

Investment Club 2021 Tax Clinic

FEBRUARY 2022



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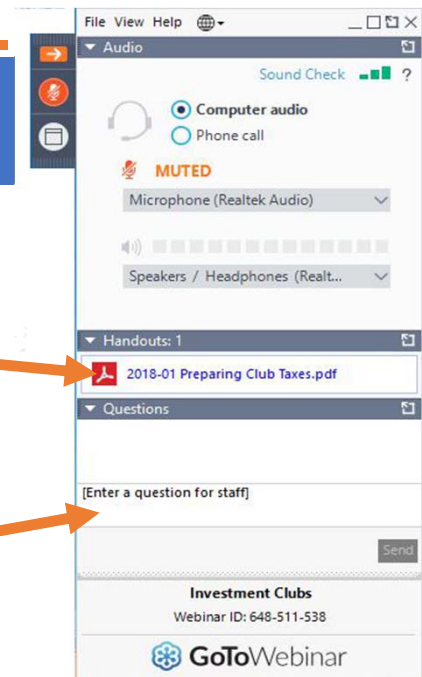
Sean Pulrang



Handout & Questions

Handout in PDF format is available in Handouts tab.

Type questions in Questions box.



Status of ICLUBcentral Tax Printers



- As of 2/15/2022:
 - Federal Tax Printer is released.
 - Paper and e-Filed returns are now being accepted by IRS.
 - State Club Tax Printers released.
 - AZ, CA, CO, GA, IA, IN, MA, MD, MN, MO, NJ, NY, PA, OR, WI.

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Where You & Your Club Stand...



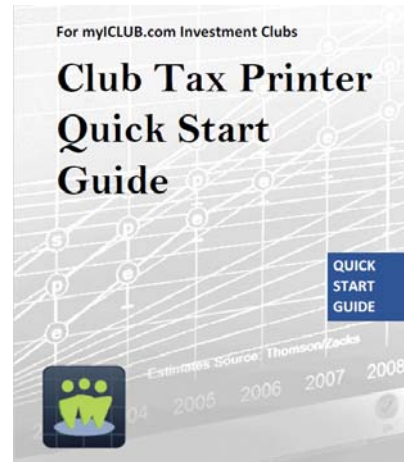
- As of February 15, you should have:
 - Closed books for 2021.
 - Entered all transactions & reconciled all accounts.
 - Received most/all 1099 statements.
 - Convened committee to perform annual audit.
 - Purchased (& installed) ICLUBcentral 2021 Club Tax Printer program.
 - **Attended or viewed “Closing the Books” & “Preparing 2021 Club Taxes” webinars.**
 - Completed at least 1 “dry run”/practice run of 2021 tax return.

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Download Our New Quick Start Guide



- Has useful information to review before you finalize your club return.
- Available in Downloads tab of this webinar.
- Also available in Help links in myICLUB.com Club Tax Printer.

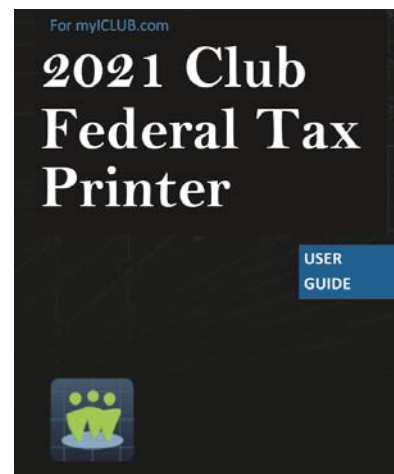


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Download Our Club Tax Printer User Guide



- Many questions can be answered by reviewing the manual.
- Available in Downloads tab of this webinar.
- Also available in Help links in myICLUB.com Club Tax Printer.



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REMINDER

IRS & STATE FILING DEADLINES FOR PARTNERSHIPS

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IRS Deadline for Partnerships



- Form 1065 & related forms & schedules **must be filed & provided to partners by March 15, 2021.**
 - Ensures partners have details needed for personal returns.
 - Most clubs easily meet this deadline, even though 1099s aren't required to be sent by financial institutions until February 15.
 - Can file for automatic 6-month extension if needed.
 - *Late filings are subject to penalty.*

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Can't Meet the IRS Deadline?



- Submit IRS Form 7004 to request automatic six-month extension to deadline.

www.irs.gov/uac/about-form-7004

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State Deadlines for Partnerships (ICLUB-Supported)

- March 15:
 - Arizona
 - California
 - Georgia
 - Massachusetts
 - Minnesota
 - New York
 - Oregon
 - Wisconsin
- April 15
 - Colorado
 - Indiana
 - Iowa (April 30)
 - Maryland
 - Missouri
 - New Jersey
 - Pennsylvania

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Filing Your State Return



- In most cases, your state return can be filed after the IRS return is filed & K-1s are distributed to members.
- Don't panic if ICLUB Club State Tax Printer isn't yet available for your state—you have plenty of time.

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QUESTION BREAK

USE QUESTIONS BOX IN WEBINAR APPLET

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NEW FOR 2021: SCHEDULE K-2 & K-3

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Reporting of Foreign Income to IRS



- IRS is collecting more information on “foreign” investments.
- Beginning in 2021, IRS Form 1065 returns must report income from non-US investments.
- 2 schedules now provided to IRS & partners to report foreign income:
 - Schedule K-2 (submitted to IRS with return).
 - Schedule K-3 (given to partners & submitted to IRS with return).

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What Is a Foreign Company?



- Foreign income is any income that comes from “foreign company.”
- IRS says that “foreign company” is any company that is **NOT** a US company.
- American Depositary Receipts (ADRs) & American Depositary Shares (ADSs) are shares in foreign companies & thus qualify as foreign companies.
- Income from mutual funds & ETFs that own foreign securities also qualifies as foreign income.

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What Treasurer Must Do



- Identify country of incorporation for each company in portfolio.
 - **Not** necessarily where headquarters are located, **or** where company does all/most of its business.
- **Best source is SEC filings or directly from company (such as on Investor Relