.	• Form 1120-S, Instructions.
• Report business asset sales.	• Form 8594, <i>Asset Acquisition Statement Under Section 1060</i> .
• Report the sale or exchange of property used in the trade or business.	• Form 4797, <i>Sales of Business Property</i> .
• File final annual return or business dissolution form for state purposes, if applicable.	• Check Secretary of State website for each state in which business is organized.
• Keep business records	• Property records – keep at least 3 years. • Employment tax records – keep at least 4 years.

Canceling an Employer Identification Number (EIN) — Closing an Account

Once an EIN has been assigned to a business entity, it becomes the permanent federal taxpayer identification number for that entity. Regardless of whether the EIN is ever used to file federal tax returns, the EIN is never reused or reassigned to another business entity.

The IRS cannot cancel an entity's EIN. However, if a business entity received an EIN but later determines it is not needed, the IRS can close the business account. The EIN will still belong to the business entity and can be used at a later date, should the need arise.

Closing an account. To close a business account, write to the IRS at: Internal Revenue Service, Cincinnati, OH, 45999 and state the reason for closing the account. If possible, include a copy of the EIN Assignment Notice with the request. Otherwise, be sure to include the complete legal name of the entity, the EIN, and the business address. All appropriate tax returns must be filed before the IRS will close the account.

Sale of a Business

Cross References

- Form 8594, *Asset Acquisition Statement Under Section 1060*
- IRS Pub. 544, *Sales and Other Dispositions of Assets*
- IRC §1060, *Special allocation rules for certain asset acquisitions*

Related Topics

- Sales of Business Property (Form 4797), Tab 6
- Installment Sales (Form 6252), Tab 6
- Corporate Liquidations, Tab 18
- Liquidating Distributions, Tab 20

Sale of Business Assets

The sale of a business usually is not a sale of one asset. Instead, all the assets of the business are sold. Generally, when this occurs, each asset is treated as being sold separately for determining the treatment of gain or loss.

A business usually has many assets. When sold, these assets must be classified as capital assets, depreciable property used in the business, real property used in the business, or property held for sale to customers, such as inventory or stock-in-trade. The gain or loss on each asset is calculated separately. The sale of capital assets results in capital gain or loss. The sale of real property or depreciable property used in the business and held longer than one year results in gain or loss from a section 1231 transaction. The sale of inventory results in ordinary income or loss.

Trade or business. A group of assets constitutes a trade or business if either of the following applies.

- Goodwill or going concern value could, under any circumstances, attach to them, or
- The use of the assets would constitute an active trade or business under IRC section 355(b).

The following are factors to be considered in determining whether goodwill or going concern value could attach. [Reg. §1.1060-1(b)(2)]

- The presence of any intangible assets. However, the transfer of such an asset in the absence of other assets is not a trade or business,
- The total consideration paid exceeds the purchaser's book value of the assets (other than goodwill and going concern value), and
- The sale includes a license, lease agreement, covenant-not-to-compete, or other similar agreement between the purchaser and seller in connection with the transfer.

Example #1: Larry sells Sue and Mary one of his old carpet cleaning machines and some cleaning supplies so that Sue and Mary can start a carpet cleaning business. Larry continues to operate his carpet cleaning business with other equipment. Even though the purchase of the machine and supplies is a major portion of the cost for Sue and Mary to start up their business, it does not constitute a sale of a trade or business because there were no intangible assets sold, and Larry continues to operate his business.

Example #2: Assume the same facts as Example #1, except that Larry also sells his customer list for a price and discontinues his business. The group of assets sold to Sue and Mary makes up a trade or business because the customer list is an intangible asset and its value represents the goodwill in Larry's carpet cleaning business.

Corporate liquidations. Corporate liquidations of property generally are treated as a sale or exchange. Gain or loss generally is recognized by the corporation on a liquidating sale of its assets. Gain or loss is also generally recognized on a liquidating distribution of assets as if the corporation sold the assets to the distributee at fair market value. See *Corporate Liquidations*, Tab 18.

Allocation of consideration paid for a business. The sale of a trade or business for a lump sum is considered a sale of each individual asset rather than of a single asset. Except for assets exchanged under any nontaxable exchange rules, both the buyer and seller of a business must use the residual method to allocate the consideration to each business asset transferred. This method determines gain or loss from the transfer of each asset and how much of the consideration is for goodwill and certain other intangible property. It also determines the buyer's basis in the business assets.

Consideration. The buyer's consideration is the cost of the assets acquired. The seller's consideration is the amount realized, money plus the fair market value of property received, from the sale of assets.

Residual method. The residual method must be used for any transfer of a group of assets that constitutes a trade or business and for which the buyer's basis is determined only by the amount paid for the assets. This applies to both direct and indirect transfers.

The residual method provides for the consideration to be reduced first by the amount of Class I assets. The consideration remaining

after this reduction must be allocated among the various business assets in a certain order. See *Classes of Assets*, below.

Asset Acquisition Statement

Form 8594, Asset Acquisition Statement Under Section 1060.

Both the seller and buyer of a group of assets that makes up a trade or business must use Form 8594 to report such a sale if goodwill or going concern value attaches, or could attach, to the assets of the business, and if the buyer's basis in the assets is determined only by the amount paid for the assets.

When to file. Unless one of the exceptions below applies, the seller and buyer must file identical Forms 8594 and attach to Forms 1040, 1041, 1065, 1120, 1120-S, or any other business entity form in the year of sale. This applies whether the group of assets constitutes a trade or business in the hands of the seller, the buyer, or both. This also applies if a portion of the selling price is under an installment sales contract. If the amount allocated to any asset is increased or decreased after the year of sale, the seller and/or buyer (whoever is affected) must complete Parts I and III of Form 8594 and attach the form to the income tax return for the year in which the increase or decrease is taken into account.

Exceptions: The filing of Form 8594 is not required if either of the following apply.

- A group of assets that makes up a trade or business is exchanged for like-kind property in a section 1031 like-kind exchange. However, if section 1031 does not apply to all the assets transferred, Form 8594 is required for the part of the group of assets to which section 1031 does not apply, or
- An interest in a partnership is transferred to a new partner.

Penalty. A \$340 penalty may apply under IRC section 6721 if either the seller or buyer fails to file Form 8594. Exceptions apply for reasonable cause.

Classes of Assets

Each asset in the group of assets reported on Form 8594, *Asset Acquisition Statement Under Section 1060*, must be categorized into one of seven classes of assets. The consideration must be allocated among the assets in the following order and, other than Class VII assets, the amount allocated to each asset cannot exceed its fair market value on the purchase date.

Asset Class	Includes
Class I	Cash and general deposit accounts (including checking and savings accounts) but not certificates of deposit.
Class II	Certificates of deposit, U.S. Government securities, foreign currency, and actively traded personal property, including stock and securities.
Class III	Accounts receivable, other debt instruments, and assets that the taxpayer marks-to-market at least annually for federal income tax purposes. See Form 8594 for certain exceptions.
Class IV	Inventory or property held by the taxpayer primarily for sale to customers in the ordinary course of business.
Class V	Assets not classified elsewhere. Generally includes furniture and fixtures, buildings, land, vehicles, and equipment, which constitute all or part of a business.
Class VI	Section 197 intangibles other than goodwill and going concern value. See <i>Intangible Assets</i> , page 9-13.
Class VII	Goodwill and going concern value.

If an asset can be included in more than one class, include it in the lower numbered class. For example, if an asset is described in both Class II and Class IV, choose Class II.

Agreement. The buyer and seller may enter into a written agreement as to the allocation of any consideration or the fair market value of any of the assets. This agreement is binding on both parties unless the IRS determines the amounts are not appropriate.

Reporting requirement. Both the buyer and seller involved in the sale of business assets must report to the IRS the allocation of the sales price among Section 197 intangibles and the other business assets. See *Asset Acquisition Statement*, previous column.

Sale of a Business Planning Issues

Cross References

- Form 4797, *Sales of Business Property*
- Form 6252, *Installment Sale Income*
- IRS Pub. 544, *Sales and Other Dispositions of Assets*

Related Topics

- Sales of Business Property (Form 4797), Tab 6
- Installment Sales (Form 6252), Tab 6

Buyer vs. Seller

The seller and buyer of a business must come to an agreement as to the value placed upon each class of asset. Often the value placed on the various assets can be a point of contention between the two parties. See the *Tax Treatment for Sellers and Buyers* chart, page 28-1.

Buyer's classification. Buyers generally want the majority of the purchase price allocated to inventory so that it can be expensed when it is sold. Buyers will want minimal value allocated to:

- Land as it is not a depreciable asset,
- Buildings and equipment because the longer depreciable life of these assets will be slower to offset income, and
- Goodwill and other intangibles as these also are amortized over a number of years.

Seller's classification. Sellers will likely prefer the majority of the value be allocated to buildings and equipment, which generally receive capital gain treatment. Sellers will want minimal amounts allocated to inventory and non-compete agreements which are taxed at ordinary income rates.

Sale of Stock vs. Sale of Assets

Sale of stock. The sale of a corporation can be as simple as selling the stock. The seller would benefit if the stock is sold because the seller would receive capital gain treatment on the sale. However, purchasing the stock means the buyer is purchasing an existing entity along with any liabilities it may have, including any unknown liabilities of the corporation at the time of purchase.

Sale of assets. The buyer might want to consider purchasing the assets of the corporation and forming a new corporation rather than purchasing the stock of the existing corporation. Purchasing the assets allows the buyer to depreciate or amortize the cost of the assets, whereas the cost of stock is capitalized until sold. If the seller agrees to sell the assets of the corporation rather than its stock, the corporation reports gain or loss on each asset sold. Cash from the sale is then distributed to shareholders when the corporation is liquidated.

C corporation. For a C corporation, tax issues are the main reason for the seller's preference for selling stock instead of selling assets. If the assets of a C corporation are sold instead of stock, the sale can essentially be taxed twice. The first tax occurs when selling assets to the buyer. The corporation will pay tax on the value of the assets over the existing basis of the assets. Second, when the corporation is liquidated, the individual pays personal

capital gain tax on the excess of the net proceeds of the sale, over his or her existing basis in the stock.

S corporation. When an S corporation sells assets, it does not pay tax on any gain realized through the sale. Instead, the gains of the corporation flow through to the shareholders. Sale of assets which generate a capital gain are passed on to the shareholders as a capital gain. Ordinary income is passed on to the shareholders as ordinary income. Gain recognized at the corporate level and passed through to the shareholders will increase the basis in the corporation for each shareholder. This reduces the gain on the liquidating distribution that will occur after the sale of assets.

Non-Tax Issues

There are concerns other than tax-related issues that need to be taken into consideration when buying or selling a corporation.

- With a stock sale, any unknown liabilities the company may have are transferred to the new owner. With an asset sale, the liabilities would remain with the seller. Some examples include future product liability claims, contract claims, lawsuits by employees, pension or benefit plan liabilities.
- If the corporation has a good credit rating, the buyer may want to buy the stock instead of buying the assets.
- Contracts such as leases, supply contracts, or employment contracts may have been written between the corporation and a third party. It may be easier for the buyer to maintain these contracts with a stock purchase than it would be to negotiate contracts as a new entity.
- A change of accounting method is generally not allowed when purchasing stock in a corporation.
- Retitling shares of stock purchased through a business sale may require less paperwork and lower costs than retitling each asset if assets are purchased separately.
- Permits and licenses owned by a corporation remain intact when a corporation is sold through a stock sale. An asset sale requires the new owner to reapply for permits and licenses.

Self-Employment Tax—Sale of Business

Self-employed taxpayers are subject to self-employment tax on the ordinary income derived from carrying on a trade or business. If a self-employed individual goes out of business and sells a group of assets that make up his or her trade or business, the ordinary income from the sale may or may not be subject to self-employment tax.

Not subject to self-employment (SE) tax. The following items are not subject to SE tax.

Capital assets. Gain or loss from the disposition of a capital asset is not taken into account in calculating SE tax. This includes the portion of the gain that represents depreciation recapture on the sale of equipment and other depreciable assets. This also includes depreciation recapture on the disposition of property expensed under Section 179.

Termination agreements. Payments received in exchange for a covenant not-to-compete are considered ordinary income. Payments derived from the cessation of a business activity are not subject to SE tax. (*Robert E. Milligan*, 9th Cir., October 25, 1994)

Subject to self-employment (SE) tax. If the taxpayer keeps any depreciable asset expensed under Section 179 after going out of business, and uses the asset 50% or more for personal purposes before the MACRS recovery period is up for that asset, Section 179 must be recaptured to the extent it exceeds depreciation under regular MACRS, and such recaptured amount is subject to SE tax. If the asset is listed property, Section 179 is recaptured to the extent it exceeds depreciation under straight-line depreciation using the ADS life.

Author's Comment: Gain from the sale of inventory sold in the normal course of a trade or business is taxed as ordinary income and is also subject to SE tax for self-employed taxpayers. However, there are conflicting opinions about treatment of inventory as part of the sale of a business. Some publications use reasoning similar to the *Milligan* court case, see *Termination agreements*, previous column, that gains resulting from cessation of a business are not part of the normal course of a trade or business and are therefore not subject to self-employment tax. Such treatment would report the sale of inventory included with other assets making up a business on Form 4797, *Sales of Business Property*, with the gain being reported as ordinary income, but not subject to SE tax.

We disagree. In defining net earnings from self-employment, IRC section 1402(a)(3) states, in part, "there shall be excluded any gain or loss... (C) from the sale, exchange, involuntary conversion, or other disposition of property if such property is neither (i) stock in trade or other property which would be includible in inventory if on hand at the close of the taxable year, nor (ii) property held primarily for sale to customers in the ordinary course of the trade or business." (IRC §1402)

Based on the above provision, upon the sale of a business, inventory should be included in cost of goods sold, and gain on the sale of the inventory should be reported as ordinary income subject to SE tax.

Partnership—Sale of Business

The sale or exchange of an interest in a partnership is treated as a capital asset when sold. The part of any gain or loss from unrealized receivables or inventory items will be treated as ordinary gain or loss. See *Partnership—Sale of Business Example*, page 28-9.

Not all sales or exchanges of a partnership interest will trigger termination of the partnership. For more information, see *Terminating a Partnership*, Tab 20.

Sale of Business Examples

The following examples illustrate how the sale of a business is reported on the tax return of the seller and the buyer. Each example assumes a business owned for 2½ years.

C Corporation—Sale of Business Example

Greener Pastures, Inc. The two owners of Greener Pastures, Inc., are Nate, who owns 55% of the stock, and Tyler, who owns 45% of the stock. They started operation as a business on April 1, 2022. After being profitable for 2½ years, a buyer by the name of Sam approached them on October 1, 2024, with an offer, and both Nate and Tyler decide to sell.

Sale of stock. Nate and Tyler (the sellers) would prefer to sell their stock. If Nate and Tyler sell their stock, they would receive long-term capital gain treatment with a maximum tax rate of 20% on the gain. They would also avoid double tax since the sale of assets inside a C corporation is taxed once at the corporate level and a second time upon liquidation of the shareholder's stock. Nate and Tyler also want to delay the sale until after the first of the year to defer gain one more year.

Sale of assets. Sam (the buyer) would prefer to purchase the equipment, inventory, customer list, and a covenant not-to-compete from Greener Pastures, Inc. and start up his own corporation with the assets purchased. Sam wants to be able to depreciate the assets purchased at his cost. He also does not want to be subject to any hidden liabilities that Greener Pastures, Inc. may have, such as assumption of product liabilities from the sale of inventory or potential lawsuits associated with the services that were offered to customers. Sam would also like to purchase the assets before the end of the year to be able to use the Section 179 deduction on the equipment and furniture in 2024 rather than wait until 2025.

Terms of the sales agreement. They agree to compromise and sell all the assets, not including the cash, to Sam. The sale will take place on January 2, 2025, prior to the conduct of any business during the new year. Sam will purchase all the tangible and intangible assets of Greener Pastures, Inc. for \$130,000 and pay 40% down (\$52,000 cash), with the remaining 60% paid over five years, with a balloon payment for the balance due on December 2, 2030 (\$78,000 installment note at 5% annual interest). They agree to allocate \$40,000 of the purchase price to a covenant not-to-compete. Any liabilities of Greener Pastures, Inc. remain with Greener Pastures. The corporation will pay off liabilities with cash received from the down payment and then liquidate by distributing the remaining cash and installment note to Nate and Tyler on January 31, 2025.

The high 40% down payment is necessary for several reasons.

- For tax purposes, gain that represents ordinary income (inventory, depreciation recapture, and covenant not-to-compete) must be recognized in the year of sale rather than under the installment method even though actual payment is received in future years. Only the gain representing capital gain can be recognized under the installment method for tax purposes. Therefore, the down payment needs to be high enough to cover the tax liability that cannot be deferred under the installment method.
- The buyer is not assuming any of the corporate liabilities, thus the down payment needs to be high enough so that the corporation has the cash to pay off its liabilities.
- The corporation will need enough cash to pay off the shareholder who is only receiving cash upon liquidation and not the installment note (see *Installment note*, page 28-6, for reasoning).

Balance sheet prior to sale. As of January 2, 2025, Greener Pastures, Inc. has the following balance sheet per books, per tax, and per fair market value (FMV), prior to the sale.

Assets:	Per Books	Per Tax	FMV
Cash.....	\$100,000	\$100,000	\$100,000
Inventory.....	8,500	8,500	14,600
Equipment.....	23,600	23,600	13,000
Accumulated depreciation.....	(11,210)	(23,600)	0
Display shelving.....	8,950	8,950	3,500
Accumulated depreciation.....	(1,771)	(5,455)*	0
Office furniture.....	3,675	3,675	2,000
Accumulated depreciation.....	(873)	(2,240)*	0
Computers.....	3,890	3,890	900
Accumulated depreciation.....	(1,848)	(2,938)*	0
Organizational costs.....	4,500	4,500	0
Accumulated amortization.....	0	(4,500)	0
Start-up costs.....	1,660	1,660	0
Accumulated amortization.....	0	(1,660)	0
Goodwill (customer list, etc.).....	0	0	56,000
Covenant not-to-compete.....	0	0	40,000
Total assets.....	\$139,073	\$114,382	\$230,000
Total FMV of assets sold (everything except cash).....			\$130,000
Liabilities:			
Withholding payable.....	\$ 1,800	\$ 1,800	n/a
SIMPLE employee deferrals payable.....	750	750	n/a
Sales tax payable.....	1,400	1,400	n/a
Loan payable.....	8,500	8,500	n/a
Total liabilities.....	\$ 12,450	\$ 12,450	
Equity:			
Common stock.....	\$100,000	\$100,000	n/a
Current earnings*.....	0	(1,060)	n/a
Retained earnings.....	26,623	2,992	n/a
Total equity.....	\$126,623	\$101,932	
Total liabilities + equity.....	\$139,073	\$114,382	

* Includes half-year tax depreciation under MACRS for year of sale.

Form 8594. Form 8594, *Asset Acquisition Statement Under Section 1060*, Part II, must be filed by both the buyer and the seller as follows.

Total Class I assets (cash, bank accounts, etc.)*	\$ 0
Total Class II assets.....	0
Total Class III assets.....	0
Total Class IV assets (inventory).....	14,600
Total Class V assets (equipment, furnishings, etc.).....	19,400
Total Class VI assets (covenant not-to-compete).....	40,000
Total Class VII assets (goodwill).....	56,000
Total all classes of assets.....	\$130,000

* The corporation cash is not part of the sale; therefore, it is not reported on Form 8594.

Allocation of sales price. Form 8594, Part II, asks for the aggregate fair market value (FMV) of each class of asset and the allocation of sales price for each class of asset. In this example, these two amounts are the same. If the sales price was greater than, or less than the FMV of the combined group of assets that make up the sale, then an allocation of the sales price is required.

To illustrate, assume in this example the total sales price is \$150,000 instead of \$130,000, even though the FMV of all assets equals \$130,000. An allocation of the sales price must be made to determine the buyer's basis in each acquired asset and the seller's gain or loss on the transfer of each asset. The residual method for the allocation of the sales price must be used. The amount allocated to an asset, other than a Class VII asset (goodwill), cannot exceed its FMV on the purchase date. In other words, any excess over FMV must be allocated to Class VII (goodwill).

Allocate the sales price to Class I assets first, up to FMV. Then allocate the remaining consideration to Class II assets, then to Class III, IV, V, and VI assets in that order, not to exceed FMV in any class of assets. The remaining sales price is allocated to Class VII assets, even if it exceeds the combined FMV of all Class VII assets.

In this example, if the sales price was \$150,000 rather than \$130,000, the allocation to each class would be the same as above, except that goodwill (Class VII) would be \$76,000 instead of \$56,000.

Income statement. After the sale to Sam, the final income statement for Greener Pastures, Inc. is as follows.

Revenue:	Per Books	Per Tax
Sales of inventory.....	\$ 14,600	\$ 14,600
Gain or (loss) on sale of equipment.....	610	13,000
Gain or (loss) on sale of display shelving.....	(3,679)	5
Gain or (loss) on sale of office furniture.....	(802)	565
Gain or (loss) on sale of computers.....	(1,142)	(52)
Sale of customer list ¹	56,000	56,000
Covenant not-to-compete income.....	40,000	40,000
Gross income.....	\$105,587	\$124,118
Cost of Goods Sold:		
Beginning inventory.....	\$ 8,500	\$ 8,500
Purchases.....	0	0
Minus ending inventory.....	0	0
Cost of goods sold.....	\$ 8,500	\$ 8,500
Gross profit.....	\$ 97,087	\$115,618
Expenses:		
Depreciation (half-year for year of sale).....	\$ 0	\$ 1,060
Miscellaneous administrative expenses ²	2,500	2,500
Expense organizational costs upon liquidation ³	4,500	0
Expense start-up costs upon liquidation ³	1,660	0
Income tax: federal ⁴	21,226	0
Income tax: state.....	10,980	10,980
Total expenses.....	\$ 40,866	\$ 14,540
Net income.....	\$ 56,221	\$101,078

continued on next page

Footnotes:

- ¹ The \$78,000 portion of the sale represents an installment note. \$56,000 (the capital gain portion) would generally not be recognized as income until payments are received under the installment method. However, in this example, the installment note is distributed to one of the shareholders upon liquidation. Thus, the corporation does not report any of it under the installment method and pays tax on all of it in 2025 because the installment note is treated as if it were sold for cash. See *Installment note*, next column.
- ² These are expenses incurred by the corporation after the sale of its assets and prior to the final liquidating distributions to its shareholders, such as legal, accounting, tax preparation, and office expenses.
- ³ Organizational costs and start-up costs were expensed in the first year for tax purposes and capitalized for book purposes. Since they no longer have any value when the corporation is liquidated, they are written off the books for book purposes.
- ⁴ Federal income tax is a deduction for book purposes only.

Cash flow. The corporation cash flow for 2025 is as follows:

1/1/25 cash on hand.....	\$100,000
Cash received on date of sale (40% down payment)	52,000
Pay off corporate liabilities	(12,450)
Miscellaneous administrative expenses	(2,500)
Federal income tax.....	(21,226)
State income tax.....	(10,980)
Cash available at liquidation.....	\$104,844

Note: The corporation checking account is the one asset that is not included in the sale. Thus, the cash stays with the corporation.

Balance sheet after sale. After the sale to Sam on January 2, 2025, and after corporation liabilities and miscellaneous administrative expenses are paid, Greener Pastures, Inc. has the following balance sheet per books prior to the final liquidation of the corporation on January 31, 2025.

Assets:	Per Books
Cash.....	\$104,844
Installment note	78,000
Inventory.....	0
Equipment, furniture, etc.....	0
Organizational costs	0
Start-up costs.....	0
Goodwill (customer list, etc.).....	0
Covenant not-to-compete.....	0
Total assets.....	<u>\$182,844</u>
Liabilities:	
Withholding payable.....	\$ 0
SIMPLE employee deferrals payable.....	0
Sales tax payable.....	0
Loan payable	0
Total liabilities.....	<u>\$ 0</u>
Equity:	
Common stock	\$100,000
Current earnings.....	56,221
Retained earnings.....	26,623
Total equity.....	<u>\$182,844</u>
Total liabilities + equity	<u>\$182,844</u>

Liquidation. Upon the final liquidation of the corporation, there are two assets: \$104,844 of cash and the installment note of \$78,000, for a total of \$182,844 available for distribution. Nate owns 55% of the outstanding stock and is entitled to \$100,564 ($\$182,844 \times 55\%$). Tyler owns 45% of the outstanding stock and is entitled to \$82,280 ($\$182,844 \times 45\%$).

Form 966. The corporation must file Form 966, *Corporate Dissolution or Liquidation*, within 30 days after the corporation adopts its plan to liquidate. For more information on Form 966 and corporate liquidations, see *Corporate Liquidations*, Tab 18.

Form 1099-DIV. The corporation must issue Form 1099-DIV, *Dividends and Distributions*, to the shareholders when it distributes the cash and the installment note to the shareholders upon liquidation. Cash distributed to the shareholders is reported in box 9, and noncash distributed (the installment note) is reported in box 10.

Installment note. If cash was the only remaining asset, it would be simple to liquidate the corporation. The installment note may be difficult to split from a legal perspective. The terms of the note could be written so that Sam, the buyer, makes two separate payments each month, one to Nate and one to Tyler. Or, the corporation could remain open for five years until Sam makes the final payment, then liquidate the corporation and distribute the cash. Or, the corporation could distribute cash, plus the installment note to one shareholder and cash to the other shareholder.

The problem with leaving the corporation open for the five years it takes to collect on the installment note is the corporation could be subject to personal holding company tax rules. A C corporation that only receives investment income and has no income from the operation of a business could be subject to the PHC tax. See *Personal Holding Company (PHC)*, Tab 18.

In this example, assume Nate agrees to take the \$78,000 installment note plus \$22,564 cash for his \$100,564 liquidation proceeds. Tyler receives a liquidating cash distribution of \$82,280.

Nate's tax return. Nate received the installment note from the liquidating corporation. \$56,000 out of the \$78,000 installment note qualifies for installment method reporting on Form 6252, *Installment Sale Income*, (the ordinary income from the covenant not-to-compete does not qualify for installment method treatment).

Use of installment method by shareholders in certain liquidations. Nate does not recognize gain on the installment method portion of the liquidation until payments are received from the installment note [Reg. §1.453-11(a)(1)]. This rule only applies if the installment note is acquired in respect of a sale or exchange by the corporation during the 12-month period beginning on the date a plan of complete liquidation is adopted, and the liquidation is completed during such 12-month period. This is true even though the corporation had to recognize gain at the time the installment note was given to Nate in exchange for his stock.

This rule requires Nate to allocate his basis in the stock among the two assets received (the installment method portion of the note and the cash plus ordinary income portion of the installment note). As a 55% shareholder, Nate's basis in his C corporation stock was \$55,000 prior to liquidation. The \$22,564 of cash plus \$22,000 of the installment note that represents ordinary income (the covenant not-to-compete portion) totals \$44,564. The other \$18,000 of the covenant not-to-compete was part of the \$52,000 down payment that the corporation received in cash on January 2, 2025. The \$44,564 amount represents 44% of Nate's total distribution. 44% of his \$55,000 basis equals \$24,200 ($\$55,000 \times 44\%$). He reports \$44,564 gross proceeds from the liquidation of his stock on Form 8949, *Sales and Other Dispositions of Capital Assets*, with a basis of \$24,200. These numbers then flow through to Schedule D (Form 1040) to compute a long-term capital gain of \$20,364.

Allocation of Nate's Liquidation Distribution

<i>Distribution Proceeds</i>	<i>Cash</i>	<i>Installment Note</i>	<i>Total Distribution</i>	<i>%</i>
Allocable to stock sale	\$22,564	\$22,000	\$44,564	44%
Allocable to installment note	\$ 0	\$56,000	\$56,000	56%
Total	\$22,564	\$78,000	\$100,564	100%

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Allocation of Nate's basis:

Original stock purchase.....	\$55,000
Allocation %.....	44%
Basis for stock sale.....	\$24,200
Original stock purchase.....	\$55,000
Less basis for stock sale.....	(24,200)
Plus covenant not-to-compete portion*.....	22,000
Basis for installment sale.....	\$52,800

* Added to account for Nate's share of the corporation's basis of the covenant not-to-compete portion of the installment payments already taxed to the corporation in the year of sale.

Nate also begins to receive payments from Sam on the installment note during the rest of 2025. He reports the interest portion of each payment on his Schedule B (Form 1040). The principal portion of each payment is reported on Form 6252, *Installment Sale Income*. His basis in the installment note is \$52,800 (\$55,000 – \$24,200 + \$22,000). His gross profit in the installment note is \$25,200 (\$78,000 – \$52,800 basis). His gross profit percentage equals 32.31% (\$25,200 ÷ \$78,000). Assume that during the rest of 2025, Nate received \$3,278 in principal and \$3,507 in interest from Sam. The gain calculated on his Form 6252 that is carried to Schedule D (Form 1040) is \$1,059 (\$3,278 × 32.31%). He also reports interest income on Schedule B in the amount of \$3,507.

Check Nate's calculations. Once Nate receives \$78,000 of total payments on the installment note, Nate will have reported total gain of \$25,202 on Form 6252 (\$78,000 × 32.31%). Add that to the \$20,364 of gain reported on Schedule D upon liquidation, and his total gain equals \$45,566 (\$25,202 + \$20,364). Nate's 55% share of the corporation assets at the time of liquidation equals \$100,564 (\$182,844 × 55%). His total gain is \$45,564 (\$100,564 minus \$55,000 stock basis). The \$2 difference is due to rounding percentages.

Tyler's tax return. Tyler received a \$82,280 cash liquidating distribution in exchange for his stock. His basis in the stock was \$45,000. Tyler reports the gain on Form 8949, *Sales and Other Dispositions of Capital Assets*, which is then carried to Schedule D (Form 1040) and lists \$82,280 as gross proceeds, with \$45,000 as basis for a long-term capital gain of \$37,280.

Sam's tax return. Since Sam is purchasing the assets from Greener Pastures, Inc. and not its stock, Sam treats the purchase of each asset on his tax return no different than any other purchase of business assets.

Purchase of inventory..... \$14,600

Sam reports this amount on the "purchases" line of the cost of goods sold section on his tax return.

Purchase of equipment, furnishings, etc..... \$19,400

He can elect to expense the entire amount under Section 179 in 2025 or depreciate the amount over seven years under MACRS. The depreciation method and amount claimed in prior years by the seller is irrelevant.

Payment for the covenant not-to-compete contract..... \$40,000

This is a contract that states Greener Pastures, Inc., and its two shareholders cannot start up a new business in the same line of work for five years from the date of sale. If this contract is broken, Sam's obligation to make payments under the installment note is cancelled. Sam amortizes the cost over 15 years as a Section 197 intangible, even though the agreement is for only five years.

Payment for goodwill..... \$56,000

Sam amortizes the cost over 15 years as a Section 197 intangible.

Interest on installment note paid in 2025..... \$ 3,507

Sam deducts this as business interest expense.

Filled in tax forms. See the filled in tax forms starting on page 28-11 for the corporation and individual tax returns filed as a result of the scenario described in this example.

S Corporation—Sale of Business Example

Greener Pastures, Inc. The two owners of Greener Pastures, Inc., are Nate, who owns 55% of the stock, and Tyler, who owns 45% of the stock. They started operation as a business on April 1, 2022. After being profitable for 2½ years, a buyer by the name of Sam approached them on October 1, 2024, with an offer, and both Nate and Tyler decide to sell.

Terms of the sales agreement. Nate and Tyler agree to sell all the assets, not including the cash, to Sam. The sale will take place on January 2, 2025, prior to the conduct of any business during the new year. Sam will purchase all the tangible and intangible assets of Greener Pastures, Inc. for \$130,000 and pay 40% down (\$52,000 cash), with the remaining 60% paid over five years, with a balloon payment for the balance due on December 2, 2030 (\$78,000 installment note at 5% annual interest). They agree to allocate \$40,000 of the purchase price to a covenant not-to-compete. Any liabilities of Greener Pastures, Inc. remain with Greener Pastures. The corporation will pay off liabilities with cash received from the down payment and then liquidate by distributing the remaining cash and installment note to Nate and Tyler on January 31, 2025.

Installment note—S corporations. The difference between the C corporation example and the S corporation example is that the S corporation does not recognize gain when it distributes the installment note upon liquidation [Reg. §1.453-11(a)(1)]. The installment obligation must have been acquired by the S corporation during the 12-month period beginning on the date a plan of complete liquidation was adopted, and the liquidation must be completed within that 12-month period. The shareholder reports gain as payments are received on the installment obligation.

Sale of other assets. In the C corporation example, the C corporation paid tax on the sale of its assets to Sam. In this example, the S corporation passes the gain on the sale of its assets through to the shareholders.

Balance sheet prior to sale. For the S corporation example, the balance sheet per books and the balance sheet per tax are the same since the depreciation and amortization deductions are identical. As of January 2, 2025, Greener Pastures, Inc. has the following balance sheet prior to the sale.

Assets:	Book & Tax	FMV
Cash.....	\$100,000	\$100,000
Inventory.....	8,500	14,600
Equipment.....	23,600	13,000
Accumulated depreciation.....	(23,600)	0
Display shelving.....	8,950	3,500
Accumulated depreciation.....	(5,455)*	0
Office furniture.....	3,675	2,000
Accumulated depreciation.....	(2,240)*	0
Computers.....	3,890	900
Accumulated depreciation.....	(2,938)*	0
Organizational costs.....	4,500	0
Accumulated amortization.....	(4,500)	0
Start-up costs.....	1,660	0
Accumulated amortization.....	(1,660)	0
Goodwill (customer list, etc.).....	0	56,000
Covenant not-to-compete.....	0	40,000
Total assets.....	<u>\$114,382</u>	<u>\$230,000</u>
Total FMV of assets sold (everything except cash).....		<u>\$130,000</u>

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Liabilities:	Book & Tax	FMV
Withholding payable.....	\$ 1,800	n/a
SIMPLE employee deferrals payable.....	750	n/a
Sales tax payable.....	1,400	n/a
Loan payable.....	8,500	n/a
Total liabilities.....	<u>\$ 12,450</u>	
Equity:		
Common stock.....	\$100,000	n/a
Current earnings*.....	(1,060)	n/a
Retained earnings.....	2,992	n/a
Total equity.....	<u>\$101,932</u>	
Total liabilities + equity.....	<u>\$114,382</u>	

* Includes half-year tax depreciation under MACRS for year of sale.

Form 8594. The S corporation Form 8594 example is identical to the C corporation Form 8594 example. See Form 8594, page 28-11.

Income statement. After the sale to Sam, the final income statement for Greener Pastures, Inc. is as follows.

Revenue:	Book & Tax
Sales of inventory.....	\$ 14,600
Gain or (loss) on sale of equipment.....	13,000
Gain or (loss) on sale of display shelving.....	5
Gain or (loss) on sale of office furniture.....	565
Gain or (loss) on sale of computers.....	(52)
Sale of customer list*.....	0
Covenant not-to-compete income*.....	40,000
Gross income.....	<u>\$68,118</u>
Cost of goods sold:	
Beginning inventory.....	\$ 8,500
Purchases.....	0
Minus ending inventory.....	0
Cost of goods sold.....	<u>\$ 8,500</u>
Gross profit.....	<u>\$59,618</u>
Expenses:	
Depreciation (half-year for year of sale).....	\$ 1,060
Miscellaneous administrative expenses.....	2,500
Total expenses.....	<u>\$ 3,560</u>
Net income.....	<u>\$56,058</u>

* The \$56,000 capital gain portion of the installment note is not recognized as income until payments are received under the installment method. Since the S corporation does not recognize income when it distributes the installment note to the shareholders upon liquidation, the S corporation income statement does not record it as income. However, only capital gains qualify for installment method reporting. The covenant not-to-compete is ordinary income; therefore, that portion of the installment note must be reported as income in the year of sale.

Cash flow. The corporation cash flow for 2025 is as follows.

1/1/25 cash on hand.....	\$ 100,000
Cash received on date of sale (40% down payment).....	52,000
Pay off corporate liabilities.....	(12,450)
Miscellaneous administrative expenses.....	(2,500)
Cash available at liquidation.....	<u>\$137,050</u>

Note: The corporation checking account is the one asset that is not included in the sale. Thus, the cash stays with the corporation.

Balance sheet after sale. After the sale to Sam on January 2, 2025, and after corporation liabilities and miscellaneous administrative expenses are paid, Greener Pastures, Inc. has the following balance sheet per books prior to the final liquidation of the corporation on January 31, 2025.

Assets:	Per Books
Cash.....	\$137,050
Installment note.....	78,000
Total assets.....	<u>\$215,050</u>
Liabilities:	
Deferred income – installment note.....	\$ 56,000
Total liabilities.....	<u>\$ 56,000</u>
Equity:	
Common stock.....	\$100,000
Current earnings.....	56,058
Retained earnings.....	2,992
Total equity.....	<u>\$159,050</u>
Total liabilities + equity.....	<u>\$215,050</u>

Liquidation. Upon the final liquidation of the corporation, there are two assets; \$137,050 of cash and the installment note of \$78,000, for a total of \$215,050 available for distribution. Nate owns 55% of the outstanding stock and is entitled to \$118,278 (\$215,050 × 55%). Tyler owns 45% of the outstanding stock and is entitled to \$96,772 (\$215,050 × 45%). In this example, assume Nate agrees to take the \$78,000 installment note plus \$40,278 cash for his \$118,278 liquidation proceeds. Tyler receives a liquidating cash distribution of \$96,772.

Form 966. The corporation must file Form 966, *Corporate Dissolution or Liquidation*, within 30 days after the corporation adopts its plan to liquidate. For more information on Form 966 and corporate liquidations, see *Corporate Liquidations*, Tab 18.

Form 1099-DIV. The corporation must issue Form 1099-DIV, *Dividends and Distributions*, to the shareholders when it distributes the cash and the installment note to the shareholders upon liquidation. Cash distributed to the shareholders is reported in box 9, and noncash distributed (the installment note) is reported in box 10.

Nate's tax return. Nate received the installment note from the liquidating corporation. \$56,000 out of the \$78,000 installment note qualifies for installment method reporting on Form 6252, *Installment Sale Income*. The installment sale rule requires Nate to allocate his basis in the stock among the two assets received (the installment method portion of the note and the cash plus ordinary income portion of the installment note). See *Use of installment method by shareholders in certain liquidations*, page 28-6.

As an S corporation shareholder, Nate's basis in stock equals the initial cash contribution he made on April 1, 2022, of \$55,000, plus or minus all Schedule K-1 items of income or loss since that date, minus distributions. Assume Nate's stock basis as of December 31, 2024, equals \$56,646. His 2025 Schedule K-1 allocates \$30,832 to him (\$56,058 × 55%), for a total basis prior to liquidation of \$87,478.

The \$40,278 of cash plus \$22,000 of the installment note that represents ordinary income (the covenant not-to-compete portion) totals \$62,278. The other \$18,000 of the covenant not-to-compete was part of the \$52,000 down payment that the corporation received in cash on January 2, 2025. The \$62,278 amount represents 53% of Nate's total distribution. 53% of his \$87,478 basis equals \$46,363 (\$87,478 × 53%). He reports \$62,278 gross proceeds from the liquidation of his stock on Form 8949, *Sales and Other Dispositions of Capital Assets*, with a basis of \$46,363. These numbers then flow through to Schedule D (Form 1040) to compute a long-term capital gain of \$15,915.

Nate also begins to receive payments from Sam on the installment note during the rest of 2025. He reports the interest portion of each payment on his Schedule B (Form 1040). The principal portion of each payment is reported on Form 6252, *Installment Sale Income*. His basis in the installment note is \$63,115 (\$87,478 minus \$46,363 plus \$22,000). His gross profit in the installment note is \$14,885 (\$78,000 – \$63,115 basis). His gross profit percentage

equals 19.08% (\$14,885 ÷ \$78,000). Assume that during the rest of 2025, Nate received \$3,278 in principal and \$3,507 in interest from Sam. The gain calculated on his Form 6252 that is carried to Schedule D (Form 1040) is \$625 (\$3,278 × 19.08%). He also reports interest income on Schedule B in the amount of \$3,507.

Allocation of Nate's Liquidation Distribution

Distribution Proceeds	Cash	Installment Note	Total Distribution	%
Allocable to stock sale	\$40,278	\$22,000	\$ 62,278	53%
Allocable to installment note	\$ 0	\$56,000	\$ 56,000	47%
Total	\$40,278	\$78,000	\$118,278	100%

Allocation of Nate's basis:

12/31/2024 stock basis	\$56,646
2025 Schedule K-1 allocation	30,832
Basis prior to liquidation	87,478
Allocation %	53%
Basis for stock sale	\$46,363
Basis prior to liquidation	\$87,478
Less basis for stock sale	(46,363)
Plus covenant not-to-compete portion*	22,000
Basis for installment sale	\$63,115

* Added to account for Nate's share of the covenant not-to-compete portion of the installment payments taxed to him as ordinary income in the year of sale.

Check Nate's calculations. Once Nate receives \$78,000 of total payments on the installment note, he will have reported total gain of \$14,885 on Form 6252. Add that to the \$15,915 gain reported on Schedule D upon liquidation, and his total gain equals \$30,800 (\$14,885 + \$15,915). Nate's 55% share of the corporation at the time of liquidation equals \$118,278 (\$215,050 × 55%). His total gain is \$30,800 (\$118,278 – \$87,478 stock basis).

Filled in tax forms. See the filled in tax forms starting on page 28-16 for the S corporation and Nate's tax returns filed as a result of the scenario described in this example.

Partnership—Sale of Business Example

Greener Pastures Partnership. The two owners of Greener Pastures are Nate, who owns 55% of the partnership, and Tyler, who owns 45% of the partnership. They started operation as a business on April 1, 2022. After being profitable for 2½ years, a buyer by the name of Sam approached them on October 1, 2024, with an offer, and both Nate and Tyler decide to sell.

Terms of the sales agreement. Nate and Tyler agree to sell all the assets, not including the cash, to Sam. The sale will take place on January 2, 2025, prior to the conduct of any business during the new year. Sam will purchase all the tangible and intangible assets of Greener Pastures Partnership for \$130,000 and pay 40% down (\$52,000 cash), with the remaining 60% paid over five years with a balloon payment for the balance due on December 2, 2030 (\$78,000 installment note at 5% annual interest). They agree to allocate \$40,000 of the purchase price to a covenant not-to-compete. Any liabilities of Greener Pastures as a partnership remain with Greener Pastures. The partnership will pay off liabilities with cash received from the down payment and then terminate by distributing the remaining cash and installment note to Nate and Tyler on January 31, 2025.

Installment note. The partnership example is similar to the S corporation example. The installment note is transferred to Nate at no gain to the partnership upon termination [IRC §731(b)]. Nate recognizes gain as he receives payments from the installment note. Assume all other facts used in the following partnership example are the same as the S corporation example.

Balance sheet prior to sale. As of January 2, 2025, Greener Pastures has the following balance sheet prior to the sale.

Assets:	Book & Tax	FMV
Cash	\$100,000	\$100,000
Inventory	8,500	14,600
Equipment	23,600	13,000
Accumulated depreciation	(23,600)	0
Display shelving	8,950	3,500
Accumulated depreciation	(5,455)*	0
Office furniture	3,675	2,000
Accumulated depreciation	(2,240)*	0
Computers	3,890	900
Accumulated depreciation	(2,938)*	0
Organizational costs	4,500	0
Accumulated amortization	(4,500)	0
Start-up costs	1,660	0
Accumulated amortization	(1,660)	0
Goodwill (customer list, etc.)	0	56,000
Covenant not-to-compete	0	40,000
Total assets	\$114,382	\$230,000
Total FMV of assets sold (everything except cash)		\$130,000
Liabilities:		
Withholding payable	\$ 1,800	n/a
SIMPLE employee deferrals payable	750	n/a
Sales tax payable	1,400	n/a
Loan payable	8,500	n/a
Total liabilities	\$ 12,450	
Equity:		
Partnership capital accounts	\$101,932	n/a
Total equity	\$101,932	
Total liabilities + equity	\$114,382	

* Includes half-year tax depreciation under MACRS for year of sale.

Form 8594. The partnership Form 8594 example is identical to the C corporation Form 8594 example. See *Form 8594*, page 28-11.

Income statement. After the sale to Sam, the final income statement for Greener Pastures is as follows.

Revenue:	Book & Tax
Sales of inventory	\$14,600
Gain or (loss) on sale of equipment	13,000
Gain or (loss) on sale of display shelving	5
Gain or (loss) on sale of office furniture	565
Gain or (loss) on sale of computers	(52)
Sale of customer list*	0
Covenant not-to-compete income*	40,000
Gross income	\$68,118
Cost of goods sold:	
Beginning inventory	\$ 8,500
Purchases	0
Minus ending inventory	0
Cost of goods sold	\$ 8,500
Gross profit	\$59,618
Expenses:	
Depreciation (half-year for year of sale)	\$ 1,060
Miscellaneous administrative expenses	2,500
Total expenses	\$ 3,560
Net income	\$56,058

* The \$56,000 capital gain portion of the installment note is not recognized as income until payments are received under the installment method. Since the partnership does not recognize income when it distributes the installment note to the partners upon termination, the partnership income statement does not record it as income. However, only capital gains qualify for installment method reporting. The covenant not-to-compete is ordinary income, therefore, that portion of the installment note must be reported as income in the year of sale.

Cash flow. The partnership cash flow for 2025 is as follows.

1/1/25 cash on hand.....	\$100,000
Cash received on date of sale (40% down payment)	52,000
Pay off partnership liabilities.....	(12,450)
Miscellaneous administrative expenses	(2,500)
Cash available at liquidation.....	\$137,050

Balance sheet after sale. After the sale to Sam on January 2, 2025, and after liabilities and miscellaneous administrative expenses are paid, Greener Pastures has the following balance sheet per books prior to termination on January 31, 2025.

Assets:	Per Books
Cash.....	\$137,050
Installment note.....	78,000
Total assets.....	<u>\$215,050</u>
Liabilities:	
Deferred income – installment note	\$ 56,000
Total liabilities.....	<u>\$ 56,000</u>
Equity:	
Partnership capital accounts.....	\$159,050
Total liabilities + equity.....	<u>\$215,050</u>

Termination. Upon the termination of the partnership, there are two assets; \$137,050 of cash and the installment note of \$78,000, for a total of \$215,050 available for distribution. Nate owns 55% of the partnership and is entitled to \$118,278 ($\$215,050 \times 55\%$). Tyler owns 45% of the partnership and is entitled to \$96,772 ($\$215,050 \times 45\%$). In this example, assume Nate agrees to take the \$78,000 installment note plus \$40,278 cash for his \$118,278 total proceeds. Tyler receives a final cash distribution of \$96,772.

Nate's tax return. Nate received the installment note from the terminating partnership. \$56,000 out of the \$78,000 installment note qualifies for installment method reporting on Form 6252, *Installment Sale Income*. The installment sale rule requires Nate to allocate his basis in the partnership among the two assets received (the installment method portion of the note and the cash plus ordinary income portion of the installment note). See *Use of installment method by shareholders in certain liquidations*, page 28-6.

As a partner, Nate's basis equals the initial cash contribution he made on April 1, 2022, of \$55,000, plus or minus all Schedule K-1 items of income or loss since that date, minus distributions. Assume Nate's basis as of December 31, 2024, equals \$56,646. His 2025 Schedule K-1 allocates \$30,832 to him ($\$56,058 \times 55\%$), for a total basis prior to termination of \$87,478.

The \$40,278 of cash plus \$22,000 of the installment note that represents ordinary income (the covenant not-to-compete portion) totals \$62,278. The other \$18,000 of the covenant not-to-compete was part of the \$52,000 down payment that the partnership received in cash on January 2, 2025. The \$62,278 amount represents 53% of Nate's total distribution. 53% of his \$87,478 basis equals \$46,363 ($\$87,478 \times 53\%$). He reports \$62,278 gross proceeds from the liquidation of his partnership interest on Form 8949, *Sales and Other Dispositions of Capital Assets*, with a basis of \$46,363. These numbers then flow through to Schedule D (Form 1040) to compute a long-term capital gain of \$15,915.

Nate also begins to receive payments from Sam on the installment note during the rest of 2025. He reports the interest portion of each payment on his Schedule B (Form 1040). The principal portion of each payment is reported on Form 6252, *Installment Sale Income*. His basis in the installment note is \$63,115 ($\$87,478 - \$46,363 + \$22,000$). His gross profit in the installment note is \$14,885 ($\$78,000 - \$63,115$ basis). His gross profit percentage equals 19.08% ($\$14,885 \div \$78,000$). Assume that during the rest of 2025, Nate received \$3,278 in principal and \$3,507 in interest from Sam. The gain calculated on his Form 6252 that is carried to Schedule D (Form 1040) is \$625 ($\$3,278 \times 19.08\%$). He also reports interest income on Schedule B in the amount of \$3,507.

Allocation of Nate's Final Distribution

<i>Distribution Proceeds</i>	<i>Cash</i>	<i>Installment Note</i>	<i>Total Distribution</i>	<i>%</i>
Allocable to liquidation of partnership interest	\$40,278	\$22,000	\$ 62,278	53%
Allocable to installment note	\$ 0	\$56,000	\$ 56,000	47%
Total	\$40,278	\$78,000	\$118,278	100%

Allocation of Nate's basis:

12/31/2024 partnership basis.....	\$56,646
2025 Schedule K-1 allocation.....	30,832
Basis prior to liquidation.....	87,478
Allocation %	53%
Basis for partnership interest.....	\$46,363
Basis prior to liquidation.....	\$87,478
Less basis for liquidation of partnership interest.....	(46,363)
Plus covenant not-to-compete portion*	22,000
Basis for installment sale.....	\$63,115

* Added to account for Nate's share of the covenant not-to-compete portion of the installment payments taxed to him as ordinary income in the year of sale.

Check Nate's calculations. Once Nate receives \$78,000 of total payments on the installment note, he will have reported total gain of \$14,885 on Form 6252. Add that to the \$15,915 gain reported on Schedule D upon liquidation, and his total gain equals \$30,800 ($\$14,885 + \$15,915$). Nate's 55% share of the partnership at the time of liquidation equals \$118,278 ($\$215,050 \times 55\%$). His total gain is \$30,800 ($\$118,278 - \$87,478$ partnership basis).

Filled in tax forms. See the filled in tax forms starting on page 28-20 for the partnership and Nate's tax returns filed as a result of the scenario described in this example.

C Corporation—Sale of Business Example

Form 8594 (Rev. November 2021) Department of the Treasury Internal Revenue Service	Asset Acquisition Statement Under Section 1060 Attach to your income tax return. Go to www.irs.gov/Form8594 for instructions and the latest information.	OMB No. 1545-0074 Attachment Sequence No. 169
Name as shown on return Greener Pastures, Inc.		Identifying number as shown on return 31-2345678
Check the box that identifies you: <input type="checkbox"/> Purchaser <input checked="" type="checkbox"/> Seller		
Part I General Information		
1 Name of other party to the transaction Sam	Other party's identifying number xxx-xx-xxx3	
Address (number, street, and room or suite no.) 123 Prairie Point		
City or town, state, and ZIP code Farmdale, MN 55555		
2 Date of sale 1/2/2025	3 Total sales price (consideration) 130,000	
Part II Original Statement of Assets Transferred		
4 Assets	Aggregate fair market value (actual amount for Class I)	Allocation of sales price
Class I	\$ 0	\$ 0
Class II	\$ 0	\$ 0
Class III	\$ 0	\$ 0
Class IV	\$ 14,600	\$ 14,600
Class V	\$ 19,400	\$ 19,400
Class VI and VII	\$ 96,000	\$ 96,000
Total	\$ 130,000	\$ 130,000
5 Did the purchaser and seller provide for an allocation of the sales price in the sales contract or in another written document signed by both parties? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No		
If "Yes," are the aggregate fair market values (FMV) listed for each of asset Classes I, II, III, IV, V, VI, and VII the amounts agreed upon in your sales contract or in a separate written document? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No		
6 In the purchase of the group of assets (or stock), did the purchaser also purchase a license or a covenant not to compete, or enter into a lease agreement, employment contract, management contract, or similar arrangement with the seller (or managers, directors, owners, or employees of the seller)? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No		
If "Yes," attach a statement that specifies (a) the type of agreement and (b) the maximum amount of consideration (not including interest) paid or to be paid under the agreement. See instructions.		
For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 63768Z Form 8594 (Rev. 11-2021)		

C Corporation—Sale of Business Example

Draft

Form 1120 Department of the Treasury Internal Revenue Service	U.S. Corporation Income Tax Return For calendar year 2025 or tax year beginning 1/1, 2025, ending 1/31, 2025 Go to www.irs.gov/Form1120 for instructions and the latest information.	OMB No. 1545-0123 2025
A Check if: 1a Consolidated return (attach Form 851) <input type="checkbox"/> b Life/monthly 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"/>		Name Greener Pastures, Inc. Number and street. If a P.O. box, see instructions. 123 Prairie Point City or town State or province Country ZIP or foreign postal code Farmdale MN United States 55555
E Check if: (1) <input type="checkbox"/> Initial return (2) <input checked="" type="checkbox"/> Final return (3) <input type="checkbox"/> Name change (4) <input type="checkbox"/> Address change		B Employer identification number 31-2345678 C Date incorporated 4/1/22 D Total assets (see instructions) \$ 0
Income	1a Gross receipts or sales 14,600 b Returns and allowances 1b c Balance. Subtract line 1b from line 1a 1c 14,600 2 Cost of goods sold (attach Form 1125-A) 2 8,500 3 Gross profit. Subtract line 2 from line 1c 3 6,100 4 Dividends and inclusions (Schedule C, line 23) 4 5 Interest 5 6 Gross rents 6 7 Gross royalties 7 8 Capital gain net income (attach Schedule D (Form 1120)) 8 56,000 9 Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797) 9 53,518 10 Other income (see instructions—attach statement) 10 11 Total income. Add lines 3 through 10 11 115,618	
Deductions (See instructions for limitations on deductions.)	12 Compensation of officers (see instructions—attach Form 1125-E) 12 13 Salaries and wages (less employment credits) 13 14 Repairs and maintenance 14 15 Bad debts 15 16 Rents 16 17 Taxes and licenses 17 10,980 18 Interest (see instructions) 18 19 Charitable contributions 19 20 Depreciation from Form 4562 not claimed on Form 1125-A or elsewhere on return (attach Form 4562) 20 1,060 21 Depletion 21 22 Advertising 22 23 Pension, profit-sharing, etc., plans 23 24 Employee benefit programs 24 25 Energy efficient commercial buildings deduction (attach Form 7205) 25 26 Other deductions (attach statement) 26 2,500 27 Total deductions. Add lines 12 through 26 27 14,540 28 Taxable income before net operating loss deduction and special deductions. Subtract line 27 from line 11. 28 101,078 29a Net operating loss deduction (see instructions) 29a b Special deductions (Schedule C, line 24) 29b c Add lines 29a and 29b 29c	
Tax, Refundable Credits, and Payments	30 Taxable income. Subtract line 29c from line 28. See instructions 30 101,078 31 Total tax (Schedule J, line 12) 31 21,226 32 Reserved for future use 32 33 Total payments and credits (Schedule J, line 23) 33 0 34 Estimated tax penalty. See instructions. Check if Form 2220 is attached <input type="checkbox"/> 34 35 Amount owed. If line 33 is smaller than the total of lines 31 and 34, enter amount owed 35 21,226 36 Overpayment. If line 33 is larger than the total of lines 31 and 34, enter amount overpaid 36 37 Enter amount from line 36 you want: a Credited to 2026 estimated tax b Refunded c Routing number 37b d Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings e Account number	
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 Nate Date Title CEO May the IRS discuss this return with the preparer shown below? See instructions. <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
Paid Preparer Use Only	Preparer's name Preparer's signature Date Check <input type="checkbox"/> if self-employed PTIN Firm's name Firm's EIN Firm's address Phone no.	
For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 114500Q Form 1120 (2025) Created 3/25/25		

C Corporation—Sale of Business Example

Draft

Form 8949 (2025) Attachment Sequence No. 12A Page 2 Greener Pastures, Inc. Social security number or taxpayer identification number 31-2345678

C Corporation—Sale of Business Example

Draft

SCHEDULE D Capital Gains and Losses (Form 1120) 2025 Greener Pastures, Inc. Employer identification number 31-2345678

C Corporation—Sale of Business Example

Draft

Form 4797 Department of the Treasury Internal Revenue Service	Sales of Business Property (Also Involuntary Conversions and Recapture Amounts Under Sections 179 and 280F(b)(2)) Attach to your tax return. Go to www.irs.gov/Form4797 for instructions and the latest information.	OMB No. 1545-0184 2025 Attachment Sequence No. 27					
Name(s) shown on return Greener Pastures, Inc.		Identifying number 31-2345678					
1a Enter the gross proceeds from sales or exchanges reported to you for 2025 on Form(s) 1099-B or 1099-S (or substitute statement) that you are including on line 2, 10, or 20. See instructions		1a					
b Enter the total amount of gain that you are including on lines 2, 10, and 24 due to the partial dispositions of MACRS assets		1b					
c Enter the total amount of loss that you are including on lines 2 and 10 due to the partial dispositions of MACRS assets		1c					
Part I Sales or Exchanges of Property Used in a Trade or Business and Involuntary Conversions From Other Than Casualty or Theft—Most Property Held More Than 1 Year (see instructions)							
2	(a) Description of property	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Gross sales price	(e) Depreciation allowed or allowable since acquisition	(f) Cost or other basis, plus improvements and expense of sale	(g) Gain or (loss) Subtract (f) from the sum of (d) and (e)
	Computers	4/1/22	1/2/25	900	2,938	3,890	(52)
3 Gain, if any, from Form 4684, line 39						3	
4 Section 1231 gain from installment sales from Form 6252, line 26 or 37						4	
5 Section 1231 gain or (loss) from like-kind exchanges from Form 8824						5	
6 Gain, if any, from line 32, from other than casualty or theft						6	
7 Combine lines 2 through 6. Enter the gain or (loss) here and on the appropriate line as follows						7 (52)	
Partnerships and S corporations. Report the gain or (loss) following the instructions for Form 1065, Schedule K, line 10, or Form 1120-S, Schedule K, line 9. Skip lines 8, 9, 11, and 12 below.							
Individuals, partners, S corporation shareholders, and all others. If line 7 is zero or a loss, enter the amount from line 7 on line 11 below and skip lines 8 and 9. If line 7 is a gain and you didn't have any prior year section 1231 losses, or they were recaptured in an earlier year, enter the gain from line 7 as a long-term capital gain on the Schedule D filed with your return and skip lines 8, 9, 11, and 12 below.							
8 Nonrecaptured net section 1231 losses from prior years. See instructions						8	
9 Subtract line 8 from line 7. If zero or less, enter -0-. If line 9 is zero, enter the gain from line 7 on line 12 below. If line 9 is more than zero, enter the amount from line 8 on line 12 below and enter the gain from line 9 as a long-term capital gain on the Schedule D filed with your return. See instructions						9 0	
Part II Ordinary Gains and Losses (see instructions)							
10 Ordinary gains and losses not included on lines 11 through 16 (include property held 1 year or less):							
	Covenant not-to-compete	1/2/25	1/2/25	40,000	0	0	40,000
11 Loss, if any, from line 7						11 (52)	
12 Gain, if any, from line 7 or amount from line 8, if applicable						12	
13 Gain, if any, from line 31						13 13,570	
14 Net gain or (loss) from Form 4684, lines 31 and 38a						14	
15 Ordinary gain from installment sales from Form 6252, line 25 or 36						15	
16 Ordinary gain or (loss) from like-kind exchanges from Form 8824						16	
17 Combine lines 10 through 16						17 53,518	
18 For all except individual returns, enter the amount from line 17 on the appropriate line of your return and skip lines a and b below. For individual returns, complete lines a and b below.							
a If the loss on line 11 includes a loss from Form 4684, line 35, column (b)(ii), enter that part of the loss here. Enter the loss from income-producing property on Schedule A (Form 1040), line 16. (Do not include any loss on property used as an employee.) Identify as from "Form 4797, line 18a." See instructions						18a	
b Redetermine the gain or (loss) on line 17 excluding the loss, if any, on line 18a. Enter here and on Schedule 1 (Form 1040), Part I, line 4						18b	
For Paperwork Reduction Act Notice, see separate instructions.							

C Corporation—Sale of Business Example

Draft

Form 4797 (2025)		Page 2			
Part III Gain From Disposition of Property Under Sections 1245, 1250, 1252, 1254, and 1255 (see instructions)					
19	(a) Description of section 1245, 1250, 1252, 1254, or 1255 property:	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)		
	A Equipment	4/1/22	1/2/25		
	B Display Shelving	4/1/22	1/2/25		
	C Office Furniture	4/1/22	1/2/25		
	D				
These columns relate to the properties on lines 19A through 19D.		Property A	Property B	Property C	Property D
20	Gross sales price (Note: See line 1a before completing.)	20 13,000	3,500	2,000	
21	Cost or other basis plus expense of sale	21 23,600	8,950	3,675	
22	Depreciation (or depletion) allowed or allowable	22 23,600	5,455	2,240	
23	Adjusted basis. Subtract line 22 from line 21.	23 0	3,495	1,435	
24	Total gain. Subtract line 23 from line 20	24 13,000	5	565	
25 If section 1245 property:					
	a Depreciation allowed or allowable from line 22	25a 23,600	5,455	2,240	
	b Enter the smaller of line 24 or 25a	25b 13,000	5	565	
26 If section 1250 property: If straight line depreciation was used, enter -0- on line 26g, except for a corporation subject to section 291.					
	a Additional depreciation after 1975. See instructions	26a			
	b Applicable percentage multiplied by the smaller of line 24 or line 26a. See instructions	26b			
	c Subtract line 26a from line 24. If residential rental property or line 24 isn't more than line 26a, skip lines 26d and 26e	26c			
	d Additional depreciation after 1969 and before 1976	26d			
	e Enter the smaller of line 26c or 26d	26e			
	f Section 291 amount (corporations only)	26f			
	g Add lines 26b, 26e, and 26f	26g			
27 If section 1252 property: Skip this section if you didn't dispose of farmland or if this form is being completed for a partnership.					
	a Soil, water, and land clearing expenses	27a			
	b Line 27a multiplied by applicable percentage. See instructions	27b			
	c Enter the smaller of line 24 or 27b	27c			
28 If section 1254 property:					
	a Intangible drilling and development costs, expenditures for development of mines and other natural deposits, mining exploration costs, and depletion. See instructions	28a			
	b Enter the smaller of line 24 or 28a	28b			
29 If section 1255 property:					
	a Applicable percentage of payments excluded from income under section 126. See instructions	29a			
	b Enter the smaller of line 24 or 29a. See instructions	29b			
Summary of Part III Gains. Complete property columns A through D through line 29b before going to line 30.					
30	Total gains for all properties. Add property columns A through D, line 24	30	13,570		
31	Add property columns A through D, lines 25b, 26g, 27c, 28b, and 29b. Enter here and on line 13	31	13,570		
32	Subtract line 31 from line 30. Enter the portion from casualty or theft on Form 4684, line 33. Enter the portion from other than casualty or theft on Form 4797, line 6	32	0		
Part IV Recapture Amounts Under Sections 179 and 280F(b)(2) When Business Use Drops to 50% or Less (see instructions)					
		(a) Section 179	(b) Section 280F(b)(2)		
33	Section 179 expense deduction or depreciation allowable in prior years	33			
34	Recomputed depreciation. See instructions	34			
35	Recapture amount. Subtract line 34 from line 33. See the instructions for where to report	35			
Form 4797 (2025)					

C Corporation—Sale of Business Example

Draft

Form **1040** U.S. Individual Income Tax Return **2025** OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

Department of the Treasury—Internal Revenue Service

For the year Jan. 1–Dec. 31, 2025, or other tax year beginning , 2025, ending , 20 See separate instructions.

Filled pursuant to section 301.9100-2 Combat zone Deceased MM / DD / YYYY Spouse MM / DD / YYYY

Other

Your first name and middle initial **Name** Last name Your social security number **xxx xx xxx1**

If joint return, spouse's first name and middle initial Last name Spouse's social security number

Home address (number and street). If you have a P.O. box, see instructions. Apt. no. Check here if your main home, and your spouse's if filing a joint return, was in the U.S. for more than half of 2025.

City, town, or post office. If you have a foreign address, also complete spaces below. State ZIP code Presidential Election Campaign Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. You Spouse

Foreign country name Foreign province/state/county Foreign postal code

Filing Status Single Head of household (HOH) Married filing jointly (even if only one had income) Qualifying surviving spouse (QSS) Married filing separately (MFS). Enter spouse's SSN above and full name here: _____ If you checked the HOH or QSS box, enter the child's name if the qualifying person is a child but not your dependent: _____

If treating a nonresident alien or dual-status alien spouse as a U.S. resident for the entire tax year, check the box and enter their name (see instructions and attach statement if required): _____

Digital Assets At any time during 2025, did you: (a) receive (as a reward, award, or payment for property or services); or (b) sell, exchange, or otherwise dispose of a digital asset (or a financial interest in a digital asset)? (See instructions.) Yes No

Dependents (see instructions)

	Dependent 1	Dependent 2	Dependent 3	Dependent 4
(1) First name				
(2) Last name				
(3) SSN				
(4) Relationship				
(5) Check if lived with you more than half of 2025	(a) <input type="checkbox"/> Yes (b) <input type="checkbox"/> And in the U.S.	(a) <input type="checkbox"/> Yes (b) <input type="checkbox"/> And in the U.S.	(a) <input type="checkbox"/> Yes (b) <input type="checkbox"/> And in the U.S.	(a) <input type="checkbox"/> Yes (b) <input type="checkbox"/> And in the U.S.
(6) Check if	<input type="checkbox"/> Full-time student <input type="checkbox"/> Permanently and totally disabled	<input type="checkbox"/> Full-time student <input type="checkbox"/> Permanently and totally disabled	<input type="checkbox"/> Full-time student <input type="checkbox"/> Permanently and totally disabled	<input type="checkbox"/> Full-time student <input type="checkbox"/> Permanently and totally disabled
(7) Credits	<input type="checkbox"/> Child tax credit <input type="checkbox"/> Credit for other dependents	<input type="checkbox"/> Child tax credit <input type="checkbox"/> Credit for other dependents	<input type="checkbox"/> Child tax credit <input type="checkbox"/> Credit for other dependents	<input type="checkbox"/> Child tax credit <input type="checkbox"/> Credit for other dependents

Check if your filing status is MFS or HOH and you lived apart from your spouse for the last 6 months of 2025, or you are legally separated according to your state law under a written separation agreement or a decree of separate maintenance and you did not live in the same household as your spouse at the end of 2025.

Income

1a Total amount from Form(s) W-2, box 1 (see instructions)	1a	
b Household employee wages not reported on Form(s) W-2	1b	
c Tip income not reported on line 1a (see instructions)	1c	
d Medicaid waiver payments not reported on Form(s) W-2 (see instructions)	1d	
e Taxable dependent care benefits from Form 2441, line 26	1e	
f Employer-provided adoption benefits from Form 8839, line 31	1f	
g Wages from Form 8919, line 6	1g	
h Other earned income (see instructions). Enter type and amount: _____	1h	
i Nontaxable combat pay election (see instructions)	1i	
z Add lines 1a through 1h	1z	
2a Tax-exempt interest	2a	
3a Qualified dividends	3a	
c Check if your child's dividends are included in <input type="checkbox"/> Line 3a		
4a IRA distributions	4a	
c Check if (see instructions) <input type="checkbox"/> <input type="checkbox"/> 1 <input type="checkbox"/> Rollover		
5a Pensions and annuities	5a	
c Check if (see instructions) <input type="checkbox"/> <input type="checkbox"/> 1 <input type="checkbox"/> Rollover		
6a Social security benefits	6a	
c If you elect to use the lump-sum election method, check here (see instructions) <input type="checkbox"/>		
d If you are married filing separately and lived apart from your spouse the entire year (see inst.), check here <input type="checkbox"/>		
7a Capital gain or (loss). Attach Schedule D if required	7a	21,423
b Check if: <input type="checkbox"/> Schedule D not required <input type="checkbox"/> Includes child's capital gain or (loss)		
8 Additional income from Schedule 1, line 10	8	
9 Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7a, and 8. This is your total income	9	24,930
10 Adjustments to income from Schedule 1, line 26	10	
11a Subtract line 10 from line 9. This is your adjusted gross income	11a	24,930

Attach Sch. B if required.

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form 1040 (2025) Created 9/5/25

C Corporation—Sale of Business Example

Draft

Form 8949 (2025) Attachment Sequence No. **12A** Page **2**

Name(s) shown on return. Name and SSN or taxpayer identification no. not required if shown on other side **Name** Social security number or taxpayer identification number **xxx-xx-xxxx1**

Before you check Box D, E, F, J, K, or L below, see whether you received any Form(s) 1099-B, Form(s) 1099-DA, or substitute statement(s) from your broker. A substitute statement will have the same information as Form 1099-B or Form 1099-DA. They will show whether your basis (usually your cost) was reported to the IRS by your broker and may even tell you which box to check.

Part II Long-Term. Transactions involving capital assets you held more than 1 year are generally long-term (see instructions). For short-term transactions, see page 1.

Note: You may aggregate all long-term transactions reported on Form(s) 1099-B and Form(s) 1099-DA showing basis was reported to the IRS and for which no adjustments or codes are required. Enter the totals directly on Schedule D, line 8a; you aren't required to report these transactions on Form 8949 (see instructions).

You must check Box D, E, F, J, K, or L below. Check only one box. If more than one box applies for your long-term transactions, complete a separate Form 8949, page 2, for each applicable box. If you have more long-term transactions than will fit on this page for one or more of the boxes, complete as many forms with the same box checked as you need.

(D) Long-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS (see Note above)

(E) Long-term transactions reported on Form(s) 1099-B showing basis was not reported to the IRS

(F) Long-term transactions, other than digital asset transactions, not reported to you on Form 1099-B or Form 1099-DA

(J) Long-term transactions reported on Form(s) 1099-DA showing basis was reported to the IRS (see Note above)

(K) Long-term transactions reported on Form(s) 1099-DA showing basis was not reported to the IRS

(L) Long-term digital asset transactions not reported to you on Form 1099-DA or Form 1099-B

1	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold or disposed of (Mo., day, yr.)	(d) Proceeds (sales price) (see instructions)	(e) Cost or other basis See the Note below and see Column (e) in the separate instructions.	(f) Code(s) from instructions	(g) Amount of adjustment	(h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g).
	55,000 shares Greener Pastures, Inc.	4/1/22	1/31/25	44,564	24,200			20,364
2	Totals. Add the amounts in columns (d), (e), (g), and (h) (subtract negative amounts). Enter each total here and include on your Schedule D, line 8b (if Box D or Box J above is checked), line 9 (if Box E or Box K above is checked), or line 10 (if Box F or Box L above is checked).			44,564	24,200			20,364

Note: If you checked Box D or Box J above but the basis reported to the IRS was incorrect, enter in column (e) the basis as reported to the IRS, and enter an adjustment in column (g) to correct the basis. See Column (g) in the separate instructions for how to figure the amount of the adjustment.

Form 8949 (2025)

Draft as of May 2, 2025

SCHEDULE D (Form 1040) Capital Gains and Losses

OMB No. 1545-0074

2025

Department of the Treasury Internal Revenue Service

Attach to Form 1040, 1040-SR, or 1040-NR. Use Form 8949 to list your transactions for lines 1b, 2, 3, 8b, 9, and 10. Go to www.irs.gov/ScheduleD for instructions and the latest information.

Attachment Sequence No. 12

Name(s) shown on return **Name** Your social security number **xxx-xx-xxxx1**

Did you dispose of any investment(s) in a qualified opportunity fund during the tax year? Yes No

Part II Long-Term Capital Gains and Losses—Generally Assets Held More Than One Year (see instructions)

See instructions for how to figure the amounts to enter on the lines below.

This form may be easier to complete if you round off cents to whole dollars.

9	Totals for all transactions reported on Form(s) 8949 with Box E or Box K checked	(d) Proceeds (sales price)	(e) Cost (or other basis)	(g) Adjustments to gain or loss from Form(s) 8949, Part II, line 2, column (g)	(h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g)
9	Totals for all transactions reported on Form(s) 8949 with Box E or Box K checked				
10	Totals for all transactions reported on Form(s) 8949 with Box F or Box L checked	44,564	24,200		20,364
11	Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824				11 1,059
12	Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1				12
13	Capital gain distributions. See the instructions.				13
14	Long-term capital loss carryover. Enter the amount, if any, from line 13 of your Capital Loss Carryover Worksheet in the instructions.				14 ()
15	Net long-term capital gain or (loss). Combine lines 8a through 14 in column (h). Then, go to Part III on the back.				15 21,423

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 11338H Schedule D (Form 1040) 2025 Created 5/1/25

C Corporation—Sale of Business Example

Draft

Form 6252	Installment Sale Income Attach to your tax return.	OMB No. 1545-0228
Department of the Treasury Internal Revenue Service	Use a separate form for each sale or other disposition of property on the installment method. Go to www.irs.gov/Form6252 for the latest information.	2025 Attachment Sequence No. 67
Name(s) shown on return Nate	Identifying number xxx-xx-xxxx1	
1 Description of property Greener Pastures, Inc. (Installment Note)	2a Date acquired (mm/dd/yyyy) 4/1/2022	b Date sold (mm/dd/yyyy) 1/31/2025
3 Was the property sold to a related party? See instructions. If "Yes," complete Part III for the year of sale and 2 years after the year of the sale unless you received the final payment during the tax year	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
4 Can the total selling price be determined by the close of the tax year in which such sale or other disposition occurs?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
Part I Gross Profit and Contract Price. Complete this part for all years of the installment agreement.		
5 Selling price including mortgages and other debts. Don't include interest, whether stated or unstated	5	78,000
6 Mortgages, debts, and other liabilities the buyer assumed or took the property subject to (see instructions)	6	
7 Subtract line 6 from line 5	7	78,000
8 Cost or other basis of property sold	8	52,800
9 Depreciation allowed or allowable	9	
10 Adjusted basis. Subtract line 9 from line 8	10	52,800
11 Commissions and other expenses of sale	11	
12 Income recapture from Form 4797, Part III (see instructions)	12	
13 Add lines 10, 11, and 12	13	52,800
14 Subtract line 13 from line 5. If zero or less, don't complete the rest of this form. See instructions	14	25,200
15 If the property described on line 1 above was your main home, enter the amount of your excluded gain. See instructions. Otherwise, enter -0-	15	0
16 Gross profit. Subtract line 15 from line 14	16	25,200
17 Subtract line 13 from line 6. If zero or less, enter -0-	17	
18 Contract price. Add line 7 and line 17	18	78,000
Part II Installment Sale Income. Complete this part for all years of the installment agreement.		
19 Gross profit percentage (expressed as a decimal amount). Divide line 16 by line 18. (For years after the year of sale, see instructions.)	19	0.3231
20 If this is the year of sale, enter the amount from line 17. Otherwise, enter -0-	20	0
21 Payments received during year (see instructions). Don't include interest, whether stated or unstated	21	3,278
22 Add lines 20 and 21	22	3,278
23 Payments received in prior years (see instructions). Don't include interest, whether stated or unstated	23	0
24 Installment sale income. Multiply line 22 by line 19. This amount cannot be less than zero. See instructions	24	1,059
25 Enter the part of line 24 that is ordinary income under the recapture rules. See instructions	25	
26 Subtract line 25 from line 24. Enter here and on Schedule D or Form 4797. See instructions	26	1,059
Part III Related Party Installment Sale Income. Don't complete if you received the final payment this tax year.		
27 Name, address, and taxpayer identifying number of related party		
28 Did the related party resell or dispose of the property ("second disposition") during this tax year?	<input type="checkbox"/> Yes <input type="checkbox"/> No	
29 If the answer to question 28 is "Yes," complete lines 30 through 37 below unless one of the following conditions is met. Check the box that applies.		
a <input type="checkbox"/> The second disposition was more than 2 years after the first disposition (other than dispositions of marketable securities). If this box is checked, enter the date of disposition (mm/dd/yyyy)		
b <input type="checkbox"/> The first disposition was a sale or exchange of stock to the issuing corporation.		
c <input type="checkbox"/> The second disposition was an involuntary conversion and the threat of conversion occurred after the first disposition.		
d <input type="checkbox"/> The second disposition occurred after the death of the original seller or buyer.		
e <input type="checkbox"/> It can be established to the satisfaction of the IRS that tax avoidance wasn't a principal purpose for either of the dispositions. If this box is checked, attach an explanation. See instructions.		
30 Selling price of property sold by related party (see instructions)	30	
31 Enter contract price from line 18 for year of first sale	31	
32 Enter the smaller of line 30 or line 31	32	
33 Total payments received by the end of this tax year (see instructions)	33	
34 Subtract line 33 from line 32. If zero or less, enter -0-	34	
35 Multiply line 34 by the gross profit percentage on line 19 for year of first sale	35	
36 Enter the part of line 35 that is ordinary income under the recapture rules. See instructions	36	
37 Subtract line 36 from line 35. Enter here and on Schedule D or Form 4797. See instructions	37	

For Paperwork Reduction Act Notice, see page 4.

Cat. No. 13601R

Form 6252 (2025) Created 5/28/25

C Corporation—Sale of Business Example

Draft

Form 1040	Department of the Treasury—Internal Revenue Service	2025	OMB No. 1545-0074	IRS Use Only—Do not write or staple in this space.
For the year Jan. 1–Dec. 31, 2025, or other tax year beginning _____, 2025, ending _____, 2025. See separate instructions.				
<input type="checkbox"/> Filed pursuant to section 301.9100-2 <input type="checkbox"/> Combat zone		<input type="checkbox"/> Deceased MM / DD / YYYY Spouse MM / DD / YYYY		
<input type="checkbox"/> Other				
Your first name and middle initial Tyler		Last name	Your social security number xxx xx xxx2	
If joint return, spouse's first name and middle initial		Last name	Spouse's social security number	
Home address (number and street). If you have a P.O. box, see instructions.			Apt. no.	Check here if your main home, and your spouse's if filing a joint return, was in the U.S. for more than half of 2025. <input checked="" type="checkbox"/>
City, town, or post office. If you have a foreign address, also complete spaces below.			State	ZIP code
Foreign country name		Foreign province/state/county	Foreign postal code	
Filing Status <input checked="" type="checkbox"/> Single <input type="checkbox"/> Head of household (HOH)				
Check only one box. <input type="checkbox"/> Married filing jointly (even if only one had income) <input type="checkbox"/> Qualifying surviving spouse (QSS)				
<input type="checkbox"/> Married filing separately (MFS). Enter spouse's SSN above and full name here: _____				
<input type="checkbox"/> If treating a nonresident alien or dual-status alien spouse as a U.S. resident for the entire tax year, check the box and enter their name (see instructions and attach statement if required): _____				
Digital Assets At any time during 2025, did you: (a) receive (as a reward, award, or payment for property or services); or (b) sell, exchange, or otherwise dispose of a digital asset (or a financial interest in a digital asset)? (See instructions.) <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No				
Dependents				
(1) First name				
(2) Last name				
(3) SSN				
(4) Relationship				
(5) Check if lived with you more than half of 2025				
(6) Check if				
(7) Credits				
<input type="checkbox"/> Check if your filing status is MFS or HOH and you lived apart from your spouse for the last 6 months of 2025, or you are legally separated according to your state law under a written separation agreement or a decree of separate maintenance and you did not live in the same household as your spouse at the end of 2025.				
Income				
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld. If you did not get a Form W-2, see instructions.				
1a Total amount from Form(s) W-2, box 1 (see instructions)				1a
b Household employee wages not reported on Form(s) W-2				1b
c Tip income not reported on line 1a (see instructions)				1c
d Medicaid waiver payments not reported on Form(s) W-2 (see instructions)				1d
e Taxable dependent care benefits from Form 2441, line 26				1e
f Employer-provided adoption benefits from Form 8839, line 31				1f
g Wages from Form 8919, line 6				1g
h Other earned income (see instructions). Enter type and amount:				1h
i Nontaxable combat pay election (see instructions)		1i		
z Add lines 1a through 1h				1z
2a Tax-exempt interest		2a		2a
3a Qualified dividends		3a		3a
c Check if your child's dividends are included in 1 <input type="checkbox"/> Line 3a		b Ordinary dividends		3b
4a IRA distributions		2 <input type="checkbox"/> Line 3b		4b
c Check if (see instructions) <input type="checkbox"/> 1 <input type="checkbox"/> Rollover		2 QCD 3 <input type="checkbox"/>		4c
5a Pensions and annuities		2 Taxable amount		5b
c Check if (see instructions) <input type="checkbox"/> 1 <input type="checkbox"/> Rollover		2 PSO 3 <input type="checkbox"/>		6b
6a Social security benefits		2 Taxable amount		6b
c If you elect to use the lump-sum election method, check here (see instructions) <input type="checkbox"/>				
d If you are married filing separately and lived apart from your spouse the entire year (see inst.), check here <input type="checkbox"/>				
7a Capital gain or (loss). Attach Schedule D if required				7a 37,280
b Check if: <input type="checkbox"/> Schedule D not required <input type="checkbox"/> Includes child's capital gain or (loss)				8
8 Additional income from Schedule 1, line 10				9 37,280
9 Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7a, and 8. This is your total income				10
10 Adjustments to income from Schedule 1, line 26				11a 37,280
11a Subtract line 10 from line 9. This is your adjusted gross income				

Attach Sch. B if required.

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions.

Cat. No. 11320B

Form 1040 (2025) Created 9/5/25

C Corporation—Sale of Business Example

Draft

Form 8949 (2025) Attachment Sequence No. **12A** Page **2**

Name(s) shown on return. Name and SSN or taxpayer identification no. not required if shown on other side
Tyler Social security number or taxpayer identification number **xxx-xx-xxx2**

Before you check Box D, E, F, J, K, or L below, see whether you received any Form(s) 1099-B, Form(s) 1099-DA, or substitute statement(s) from your broker. A substitute statement will have the same information as Form 1099-B or Form 1099-DA. They will show whether your basis (usually your cost) was reported to the IRS by your broker and may even tell you which box to check.

Part II Long-Term. Transactions involving capital assets you held more than 1 year are generally long-term (see instructions). For short-term transactions, see page 1.

Note: You may aggregate all long-term transactions reported on Form(s) 1099-B and Form(s) 1099-DA showing basis was reported to the IRS and for which no adjustments or codes are required. Enter the totals directly on Schedule D, line 8a; you aren't required to report these transactions on Form 8949 (see instructions).

You must check Box D, E, F, J, K, or L below. Check only one box. If more than one box applies for your long-term transactions, complete a separate Form 8949, page 2, for each applicable box. If you have more long-term transactions than will fit on this page for one or more of the boxes, complete as many forms with the same box checked as you need.

(D) Long-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS (see Note above)
 (E) Long-term transactions reported on Form(s) 1099-B showing basis was not reported to the IRS
 (F) Long-term transactions, other than digital asset transactions, not reported to you on Form 1099-B or Form 1099-DA
 (J) Long-term transactions reported on Form(s) 1099-DA showing basis was reported to the IRS (see Note above)
 (K) Long-term transactions reported on Form(s) 1099-DA showing basis was not reported to the IRS
 (L) Long-term digital asset transactions not reported to you on Form 1099-DA or Form 1099-B

1	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold or disposed of (Mo., day, yr.)	(d) Proceeds (sales price) (see instructions)	(e) Cost or other basis (See the Note below and see Column (e) in the separate instructions.)	(f) Code(s) from instructions	(g) Amount of adjustment	(h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g).
	45,000 shares Greener Pastures, Inc.	4/1/22	1/31/25	82,280	45,000			37,280
2 Totals.	Add the amounts in columns (d), (e), (g), and (h) (subtract negative amounts). Enter each total here and include on your Schedule D, line 8b (if Box D or Box J above is checked), line 9 (if Box E or Box K above is checked), or line 10 (if Box F or Box L above is checked).			82,280	45,000			37,280

Note: If you checked Box D or Box J above but the basis reported to the IRS was incorrect, enter in column (e) the basis as reported to the IRS, and enter an adjustment in column (g) to correct the basis. See Column (g) in the separate instructions for how to figure the amount of the adjustment.

Form **8949** (2025)

Draft as of May 2, 2025

SCHEDULE D (Form 1040) Capital Gains and Losses OMB No. 1545-0074

Attach to Form 1040, 1040-SR, or 1040-NR.
 Use Form 8949 to list your transactions for lines 1b, 2, 3, 8b, 9, and 10.
 Go to www.irs.gov/ScheduleD for instructions and the latest information.

Department of the Treasury Internal Revenue Service
 Name(s) shown on return
Tyler Your social security number
xxx-xx-xxx2

Did you dispose of any investment(s) in a qualified opportunity fund during the tax year? Yes No

Part II Long-Term Capital Gains and Losses—Generally Assets Held More Than One Year (see instructions)

See instructions for how to figure the amounts to enter on the lines below.
 This form may be easier to complete if you round off cents to whole dollars.

9	(d) Proceeds (sales price)	(e) Cost (or other basis)	(g) Adjustments to gain or loss from Form(s) 8949, Part II, line 2, column (g)	(h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g)
Totals for all transactions reported on Form(s) 8949 with Box E or Box K checked				
Totals for all transactions reported on Form(s) 8949 with Box F or Box L checked	82,280	45,000		37,280
11 Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824				11
12 Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1				12
13 Capital gain distributions. See the instructions.				13
14 Long-term capital loss carryover. Enter the amount, if any, from line 13 of your Capital Loss Carryover Worksheet in the instructions.				14
15 Net long-term capital gain or (loss). Combine lines 8a through 14 in column (h). Then, go to Part III on the back.				15 37,280

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 11338H Schedule D (Form 1040) 2025 Created 5/1/25

S Corporation—Sale of Business Example

Draft

Form **1120-S** U.S. Income Tax Return for an S Corporation OMB No. 1545-0123

Department of the Treasury Internal Revenue Service
 Do not file this form unless the corporation has filed or is attaching Form 2553 to elect to be an S corporation.
 Go to www.irs.gov/Form1120S for instructions and the latest information.

2025

For calendar year 2025 or tax year beginning **1/1, 2025**, ending **1/31, 2025**

A S election effective date **4/1/22** Name **Greener Pastures, Inc.** D Employer identification number **31-2345678**

B Business activity code number (see instructions) **444200** Number and street. If a P.O. box, see instructions. **123 Prairie Point** Room or suite no. **123 Prairie Point** E Date incorporated **4/1/22**

City or town **Farmdale** State or province **MN** Country **United States** ZIP or foreign postal code **55555** F Total assets (see instructions) \$ **0**

C Check if Sch. M-3 attached

G Is the corporation electing to be an S corporation beginning with this tax year? See instructions. Yes No

H Check if: (1) Final return (2) Name change (3) Address change (4) Amended return (5) S election termination

I Enter the number of shareholders who were shareholders during any part of the tax year **2**

J Check if corporation: (1) Aggregated activities for section 465 at-risk purposes (2) Grouped activities for section 469 passive activity purposes

Caution: Include only trade or business income and expenses on lines 1a through 22. See the instructions for more information.

Income	1a	1b	1c	1d
Gross receipts or sales	14,600			14,600
Cost of goods sold (attach Form 1125-A)				8,500
Gross profit. Subtract line 2 from line 1c				6,100
Net gain (loss) from Form 4797, Part II, line 17 (attach Form 4797)				53,518 *
Other income (loss) (see instructions—attach statement)				
Total income (loss). Add lines 3 through 5				59,618

Deductions (see instructions)	14	15	16	17	18	19	20	21	22
Depreciation from Form 4562 not claimed on Form 1125-A or elsewhere on return (attach Form 4562)									1,060
Depletion (do not deduct oil and gas depletion)									
Advertising									
Pension, profit-sharing, etc., plans									
Employee benefit programs									
Energy efficient commercial buildings deduction (attach Form 7205)									
Other deductions (attach statement)									2,500
Total deductions. Add lines 7 through 20									3,560
Ordinary business income (loss). Subtract line 21 from line 6									56,058

Tax and	z	24z
Add lines 24a through 24d		
Estimated tax penalty (see instructions). Check if Form 2220 is attached <input type="checkbox"/>		
Amount owed. If line 24z is smaller than the total of lines 23c and 25, enter amount owed		0
Overpayment. If line 24z is larger than the total of lines 23c and 25, enter amount overpaid		
Enter amount from line 27: a Credited to 2026 estimated tax b Refunded		
c Routing number _____ d Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings		
e Account number _____		

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 **Nate** Date _____ Title **CEO**

May the IRS discuss this return with the preparer shown below? See instructions. Yes No

* Form 4797 is identical to the C Corporation Example, page 28-13.

CORRECTED (if checked)

PAYER'S name, street address, city or town, state or province, country, ZIP or foreign postal code, and telephone no.
Greener Pastures, Inc.
123 Prairie Point
Farmdale, MN 55555

1a Total ordinary dividends \$ _____ OMB No. 1545-0110
 Form **1099-DIV**
 (Rev. January 2024)
 For calendar year **2025**

1b Qualified dividends \$ _____

2a Total capital gain distr. \$ _____ 2b Unrecap. Sec. 1250 gain \$ _____

2c Section 1202 gain \$ _____ 2d Collectibles (28%) gain \$ _____

2e Section 897 ordinary dividends \$ _____ 2f Section 897 capital gain \$ _____

PAYER'S TIN **31-2345678** RECIPIENT'S TIN **xxx-xx-xxx1**

3 Nondividend distributions \$ _____ 4 Federal income tax withheld \$ _____

RECIPIENT'S name **Nate**

9 Cash liquidation distributions \$ **40,278** 10 Noncash liquidation distributions \$ **78,000**

This is important tax information and is

this income is taxable and the IRS determines that it has

S Corporation—Sale of Business Example

Draft

Schedule K-1 (Form 1120-S) Department of the Treasury Internal Revenue Service		671124 OMB No. 1545-0123	
For calendar year 2025, or tax year beginning <u>1/1/2025</u> ending <u>1/31/2025</u>		<input checked="" type="checkbox"/> Final K-1 <input type="checkbox"/> Amended K-1	
Part III Shareholder's Share of Current Year Income, Deductions, Credits, and Other Items			
1	Ordinary business income (loss)	13	Credits
	30,832		
2	Net rental real estate income (loss)		
3	Other net rental income (loss)		
4	Interest income		
5a	Ordinary dividends		
5b	Qualified dividends	14	Schedule K-3 is attached if checked <input type="checkbox"/>
6	Royalties	15	Alternative minimum tax (AMT) items
7	Net short-term capital gain (loss)		
8a	Net long-term capital gain (loss)		
8b	Collectibles (28%) gain (loss)		
8c	Unrecaptured section 1250 gain		
9	Net section 1231 gain (loss)	16	Items affecting shareholder basis
10	Other income (loss)		
11	Section 179 deduction	17	Other information
		V*	STMT
12	Other deductions		
Part I Information About the Corporation			
A	Corporation's employer identification number 31-2345678		
B	Corporation's name, address, city, state, and ZIP code Greener Pastures, Inc. 123 Prairie Point Farmdale, MN 55555		
C	IRS Center where corporation filed return e-file		
D	Corporation's total number of shares Beginning of tax year 100,000 End of tax year 0		
Part II Information About the Shareholder			
E	Shareholder's identifying number xxx-xx-xxxx1		
F1	Shareholder's name, address, city, state, and ZIP code Nate		
F2	If the shareholder is a disregarded entity, a trust, an estate, or a nominee or similar person, enter the individual or entity responsible for reporting: TIN _____ Name _____		
F3	What type of entity is this shareholder? Individual		
G	Current year allocation percentage 55%		
H	Shareholder's number of shares Beginning of tax year 55,000 End of tax year 0		
I	Loans from shareholder Beginning of tax year \$ 0 End of tax year \$ 0		
Shareholder basis computation 1/1/25 beginning basis..... \$56,646 Ordinary income..... 30,832 Basis prior to allocation..... \$87,478			
18	<input type="checkbox"/> More than one activity for at-risk purposes*		
19	<input type="checkbox"/> More than one activity for passive activity purposes*		
* See attached statement for additional information.			

Note: For purposes of this example, assume a Section 179 deduction was never claimed. If it had been, the shareholder, rather than the S corporation, would report the sale. See instructions for Form 4797.

S Corporation—Sale of Business Example

Draft

Statement A—QBI Pass-Through Entity Reporting		
Pass-through entity's name: Greener Pastures, Inc.	Pass-through entity's EIN: 31-2345678	
Shareholder's name: Nate	Shareholder's identifying number: xxx-xx-xxx1	
Trade or Business 1	Trade or Business 2	Trade or Business 3
<input type="checkbox"/> PTP	<input type="checkbox"/> PTP	<input type="checkbox"/> PTP
<input type="checkbox"/> Aggregated	<input type="checkbox"/> Aggregated	<input type="checkbox"/> Aggregated
<input type="checkbox"/> SSTB	<input type="checkbox"/> SSTB	<input type="checkbox"/> SSTB
Shareholder's share of:		
QBI or qualified PTP items subject to shareholder-specific determinations:		
Ordinary business income (loss)	30,832	
Rental income (loss)		
Royalty income (loss)		
Section 1231 gain (loss)		
Other income (loss)		
Section 179 deduction		
Charitable contributions		
Other deductions		
W-2 wages	0	
UBIA of qualified property	0	
Section 199A dividends		

Draft

Form 1040 U.S. Individual Income Tax Return 2025 Department of the Treasury—Internal Revenue Service OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.	
For the year Jan. 1–Dec. 31, 2025, or other tax year beginning _____, 2025, ending _____, 20____ See separate instructions.	
<input type="checkbox"/> Filed pursuant to section 301.9100-2 <input type="checkbox"/> Combat zone <input type="checkbox"/> Deceased MM / DD / YYYY Spouse MM / DD / YYYY	
<input type="checkbox"/> Other	
Your first name and middle initial Nate	Last name xxx1
Your social security number xxx-xx-xxx1	Spouse's social security number
If joint return, spouse's first name and middle initial	Last name
Home address (number and street). If you have a P.O. box, see instructions.	Apt. no.
City, town, or post office. If you have a foreign address, also complete spaces below.	State ZIP code
Foreign country name	Foreign province/state/country Foreign postal code
Presidential Election Campaign Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. <input type="checkbox"/> You <input type="checkbox"/> Spouse	
Filing Status <input checked="" type="checkbox"/> Single <input type="checkbox"/> Head of household (HOH)	

Attach Sch. B if required.	2a Tax-exempt interest	2a	b Taxable interest	2b	3,507
	3a Qualified dividends	3a	b Ordinary dividends	3b	
	c Check if your child's dividends are included in <input type="checkbox"/> Line 3a <input checked="" type="checkbox"/> Line 3b				
d	If you are married filing separately and lived apart from your spouse the entire year (see inst.), check here <input type="checkbox"/>				
7a	Capital gain or (loss). Attach Schedule D if required				16,540
b	Check if: <input type="checkbox"/> Schedule D not required <input type="checkbox"/> Includes child's capital gain or (loss)				
8	Additional income from Schedule 1, line 10				30,832
9	Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7a, and 8. This is your total income				50,879
10	Adjustments to income from Schedule 1, line 26				10
11a	Subtract line 10 from line 9. This is your adjusted gross income				50,879

Form 1040 (2025)		Page 2		
Tax and Credits	11b	Amount from line 11a (adjusted gross income)	11b	50,879
	12a	Someone can claim <input type="checkbox"/> You as a dependent <input type="checkbox"/> Your spouse as a dependent		
	b	<input type="checkbox"/> Spouse itemizes on a separate return	c	<input type="checkbox"/> You were a dual-status alien
	d	You: <input type="checkbox"/> Were born before January 2, 1961 <input type="checkbox"/> Are blind		
		Spouse: <input type="checkbox"/> Was born before January 2, 1961 <input type="checkbox"/> Is blind		
	e	Standard deduction or itemized deductions (from Schedule A)	12e	15,750
	13a	Qualified business income deduction from Form 8995 or Form 8995-A	13a	3,718
	b	Additional deductions from Schedule 1-A, line 38	13b	
	14	Add lines 12e, 13a, and 13b	14	19,468
	15	Subtract line 14 from line 11b. If zero or less, enter -0-. This is your taxable income	15	31,411
	16	Tax (see instructions). Check if any from Form(s): 1 <input type="checkbox"/> 8814 2 <input type="checkbox"/> 4972 3 <input type="checkbox"/>	16	

S Corporation—Sale of Business Example

Draft

SCHEDULE 1 (Form 1040) **Additional Income and Adjustments to Income** OMB No. 1545-0074
 Attach to Form 1040, 1040-SR, or 1040-NR. **2025** Attachment Sequence No. 01
 Department of the Treasury Internal Revenue Service Go to www.irs.gov/Form1040 for instructions and the latest information.

Name(s) shown on Form 1040, 1040-SR, or 1040-NR: **None** Your social security number: **xxx-xx-xxxx1**

For 2025, enter the amount reported to you on Form(s) 1099-K that was included in error or for personal items sold at a loss

Note: The remaining amounts reported to you on Form(s) 1099-K should be reported elsewhere on your return depending on the nature of the transaction. See www.irs.gov/1099k.

Part I Additional Income

1	Taxable refunds, credits, or offsets of state and local income taxes	1	
2a	Alimony received	2a	
b	Date of original divorce or separation agreement (see instructions):		
3	Business income or (loss). Attach Schedule C	3	
4	Other gains or (losses). Check if any from Form(s): <input type="checkbox"/> 4797 <input type="checkbox"/> 4684	4	
5	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	5	30,832
9	Total other income. Add lines 8a through 8z	9	
10	Combine lines 1 through 7 and 9. This is your additional income . Enter here and on Form 1040, 1040-SR, or 1040-NR, line 8	10	30,832

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 71479F Schedule 1 (Form 1040) 2025 Created 3/17/25

Draft

Schedule E (Form 1040) 2025 Attachment Sequence No. 13 Page 2
 Name(s) shown on return. Do not enter name and social security number if shown on other side. **None** Your social security number: **xxx-xx-xxxx1**

Caution: The IRS compares amounts reported on your tax return with amounts shown on Schedule(s) K-1.

Part II Income or Loss From Partnerships and S Corporations
Note: If you report a loss, receive a distribution, dispose of stock, or receive a loan repayment from an S corporation, you must check the box in column (e) on line 28 and attach the required basis computation. If you report a loss from an at-risk activity for which any amount is not at risk, you must check the box in column (f) on line 28 and attach Form 6198. See instructions.

27	Are you reporting any loss not allowed in a prior year due to the at-risk or basis limitations, a prior year unallowed loss from a passive activity (if that loss was not reported on Form 8582), or unreimbursed partnership expenses? If you answered "Yes," see instructions before completing this section	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>				
28	(a) Name	(b) Enter P for partnership, S for S corporation	(c) Check if foreign partnership	(d) Employer identification number	(e) Check if basis computation is required	(f) Check if any amount is not at risk
A	Greener Pastures, Inc.	S	<input type="checkbox"/>	31-2345678	<input checked="" type="checkbox"/>	<input type="checkbox"/>
B			<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
C			<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
D			<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>

Passive Income and Loss		Nonpassive Income and Loss		
(g) Passive loss allowed (attach Form 8582 if required)	(h) Passive income from Schedule K-1	(i) Nonpassive loss allowed (see Schedule K-1)	(j) Section 179 expense deduction from Form 4562	(k) Nonpassive income from Schedule K-1
A				30,832
B				
C				
D				
29a	Totals			30,832
30	Add columns (h) and (k) of line 29a	30	30,832	
31	Add columns (g), (i), and (j) of line 29b	31		
32	Total partnership and S corporation income or (loss). Combine lines 30 and 31	32	30,832	

Part V Summary

40	Net farm rental income or (loss) from Form 4835. Also, complete line 42 below	40	
41	Total income or (loss). Combine lines 26, 32, 37, 39, and 40. Enter the result here and on Schedule 1 (Form 1040), line 5	41	30,832
42	Reconciliation of farming and fishing income. Enter your gross farming and fishing income reported on Form 4835, line 7; Schedule K-1 (Form 1065), box 14, code B; Schedule K-1 (Form 1120-S), box 17, code AN; and Schedule K-1 (Form 1041), box 14, code F. See instructions	42	
43	Reconciliation for real estate professionals. If you were a real estate professional (see instructions), enter the net income or (loss) you reported anywhere on Form 1040, Form 1040-SR, or Form 1040-NR from all rental real estate activities in which you materially participated under the passive activity loss rules	43	

Schedule E (Form 1040) 2025

S Corporation—Sale of Business Example

Draft

Form 8949 (2025) Attachment Sequence No. 12A Page 2
 Name(s) shown on return. Name and SSN or taxpayer identification no. not required if shown on other side **None** Social security number or taxpayer identification number: **xxx-xx-xxxx1**

Before you check Box D, E, F, J, K, or L below, see whether you received any Form(s) 1099-B, Form(s) 1099-DA, or substitute statement(s) from your broker. A substitute statement will have the same information as Form 1099-B or Form 1099-DA. They will show whether your basis (usually your cost) was reported to the IRS by your broker and may even tell you which box to check.

Part II Long-Term. Transactions involving capital assets you held more than 1 year are generally long-term (see instructions). For short-term transactions, see page 1.

Note: You may aggregate all long-term transactions reported on Form(s) 1099-B and Form(s) 1099-DA showing basis was reported to the IRS and for which no adjustments or codes are required. Enter the totals directly on Schedule D, line 8a; you aren't required to report these transactions on Form 8949 (see instructions).

You must check Box D, E, F, J, K, or L below. Check only one box. If more than one box applies for your long-term transactions, complete a separate Form 8949, page 2, for each applicable box. If you have more long-term transactions than will fit on this page for one or more of the boxes, complete as many forms with the same box checked as you need.

(D) Long-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS (see Note above)
 (E) Long-term transactions reported on Form(s) 1099-B showing basis was not reported to the IRS
 (F) Long-term transactions, other than digital asset transactions, not reported to you on Form 1099-B or Form 1099-DA
 (J) Long-term transactions reported on Form(s) 1099-DA showing basis was reported to the IRS (see Note above)
 (K) Long-term transactions reported on Form(s) 1099-DA showing basis was not reported to the IRS
 (L) Long-term digital asset transactions not reported to you on Form 1099-DA or Form 1099-B

1	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold or disposed of (Mo., day, yr.)	(d) Proceeds (sales price) (see instructions)	(e) Cost or other basis See the Note below and see Column (e) in the separate instructions.	(f) Code(s) from instructions	(g) Amount of adjustment	(h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g).
	55,000 shares Greener Pastures, Inc.	4/1/22	1/31/25	62,278	46,363			15,915
2	Totals. Add the amounts in columns (d), (e), (g), and (h) (subtract negative amounts). Enter each total here and include on your Schedule D, line 8b (if Box D or Box J above is checked), line 9 (if Box E or Box K above is checked), or line 10 (if Box F or Box L above is checked)			62,278	46,363			15,915

Note: If you checked Box D or Box J above but the basis reported to the IRS was incorrect, enter in column (e) the basis as reported to the IRS, and enter an adjustment in column (g) to correct the basis. See Column (g) in the separate instructions for how to figure the amount of the adjustment.

Form 8949 (2025)

Draft

SCHEDULE D (Form 1040) **Capital Gains and Losses** OMB No. 1545-0074
 Attach to Form 1040, 1040-SR, or 1040-NR. **2025** Attachment Sequence No. 12
 Department of the Treasury Internal Revenue Service Use Form 8949 to list your transactions for lines 1b, 2, 3, 8b, 9, and 10. Go to www.irs.gov/ScheduleD for instructions and the latest information.

Name(s) shown on return **None** Your social security number: **xxx-xx-xxxx1**

Did you dispose of any investment(s) in a qualified opportunity fund during the tax year? Yes No

Part II Long-Term Capital Gains and Losses—Generally Assets Held More Than One Year (see instructions)

See instructions for how to figure the amounts to enter on the lines below.
 This form may be easier to complete if you round off cents to whole dollars.

9	Totals for all transactions reported on Form(s) 8949 with Box E or Box K checked	(d) Proceeds (sales price)	(e) Cost (or other basis)	(g) Adjustments to gain or loss from Form(s) 8949, Part II, line 2, column (g)	(h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g)
10	Totals for all transactions reported on Form(s) 8949 with Box F or Box L checked	62,278	46,363		15,915
11	Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824			11	625
12	Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1			12	
13	Capital gain distributions. See the instructions			13	
14	Long-term capital loss carryover. Enter the amount, if any, from line 13 of your Capital Loss Carryover Worksheet in the instructions			14	
15	Net long-term capital gain or (loss). Combine lines 8a through 14 in column (h). Then, go to Part III on the back			15	16,540

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 11338H Schedule D (Form 1040) 2025 Created 5/1/25

S Corporation—Sale of Business Example

Draft

Form 8995 Department of the Treasury Internal Revenue Service	Qualified Business Income Deduction Simplified Computation Attach to your tax return. Go to www.irs.gov/Form8995 for instructions and the latest information.	OMB No. 1545-2294 2025 Attachment Sequence No. 55	
Name(s) shown on return Name		Your taxpayer identification number xxx-xx-xxx1	
Note: You can claim the qualified business income deduction only if you have qualified business income from a qualified trade or business, real estate investment trust dividends, publicly traded partnership income, or a domestic production activities deduction passed through from an agricultural or horticultural cooperative. See instructions. Use this form if your taxable income, before your qualified business income deduction, is at or below \$197,300 (\$394,600 if married filing jointly), and you aren't a patron of an agricultural or horticultural cooperative.			
	(a) Trade, business, or aggregation name	(b) Taxpayer identification number	(c) Qualified business income or (loss)
i	Greener Pastures, Inc.	31-2345678	30,832
ii			
iii			
iv			
v			
2	Total qualified business income or (loss). Combine lines 1i through 1v, column (c)	2	30,832
3	Qualified business net (loss) carryforward from the prior year	3	()
4	Total qualified business income. Combine lines 2 and 3. If zero or less, enter -0-	4	30,832
5	Qualified business income component. Multiply line 4 by 20% (0.20)	5	6,166
6	Qualified REIT dividends and publicly traded partnership (PTP) income or (loss) (see instructions)	6	
7	Qualified REIT dividends and qualified PTP (loss) carryforward from the prior year	7	()
8	Total qualified REIT dividends and PTP income. Combine lines 6 and 7. If zero or less, enter -0-	8	
9	REIT and PTP component. Multiply line 8 by 20% (0.20)	9	
10	Qualified business income deduction before the income limitation. Add lines 5 and 9	10	6,166
11	Taxable income before qualified business income deduction (see instructions)	11	35,129
12	Enter your net capital gain, if any, increased by any qualified dividends (see instructions)	12	16,540
13	Subtract line 12 from line 11. If zero or less, enter -0-	13	18,589
14	Income limitation. Multiply line 13 by 20% (0.20)	14	3,718
15	Qualified business income deduction. Enter the smaller of line 10 or line 14. Also enter this amount on the applicable line of your return (see instructions)	15	3,718
16	Total qualified business (loss) carryforward. Combine lines 2 and 3. If greater than zero, enter -0-	16	()
17	Total qualified REIT dividends and PTP (loss) carryforward. Combine lines 6 and 7. If greater than zero, enter -0-	17	()
For Privacy Act and Paperwork Reduction Act Notice, see instructions. Cat. No. 37806C Form 8995 (2025)			

S Corporation—Sale of Business Example

Draft

Form 6252 Department of the Treasury Internal Revenue Service	Installment Sale Income Attach to your tax return. Use a separate form for each sale or other disposition of property on the installment method. Go to www.irs.gov/Form6252 for the latest information.	OMB No. 1545-0228 2025 Attachment Sequence No. 67	
Name(s) shown on return Name		Identifying number xxx-xx-xxx1	
1	Description of property Greener Pastures, Inc. (Installment Note)		
2a	Date acquired (mm/dd/yyyy) 4/1/2022	b	
2b	Date sold (mm/dd/yyyy) 1/31/2025		
3	Was the property sold to a related party? See instructions. If "Yes," complete Part III for the year of sale and 2 years after the year of the sale unless you received the final payment during the tax year	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
4	Can the total selling price be determined by the close of the tax year in which such sale or other disposition occurs?	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
Part I Gross Profit and Contract Price. Complete this part for all years of the installment agreement.			
5	Selling price including mortgages and other debts. Don't include interest, whether stated or unstated	5	78,000
6	Mortgages, debts, and other liabilities the buyer assumed or took the property subject to (see instructions)	6	
7	Subtract line 6 from line 5	7	78,000
8	Cost or other basis of property sold	8	63,115
9	Depreciation allowed or allowable	9	
10	Adjusted basis. Subtract line 9 from line 8	10	63,115
11	Commissions and other expenses of sale	11	
12	Income recapture from Form 4797, Part III (see instructions)	12	
13	Add lines 10, 11, and 12	13	63,115
14	Subtract line 13 from line 5. If zero or less, don't complete the rest of this form. See instructions	14	14,885
15	If the property described on line 1 above was your main home, enter the amount of your excluded gain. See instructions. Otherwise, enter -0-	15	
16	Gross profit. Subtract line 15 from line 14	16	14,885
17	Subtract line 13 from line 6. If zero or less, enter -0-	17	
18	Contract price. Add line 7 and line 17	18	78,000
Part II Installment Sale Income. Complete this part for all years of the installment agreement.			
19	Gross profit percentage (expressed as a decimal amount). Divide line 16 by line 18. (For years after the year of sale, see instructions.)	19	0.1908
20	If this is the year of sale, enter the amount from line 17. Otherwise, enter -0-	20	0
21	Payments received during year (see instructions). Don't include interest, whether stated or unstated	21	3,278
22	Add lines 20 and 21	22	3,278
23	Payments received in prior years (see instructions). Don't include interest, whether stated or unstated	23	0
24	Installment sale income. Multiply line 22 by line 19. This amount cannot be less than zero. See instructions	24	625
25	Enter the part of line 24 that is ordinary income under the recapture rules. See instructions	25	
26	Subtract line 25 from line 24. Enter here and on Schedule D or Form 4797. See instructions	26	625
Part III Related Party Installment Sale Income. Don't complete if you received the final payment this tax year.			
27	Name, address, and taxpayer identifying number of related party		
28	Did the related party resell or dispose of the property ("second disposition") during this tax year?	<input type="checkbox"/> Yes <input type="checkbox"/> No	
29	If the answer to question 28 is "Yes," complete lines 30 through 37 below unless one of the following conditions is met. Check the box that applies.		
a	<input type="checkbox"/> The second disposition was more than 2 years after the first disposition (other than dispositions of marketable securities). If this box is checked, enter the date of disposition (mm/dd/yyyy)		
b	<input type="checkbox"/> The first disposition was a sale or exchange of stock to the issuing corporation.		
c	<input type="checkbox"/> The second disposition was an involuntary conversion and the threat of conversion occurred after the first disposition.		
d	<input type="checkbox"/> The second disposition occurred after the death of the original seller or buyer.		
e	<input type="checkbox"/> It can be established to the satisfaction of the IRS that tax avoidance wasn't a principal purpose for either of the dispositions. If this box is checked, attach an explanation. See instructions.		
30	Selling price of property sold by related party (see instructions)	30	
31	Enter contract price from line 18 for year of first sale	31	
32	Enter the smaller of line 30 or line 31	32	
33	Total payments received by the end of this tax year (see instructions)	33	
34	Subtract line 33 from line 32. If zero or less, enter -0-	34	
35	Multiply line 34 by the gross profit percentage on line 19 for year of first sale	35	
36	Enter the part of line 35 that is ordinary income under the recapture rules. See instructions	36	
37	Subtract line 36 from line 35. Enter here and on Schedule D or Form 4797. See instructions	37	
For Paperwork Reduction Act Notice, see page 4. Cat. No. 13601R Form 6252 (2025) Created 5/28/25			

S Corporation—Sale of Business Example

Form 7203 <small>(Rev. December 2022)</small> Department of the Treasury Internal Revenue Service	S Corporation Shareholder Stock and Debt Basis Limitations <small>Attach to your tax return. Go to www.irs.gov/Form7203 for instructions and the latest information.</small>	<small>OMB No. 1545-2302</small> <small>Attachment Sequence No. 203</small>		
Name of shareholder Nate		Identifying number XXX-XX-XXX1		
A Name of S corporation Greener Pastures, Inc.		B Employer identification number 31-2345678		
C Stock block (see instructions): 55,000 shares Greener Pastures, Inc.				
D Check applicable box(es) to indicate how stock was acquired: (1) <input checked="" type="checkbox"/> Original shareholder (2) <input type="checkbox"/> Purchased (3) <input type="checkbox"/> Inherited (4) <input type="checkbox"/> Gift (5) <input type="checkbox"/> Other:				
E Check if you have a Regulations section 1.1367-1(g) election in effect during the tax year for this S corporation <input type="checkbox"/>				
Part I Shareholder Stock Basis				
1 Stock basis at the beginning of the corporation's tax year	1	56,646		
2 Basis from any capital contributions made or additional stock acquired during the tax year	2			
3a Ordinary business income (enter losses in Part III)	3a	30,832		
b Net rental real estate income (enter losses in Part III)	3b			
c Other net rental income (enter losses in Part III)	3c			
d Interest income	3d			
e Ordinary dividends	3e			
f Royalties	3f			
g Net capital gains (enter losses in Part III)	3g			
h Net section 1231 gain (enter losses in Part III)	3h			
i Other income (enter losses in Part III)	3i			
j Excess depletion adjustment	3j			
k Tax-exempt income	3k			
l Recapture of business credits	3l			
m Other items that increase stock basis	3m			
4 Add lines 3a through 3m	4	30,832		
5 Stock basis before distributions. Add lines 1, 2, and 4	5	87,478		
6 Distributions (excluding dividend distributions)	6			
<small>Note: If line 6 is larger than line 5, subtract line 5 from line 6 and report the result as a capital gain on Form 8949 and Schedule D. See instructions.</small>				
7 Stock basis after distributions. Subtract line 6 from line 5. If the result is zero or less, enter -0-, skip lines 8 through 14, and enter -0- on line 15	7	87,478		
8a Nondeductible expenses	8a			
b Depletion for oil and gas	8b			
c Business credits (sections 50(c)(1) and (5))	8c			
9 Add lines 8a through 8c	9			
10 Stock basis before loss and deduction items. Subtract line 9 from line 7. If the result is zero or less, enter -0-, skip lines 11 through 14, and enter -0- on line 15	10	87,478		
11 Allowable loss and deduction items. Enter the amount from line 47, column (c)	11			
12 Debt basis restoration (see net increase in instructions for line 23)	12			
13 Other items that decrease stock basis	13	87,478		
14 Add lines 11, 12, and 13	14	87,478		
15 Stock basis at the end of the corporation's tax year. Subtract line 14 from line 10. If the result is zero or less, enter -0-	15	0		
Part II Shareholder Debt Basis				
Section A—Amount of Debt (If more than three debts, see instructions.)				
Description	(a) Debt 1	(b) Debt 2	(c) Debt 3	(d) Total
	<input type="checkbox"/> Formal note <input type="checkbox"/> Open account	<input type="checkbox"/> Formal note <input type="checkbox"/> Open account	<input type="checkbox"/> Formal note <input type="checkbox"/> Open account	
16 Loan balance at the beginning of the corporation's tax year				
17 Additional loans (see instructions)				
18 Loan balance before repayment. Add lines 16 and 17				
19 Principal portion of debt repayment (this line doesn't include interest)				
20 Loan balance at the end of the corporation's tax year. Subtract line 19 from line 18				

For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 56396V Form 7203 (Rev. 12-2022)

Partnership—Sale of Business Example

Draft

Form 1065 <small>(Rev. December 2022)</small> Department of the Treasury Internal Revenue Service	U.S. Return of Partnership Income <small>For calendar year 2025, or tax year beginning 1/1, 2025, ending 1/31, 2025</small> Go to www.irs.gov/Form1065 for instructions and the latest information.	<small>OMB No. 1545-0123</small> 2025			
A Principal business activity Retail Sales		D Employer identification number 31-2345678			
B Principal product or service Lawn & Garden Supplies		E Date business started 4/1/22			
C Business code number 444200		F Total assets (see instructions) \$ 0			
Name of partnership Greener Pastures Partnership		Room or suite no.			
Number and street 123 Prairie Point		City or town Farmdale MN			
State or province MN		Country United States			
ZIP or foreign postal code 55555					
G Check applicable boxes: (1) <input type="checkbox"/> Initial return (2) <input checked="" type="checkbox"/> Final return (3) <input type="checkbox"/> Name change (4) <input type="checkbox"/> Address change (5) <input type="checkbox"/> Amended return					
H Check accounting method: (1) <input checked="" type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify):					
I Number of Schedules K-1. Attach one for each person who was a partner at any time during the tax year: 2					
J Check if Schedules C and M-3 are attached <input type="checkbox"/>					
K Check if partnership: (1) <input type="checkbox"/> Aggregated activities for section 465 at-risk purposes (2) <input type="checkbox"/> Grouped activities for section 469 passive activity purposes					
Caution: Include only trade or business income and expenses on lines 1a through 23 below. See instructions for more information.					
Income	1a Gross receipts or sales	14,600	b Less returns and allowances	1c	14,600
	2 Cost of goods sold (attach Form 1125-A)	2		3	6,100
	3 Gross profit. Subtract line 2 from line 1c	3		4	
	4 Ordinary income (loss) from other partnerships, estates, and trusts (attach statement)	4		5	
	5 Net farm profit (loss) (attach Schedule F (Form 1040))	5		6	53,518*
	6 Net gain (loss) from Form 4797, Part II, line 17 (attach Form 4797)	6		7	
	7 Other income (loss) (attach statement)	7		8	59,618
	8 Total income (loss). Combine lines 3 through 7	8		9	
Deductions (see instructions for limitations)	9 Salaries and wages (other than to partners) (less employment credits)	9		10	
	10 Guaranteed payments to partners	10		11	
	11 Repairs and maintenance	11		12	
	12 Bad debts	12		13	
	13 Rent	13		14	
	14 Taxes and licenses	14		15	
	15 Interest (see instructions)	15		16a	1,060
	16a Depreciation (if required, attach Form 4562)	16a		16b	1,060
	b Less depreciation reported on Form 1125-A and elsewhere on return	16b		17	1,060
	17 Depletion (Do not deduct oil and gas depletion.)	17		18	
Tax and Payment	18 Retirement plans, etc.	18		19	
	19 Employee benefit programs	19		20	
	20 Energy efficient commercial buildings deduction (attach Form 7205)	20		21	2,500
	21 Other deductions (attach statement)	21		22	3,560
	22 Total deductions. Add the amounts shown in the far right column for lines 9 through 21	22		23	56,058
	23 Ordinary business income (loss). Subtract line 22 from line 8	23		24	
	24 Interest due under the look-back method—completed long-term contracts (attach Form 8697)	24		25	
	25 Interest due under the look-back method—income forecast method (attach Form 8866)	25		26	
	26 BBA AAR imputed underpayment (see instructions)	26		27	
	27 Other taxes (see instructions)	27		28	0
28 Total balance due. Add lines 24 through 27	28		29		
29 Elective payment election amount from Form 3800	29		30		
30 Payment (see instructions)	30		31	0	
31 Amount owed. If the sum of line 29 and line 30 is smaller than line 28, enter amount owed	31		32a		
32a Overpayment. If the sum of line 29 and line 30 is larger than line 28, enter overpayment	32a		b		
b Routing number	b		c	Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings	
d Account number	d				

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 partner or limited liability company member) is based on all information of which preparer has any knowledge.

Sign Here

Name _____
Signature of partner or limited liability company member _____ Date _____

Paid Preparer Use Only

Enter preparer's name _____ Preparer's signature _____ Date _____
Firm's name _____ Firm's EIN _____
Firm's address _____ Phone no. _____

For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11390Z Form 1065 (2025) Created 4/28/25

* Form 4797 is identical to the C Corporation Example, page 28-13.

Partnership—Sale of Business Example

Draft

Form 1065 (2025)		Page 5	
Schedule K Partners' Distributive Share Items			Total amount
Income (Loss)	1	Ordinary business income (loss) (page 1, line 23)	1 56,058
	2	Net rental real estate income (loss) (attach Form 8825)	2
	3a	Other gross rental income (loss)	3a
	b	Expenses from other rental activities (attach statement)	3b
	c	Other net rental income (loss). Subtract line 3b from line 3a	3c
	4	Guaranteed payments: a Services 4a b Capital 4b	4b
	c	Total. Add lines 4a and 4b	4c
	5	Interest income	5
	6	Dividends and dividend equivalents: a Ordinary dividends b Qualified dividends 6b c Dividend equivalents 6c	6a 6c
	7	Royalties	7
	8	Net short-term capital gain (loss) (attach Schedule D (Form 1065))	8
Deductions	9a	Net long-term capital gain (loss) (attach Schedule D (Form 1065))	9a
	b	Collectibles (28%) gain (loss)	9b
	c	Unrecaptured section 1250 gain (attach statement)	9c
	10	Net section 1231 gain (loss) (attach Form 4797)	10
	11	Other income (loss) (see instructions) Type:	11
	12	Section 179 deduction (attach Form 4562)	12
	13a	Cash contributions	13a
	b	Noncash contributions	13b
	c	Investment interest expense	13c
	d	Section 59(e)(2) expenditures: (1) Type: (2) Amount:	13d(2)
	e	Other deductions (see instructions) Type:	13e
Self-Employment	14a	Net earnings (loss) from self-employment	14a 2,540
	b	Gross farming or fishing income	14b
	c	Gross nonfarm income	14c 6,100
Credits	15a	Low-income housing credit (section 42(j)(5))	15a
	b	Low-income housing credit (other)	15b
	c	Qualified rehabilitation expenditures (rental real estate) (attach Form 3468, if applicable)	15c
	d	Other rental real estate credits (see instructions) Type:	15d
	e	Other rental credits (see instructions) Type:	15e
	f	Other credits (see instructions) Type:	15f
Inter-national	16a	Attach Schedule K-2 (Form 1065), Partners' Distributive Share Items—International, and check this box to indicate that you are reporting items of international tax relevance	
	b	Check this box if you qualified for an exception to filing Schedule K-2 (Form 1065)	
Alternative Minimum Tax (AMT) Items	17a	Post-1986 depreciation adjustment	17a
	b	Adjusted gain or loss	17b
	c	Depletion (other than oil and gas)	17c
	d	Oil, gas, and geothermal properties—gross income	17d
	e	Oil, gas, and geothermal properties—deductions	17e
	f	Other AMT items (attach statement)	17f
Other Information	18a	Tax-exempt interest income	18a
	b	Other tax-exempt income	18b
	c	Nondeductible expenses	18c
	19a	Distributions of cash and marketable securities	19a 137,050
	b	Distributions of other property	19b 78,000
	20a	Investment income	20a
	b	Investment expenses	20b
21	Total foreign taxes paid or accrued	21	

Form 1065 (2025)

Sales, Dispositions, and Liquidations 28-21

Partnership—Sale of Business Example

Draft

Schedule K-1 (Form 1065) 2025		651123	
Department of the Treasury Internal Revenue Service		OMB No. 1545-0123	
For calendar year 2025, or tax year beginning 1/1/2025 ending 1/31/2025		Final K-1 <input checked="" type="checkbox"/> Amended K-1 <input type="checkbox"/>	
Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items		1 Ordinary business income (loss)	14 Self-employment earnings (loss)
		2 Net rental real estate income (loss)	15 Credits
		3 Other net rental income (loss)	16 Schedule K-3 is attached if checked <input type="checkbox"/>
		4a Guaranteed payments for services	17 Alternative minimum tax (AMT) items
		4b Guaranteed payments for capital	18 Tax-exempt income and nondeductible expenses
		4c Total guaranteed payments	19 Distributions
		5 Interest income	20 Other information
		6a Ordinary dividends	21 Foreign taxes paid or accrued
		6b Qualified dividends	
		6c Dividend equivalents	
		7 Royalties	
		8 Net short-term capital gain (loss)	
		9a Net long-term capital gain (loss)	
		9b Collectibles (28%) gain (loss)	
		9c Unrecaptured section 1250 gain	
		10 Net section 1231 gain (loss)	
		11 Other income (loss)	
		12 Section 179 deduction	
		13 Other deductions	
		22 <input type="checkbox"/> More than one activity for at-risk purposes*	
		23 <input type="checkbox"/> More than one activity for passive activity purposes*	
		*See attached statement for additional information.	
Part I Information About the Partnership		For IRS Use Only	
A Partnership's employer identification number 31-2345678			
B Partnership's name, address, city, state, and ZIP code Greener Pastures Partnership 123 Prairie Point Farmdale, MN 55555			
C IRS center where partnership filed return: e-file			
D <input type="checkbox"/> Check if this is a publicly traded partnership (PTP)			
Part II Information About the Partner			
E Partner's SSN or TIN (Do not use TIN of a disregarded entity. See instructions.) xxx-xx-xxxx			
F Name, address, city, state, and ZIP code for partner entered in E. See instructions. Nate			
G <input checked="" type="checkbox"/> General partner or LLC member-manager <input type="checkbox"/> Limited partner or other LLC member			
H1 <input checked="" type="checkbox"/> Domestic partner <input type="checkbox"/> Foreign partner			
H2 <input type="checkbox"/> If the partner is a disregarded entity (DE), enter the partner's TIN _____ Name _____			
I1 What type of entity is this partner? Individual			
I2 If this partner is a retirement plan (IRA/SEP/Keogh/etc.), check here <input type="checkbox"/>			
J Partner's share of profit, loss, and capital (see instructions):			
		Beginning	Ending
Profit		55 %	55 %
Loss		55 %	55 %
Capital		55 %	55 %
Check if decrease is due to: <input type="checkbox"/> Sale or <input type="checkbox"/> Exchange of partnership interest. See instructions.			
K1 Partner's share of liabilities:		Beginning	Ending
Nonrecourse		\$ 2,173	\$ 0
Qualified nonrecourse financing		\$	\$
Recourse		\$ 4,675	\$ 0
K2 Check this box if item K1 includes liability amounts from lower-tier partnerships <input type="checkbox"/>			
K3 Check if any of the above liability is subject to guarantees or other payment obligations by the partner. See instructions <input type="checkbox"/>			
L Partner's Capital Account Analysis			
Beginning capital account		\$ 56,646	
Capital contributed during the year		\$ 0	
Current year net income (loss)		\$ 30,832	
Other increase (decrease) (attach explanation)		\$ 30,800**	
Withdrawals and distributions		\$ (118,278)	
Ending capital account		\$ 0	
M Did the partner contribute property with a built-in gain (loss)? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No If "Yes," attach statement. See instructions.			
N Partner's Share of Net Unrecognized Section 704(c) Gain or (Loss)			
Beginning		\$	
Ending		\$	
		**\$30,800 Total reported gain on sale	
For Paperwork Reduction Act Notice, see the Instructions for Form 1065.		www.irs.gov/Form1065 Cat. No. 11394R Schedule K-1 (Form 1065) 2025	

Note: For purposes of this example, assume a Section 179 deduction was never claimed. If it had been, the partner, rather than the partnership, would report the sale. See instructions for Form 4797.

Partnership—Sale of Business Example

Statement A—QBI Pass-Through Entity Reporting

Partnership's name: **Greener Pastures Partnership** Partnership's EIN: **31-2345678**
 Partner's name: **Nate** Partner's identifying number: **xxx-xx-xxx1**

	Trade or Business 1	Trade or Business 2	Trade or Business 3
<input type="checkbox"/> PTP	<input type="checkbox"/> PTP	<input type="checkbox"/> PTP	<input type="checkbox"/> PTP
<input type="checkbox"/> Aggregated	<input type="checkbox"/> Aggregated	<input type="checkbox"/> Aggregated	<input type="checkbox"/> Aggregated
<input type="checkbox"/> SSTB	<input type="checkbox"/> SSTB	<input type="checkbox"/> SSTB	<input type="checkbox"/> SSTB

Partner's share of:

QBI or qualified PTP items subject to partner-specific determinations:

Ordinary business income (loss)	30,832		
Rental income (loss)			
Royalty income (loss)			
Section 1231 gain (loss)			
Other income (loss)			
Section 179 deduction			
Charitable contributions			
Other deductions			
W-2 wages	0		
UBIA of qualified property	0		
Section 199A dividends			

Draft

Form 1040 U.S. Individual Income Tax Return **2025** OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 2025, or other tax year beginning _____, 2025, ending _____, 20 See separate instructions.

Filed pursuant to section 301.9100-2 Combat zone Deceased MM / DD / YYYY Spouse MM / DD / YYYY

Other

Your first name and middle initial: **Nate** Last name: _____ Your social security number: **xxx xx xxx1**

If joint return, spouse's first name and middle initial: _____ Last name: _____ Spouse's social security number: _____

Home address (number and street). If you have a P.O. box, see instructions. Apt. no. _____ Check here if your main home, and your spouse's if filing a joint return, was in the U.S. for more than half of 2025.

City, town, or post office. If you have a foreign address, also complete spaces below. State _____ ZIP code _____ **Presidential Election Campaign** Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. You Spouse

Foreign country name _____ Foreign province/state/county _____ Foreign postal code _____

Filing Status Single Head of household (HOH)

Attach Sch. B if required.	2a Tax-exempt interest	2a	b Taxable interest	2b 3,507
	3a Qualified dividends	3a	b Ordinary dividends	3b
	c Check if your child's dividends are included in 1 <input type="checkbox"/> Line 3a 2 <input type="checkbox"/> Line 3b			

d If you are married filing separately and lived apart from your spouse the entire year (see inst.), check here <input type="checkbox"/>	7a	16,540
8 Additional income from Schedule 1, line 10	8	30,832
9 Add lines 7a, 2b, 3b, 4b, 5b, 6b, 7a, and 8. This is your total income	9	50,879
10 Adjustments to income from Schedule 1, line 26	10	99
11a Subtract line 10 from line 9. This is your adjusted gross income	11a	50,780

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form **1040** (2025) Created 9/5/25

Form 1040 (2025) Page **2**

Tax and Credits

11b Amount from line 11a (adjusted gross income)	11b	50,780
12a Someone can claim <input type="checkbox"/> You as a dependent <input type="checkbox"/> Your spouse as a dependent		
b <input type="checkbox"/> Spouse itemizes on a separate return c <input type="checkbox"/> You were a dual-status alien		
d You: <input type="checkbox"/> Were born before January 2, 1961 <input type="checkbox"/> Are blind		
Spouse: <input type="checkbox"/> Was born before January 2, 1961 <input type="checkbox"/> Is blind		
e Standard deduction or itemized deductions (from Schedule A)	12e	15,750
13a Qualified business income deduction from Form 8995 or Form 8995-A	13a	3,698
b Additional deductions from Schedule 1-A, line 38	13b	
14 Add lines 12e, 13a, and 13b	14	
15 Subtract line 14 from line 11b. If zero or less, enter -0-. This is your taxable income	15	19,448
16 Tax (see instructions). Check if any from Form(s): 1 <input type="checkbox"/> 8814 2 <input type="checkbox"/> 4972 3 <input type="checkbox"/>	16	31,332

Standard deduction for—
 • Single or Married filing separately, \$15,750
 • Married filing jointly or Qualifying surviving

Partnership—Sale of Business Example

Draft

SCHEDULE 1 (Form 1040) **Additional Income and Adjustments to Income** OMB No. 1545-0074

Attach to Form 1040, 1040-SR, or 1040-NR.
Go to www.irs.gov/Form1040 for instructions and the latest information.

Department of the Treasury Internal Revenue Service

Name(s) shown on Form 1040, 1040-SR, or 1040-NR: **Nate** Your social security number: **xxx-xx-xxx1**

For 2025, enter the amount reported to you on Form(s) 1099-K that was included in error or for personal items sold at a loss

Note: The remaining amounts reported to you on Form(s) 1099-K should be reported elsewhere on your return depending on the nature of the transaction. See www.irs.gov/1099k.

Part I Additional Income

1 Taxable refunds, credits, or offsets of state and local income taxes	1	
2a Alimony received	2a	
b Date of original divorce or separation agreement (see instructions): _____		
3 Business income or (loss). Attach Schedule C	3	
4 Other gains or (losses). Check if any from Form(s): <input type="checkbox"/> 4797 <input type="checkbox"/> 4684	4	
5 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E	5	30,832
6 Farm income or (loss). Attach Schedule F	6	
7 Unemployment compensation. If you repaid a 2025 overpayment (see instructions), check here <input type="checkbox"/> and enter amount repaid: _____	7	
8 Other income:		
a Net operating loss	8a	()
b Gambling	8b	
9 Total other income. Add lines 8a through 8z	9	
10 Combine lines 1 through 7 and 9. This is your additional income . Enter here and on Form 1040, 1040-SR, or 1040-NR, line 8	10	30,832

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 71479F Schedule 1 (Form 1040) 2025 Created 3/17/25

Schedule 1 (Form 1040) 2025 Page **2**

Part II Adjustments to Income

11 Educator expenses	11	
12 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106	12	
13 Health savings account deduction. Attach Form 8889	13	
14 Moving expenses for members of the Armed Forces. Attach Form 3903. If claiming only storage fees (see instructions), check here <input type="checkbox"/>	14	
15 Deductible part of self-employment tax. Attach Schedule SE	15	99
16 Self-employed SEP, SIMPLE, and qualified plans	16	
17 Self-employed health insurance deduction	17	
18 Penalty on early withdrawal of savings	18	
19a Alimony paid	19a	
b Recipient's SSN		
c Date of original divorce or separation agreement (see instructions): _____		

h Attorney fees and court costs for actions involving certain unlawful discrimination claims (see instructions)	24h	
i Attorney fees and court costs you paid in connection with an award from the IRS for information you provided that helped the IRS detect tax law violations	24i	
j Housing deduction from Form 2555	24j	
k Excess deductions of section 67(e) expenses from Schedule K-1 (Form 1041)	24k	
z Other adjustments. List type and amount: _____	24z	
25 Total other adjustments. Add lines 24a through 24z	25	
26 Add lines 11 through 23 and 25. These are your adjustments to income . Enter here and on Form 1040, 1040-SR, or 1040-NR, line 10	26	99

Schedule 1 (Form 1040) 2025

Partnership—Sale of Business Example

Draft

Schedule E (Form 1040) 2025 Attachment Sequence No. **13** Page **2**

Name(s) shown on return. Do not enter name and social security number if shown on other side. **Name** **xxx-xx-xxxx1** **Your social security number** **xxx-xx-xxxx1**

Caution: The IRS compares amounts reported on your tax return with amounts shown on Schedule(s) K-1.

Part II Income or Loss From Partnerships and S Corporations
Note: If you report a loss, receive a distribution, dispose of stock, or receive a loan repayment from an S corporation, you must check the box in column (e) on line 28 and attach the required basis computation. If you report a loss from an at-risk activity for which any amount is not at risk, you must check the box in column (f) on line 28 and attach Form 6198. See instructions.

27 Are you reporting any loss not allowed in a prior year due to the at-risk or basis limitations, a prior year unallowed loss from a passive activity (if that loss was not reported on Form 8582), or unreimbursed partnership expenses? If you answered "Yes," see instructions before completing this section Yes No

	(a) Name	(b) Enter P for partnership; S for S corporation	(c) Check if foreign partnership	(d) Employer identification number	(e) Check if basis computation is required	(f) Check if any amount is not at risk
A	Greener Pastures Partnership	P	<input type="checkbox"/>	31-2345678	<input type="checkbox"/>	<input type="checkbox"/>
B			<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
C			<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
D			<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>

Passive Income and Loss		Nonpassive Income and Loss			
(g) Passive loss allowed (attach Form 8582 if required)	(h) Passive income from Schedule K-1	(i) Nonpassive loss allowed (see Schedule K-1)	(j) Section 179 expense deduction from Form 4562	(k) Nonpassive income from Schedule K-1	
				30,832	
A					
B					
C					
D					
29a Totals				30,832	
b Totals					
30 Add columns (h) and (k) of line 29a			30	30,832	
31 Add columns (g), (i), and (j) of line 29b			31		
32 Total partnership and S corporation income or (loss). Combine lines 30 and 31			32	30,832	

Part III Income or Loss From Estates and Trusts

	(a) Name	(b) Employer identification number
A		
B		

Passive Income and Loss		Nonpassive Income and Loss	
(c) Passive deduction or loss allowed (attach Form 8582 if required)	(d) Passive income from Schedule K-1	(e) Deduction or loss from Schedule K-1	(f) Other income from Schedule K-1
A			
B			
34a Totals			
b Totals			
35 Add columns (d) and (f) of line 34a			35
36 Add columns (c) and (e) of line 34b			36
37 Total estate and trust income or (loss). Combine lines 35 and 36			37

Part IV Income or Loss From Real Estate Mortgage Investment Conduits (REMICs)—Residual Holder

	(a) Name	(b) Employer identification number	(c) Excess inclusion from Schedules Q, line 2c (see instructions)	(d) Taxable income (net loss) from Schedules Q, line 1b	(e) Income from Schedules Q, line 3b
38					
39 Combine columns (d) and (e) only. Enter the result here and include in the total on line 41 below					39

Part V Summary

40 Net farm rental income or (loss) from Form 4835. Also, complete line 42 below	40	
41 Total income or (loss). Combine lines 26, 32, 37, 39, and 40. Enter the result here and on Schedule 1 (Form 1040), line 5	41	30,832
42 Reconciliation of farming and fishing income. Enter your gross farming and fishing income reported on Form 4835, line 7; Schedule K-1 (Form 1065), box 14, code B; Schedule K-1 (Form 1120-S), box 17, code AN; and Schedule K-1 (Form 1041), box 14, code F. See instructions	42	
43 Reconciliation for real estate professionals. If you were a real estate professional (see instructions), enter the net income or (loss) you reported anywhere on Form 1040, Form 1040-SR, or Form 1040-NR from all rental real estate activities in which you materially participated under the passive activity loss rules	43	

Schedule E (Form 1040) 2025

Sales, Dispositions, and Liquidations 28-23

Partnership—Sale of Business Example

Draft

Form 8949 (2025) Attachment Sequence No. **12A** Page **2**

Name(s) shown on return. Name and SSN or taxpayer identification no. not required if shown on other side. **Name** **xxx-xx-xxxx1** **Social security number or taxpayer identification number** **xxx-xx-xxxx1**

Before you check Box D, E, F, J, K, or L below, see whether you received any Form(s) 1099-B, Form(s) 1099-DA, or substitute statement(s) from your broker. A substitute statement will have the same information as Form 1099-B or Form 1099-DA. They will show whether your basis (usually your cost) was reported to the IRS by your broker and may even tell you which box to check.

Part II Long-Term. Transactions involving capital assets you held more than 1 year are generally long-term (see instructions). For short-term transactions, see page 1.

Note: You may aggregate all long-term transactions reported on Form(s) 1099-B and Form(s) 1099-DA showing basis was reported to the IRS and for which no adjustments or codes are required. Enter the totals directly on Schedule D, line 8a; you aren't required to report these transactions on Form 8949 (see instructions).

You must check Box D, E, F, J, K, or L below. Check only one box. If more than one box applies for your long-term transactions, complete a separate Form 8949, page 2, for each applicable box. If you have more long-term transactions than will fit on this page for one or more of the boxes, complete as many forms with the same box checked as you need.

(D) Long-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS (see Note above)
 (E) Long-term transactions reported on Form(s) 1099-B showing basis was not reported to the IRS
 (F) Long-term transactions, other than digital asset transactions, not reported to you on Form 1099-B or Form 1099-DA
 (J) Long-term transactions reported on Form(s) 1099-DA showing basis was reported to the IRS (see Note above)
 (K) Long-term transactions reported on Form(s) 1099-DA showing basis was not reported to the IRS
 (L) Long-term digital asset transactions not reported to you on Form 1099-DA or Form 1099-B

1	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold or disposed of (Mo., day, yr.)	(d) Proceeds (sales price) (see instructions)	(e) Cost or other basis (See the Note below and see Column (e) in the separate instructions.)	Adjustment, if any, to gain or loss if you enter an amount in column (g). Enter a code in column (f). See the separate instructions.	(h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g).	
	55% Greener Pastures Partnership	4/1/22	1/31/25	62,278	46,363		15,915	
2	Totals. Add the amounts in columns (d), (e), (g), and (h) (subtract negative amounts). Enter each total here and include on your Schedule D, line 8b (if Box D or Box J above is checked), line 9 (if Box E or Box K above is checked), or line 10 (if Box F or Box L above is checked)							62,278 46,363 15,915

Note: If you checked Box D or Box J above but the basis reported to the IRS was incorrect, enter in column (e) the basis as reported to the IRS, and enter an adjustment in column (g) to correct the basis. See Column (g) in the separate instructions for how to figure the amount of the adjustment.

Form 8949 (2025)

SCHEDULE D (Form 1040) Capital Gains and Losses

Attach to Form 1040, 1040-SR, or 1040-NR.
 Use Form 8949 to list your transactions for lines 1b, 2, 3, 8b, 9, and 10.
 Go to www.irs.gov/ScheduleD for instructions and the latest information.

Department of the Treasury Internal Revenue Service

Name(s) shown on return **Name** **xxx-xx-xxxx1** **Your social security number** **xxx-xx-xxxx1**

Did you dispose of any investment(s) in a qualified opportunity fund during the tax year? Yes No

Part II Long-Term Capital Gains and Losses—Generally Assets Held More Than One Year (see instructions)

See instructions for how to figure the amounts to enter on the lines below.
 This form may be easier to complete if you round off cents to whole dollars.

	(d) Proceeds (sales price)	(e) Cost (or other basis)	(g) Adjustments to gain or loss from Form(s) 8949, Part II, line 2, column (g)	(h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g)
9 Totals for all transactions reported on Form(s) 8949 with Box E or Box K checked				
10 Totals for all transactions reported on Form(s) 8949 with Box F or Box L checked	62,278	46,363		15,915
11 Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824				11 625
12 Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1				12
13 Capital gain distributions. See the instructions				13
14 Long-term capital loss carryover. Enter the amount, if any, from line 13 of your Capital Loss Carryover Worksheet in the instructions				14 ()
15 Net long-term capital gain or (loss). Combine lines 8a through 14 in column (h). Then, go to Part III on the back				15 16,540

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 11338H Schedule D (Form 1040) 2025 Created 5/1/25

Partnership—Sale of Business Example

Draft

Form 8995 Department of the Treasury Internal Revenue Service	Qualified Business Income Deduction Simplified Computation Attach to your tax return. Go to www.irs.gov/Form8995 for instructions and the latest information.	OMB No. 1545-2294 2025 Attachment Sequence No. 55	
Name(s) shown on return Nate		Your taxpayer identification number xxx-xx-xxxx1	
<p>Note: You can claim the qualified business income deduction only if you have qualified business income from a qualified trade or business, real estate investment trust dividends, publicly traded partnership income, or a domestic production activities deduction passed through from an agricultural or horticultural cooperative. See instructions.</p> <p>Use this form if your taxable income, before your qualified business income deduction, is at or below \$197,300 (\$394,600 if married filing jointly), and you aren't a patron of an agricultural or horticultural cooperative.</p>			
	(a) Trade, business, or aggregation name	(b) Taxpayer identification number	(c) Qualified business income or (loss)
i	Greener Pastures Partnership	31-2345678	30,733*
ii			
iii			
iv			
v			
2	Total qualified business income or (loss). Combine lines 1i through 1v, column (c)	2	30,733
3	Qualified business net (loss) carryforward from the prior year	3	()
4	Total qualified business income. Combine lines 2 and 3. If zero or less, enter -0-	4	30,733
5	Qualified business income component. Multiply line 4 by 20% (0.20)	5	6,147
6	Qualified REIT dividends and publicly traded partnership (PTP) income or (loss) (see instructions)	6	()
7	Qualified REIT dividends and qualified PTP (loss) carryforward from the prior year	7	()
8	Total qualified REIT dividends and PTP income. Combine lines 6 and 7. If zero or less, enter -0-	8	()
9	REIT and PTP component. Multiply line 8 by 20% (0.20)	9	()
10	Qualified business income deduction before the income limitation. Add lines 5 and 9	10	6,147
11	Taxable income before qualified business income deduction (see instructions)	11	35,030
12	Enter your net capital gain, if any, increased by any qualified dividends (see instructions)	12	16,540
13	Subtract line 12 from line 11. If zero or less, enter -0-	13	18,490
14	Income limitation. Multiply line 13 by 20% (0.20)	14	3,698
15	Qualified business income deduction. Enter the smaller of line 10 or line 14. Also enter this amount on the applicable line of your return (see instructions)	15	()
16	Total qualified business (loss) carryforward. Combine lines 2 and 3. If greater than zero, enter -0-	16	(3,698)
17	Total qualified REIT dividends and PTP (loss) carryforward. Combine lines 6 and 7. If greater than zero, enter -0-	17	()

For Privacy Act and Paperwork Reduction Act Notice, see instructions. Cat. No. 37806C Form **8995** (2025)

*Business income..... **\$30,832**
 Deductible part of self-employment tax..... **(99)**
 Qualified business income..... **\$30,733**

End

Partnership—Sale of Business Example

Draft

Form 6252 Department of the Treasury Internal Revenue Service	Installment Sale Income Attach to your tax return. Use a separate form for each sale or other disposition of property on the installment method. Go to www.irs.gov/Form6252 for the latest information.	OMB No. 1545-0228 2025 Attachment Sequence No. 67
Name(s) shown on return Nate		Identifying number xxx-xx-xxxx1
1	Description of property Greener Pastures, Inc. (Installment Note)	
2a	Date acquired (mm/dd/yyyy) 4/1/2022	b Date sold (mm/dd/yyyy) 1/31/2025
3	Was the property sold to a related party? See instructions. If "Yes," complete Part III for the year of sale and 2 years after the year of the sale unless you received the final payment during the tax year <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
4	Can the total selling price be determined by the close of the tax year in which such sale or other disposition occurs? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
Part I Gross Profit and Contract Price. Complete this part for all years of the installment agreement.		
5	Selling price including mortgages and other debts. Don't include interest, whether stated or unstated	5
6	Mortgages, debts, and other liabilities the buyer assumed or took the property subject to (see instructions)	6
7	Subtract line 6 from line 5	7
8	Cost or other basis of property sold	8
9	Depreciation allowed or allowable	9
10	Adjusted basis. Subtract line 9 from line 8	10
11	Commissions and other expenses of sale	11
12	Income recapture from Form 4797, Part III (see instructions)	12
13	Add lines 10, 11, and 12	13
14	Subtract line 13 from line 5. If zero or less, don't complete the rest of this form. See instructions	14
15	If the property described on line 1 above was your main home, enter the amount of your excluded gain. See instructions. Otherwise, enter -0-	15
16	Gross profit. Subtract line 15 from line 14	16
17	Subtract line 13 from line 6. If zero or less, enter -0-	17
18	Contract price. Add line 7 and line 17	18
19	Gross profit percentage (expressed as a decimal amount). Divide line 16 by line 18. (For years after the year of sale, see instructions.)	19
20	If this is the year of sale, enter the amount from line 17. Otherwise, enter -0-	20
21	Payments received during year (see instructions). Don't include interest, whether stated or unstated	21
22	Add lines 20 and 21	22
23	Payments received in prior years (see instructions). Don't include interest, whether stated or unstated	23
24	Installment sale income. Multiply line 22 by line 19. This amount cannot be less than zero. See instructions	24
25	Enter the part of line 24 that is ordinary income under the recapture rules. See instructions	25
26	Subtract line 25 from line 24. Enter here and on Schedule D or Form 4797. See instructions	26
Part II Related Party Installment Sale Income. Don't complete if you received the final payment this tax year.		
27	Name, address, and taxpayer identifying number of related party	
28	Did the related party resell or dispose of the property ("second disposition") during this tax year? <input type="checkbox"/> Yes <input type="checkbox"/> No	
29	If the answer to question 28 is "Yes," complete lines 30 through 37 below unless one of the following conditions is met. Check the box that applies.	
a	<input type="checkbox"/> The second disposition was more than 2 years after the first disposition (other than dispositions of marketable securities). If this box is checked, enter the date of disposition (mm/dd/yyyy)	
b	<input type="checkbox"/> The first disposition was a sale or exchange of stock to the issuing corporation.	
c	<input type="checkbox"/> The second disposition was an involuntary conversion and the threat of conversion occurred after the first disposition.	
d	<input type="checkbox"/> The second disposition occurred after the death of the original seller or buyer.	
e	<input type="checkbox"/> It can be established to the satisfaction of the IRS that tax avoidance wasn't a principal purpose for either of the dispositions. If this box is checked, attach an explanation. See instructions.	
30	Selling price of property sold by related party (see instructions)	30
31	Enter contract price from line 18 for year of first sale	31
32	Enter the smaller of line 30 or line 31	32
33	Total payments received by the end of this tax year (see instructions)	33
34	Subtract line 33 from line 32. If zero or less, enter -0-	34
35	Multiply line 34 by the gross profit percentage on line 19 for year of first sale	35
36	Enter the part of line 35 that is ordinary income under the recapture rules. See instructions	36
37	Subtract line 36 from line 35. Enter here and on Schedule D or Form 4797. See instructions	37

For Paperwork Reduction Act Notice, see page 4. Cat. No. 13601R Form **6252** (2025) Created 5/28/25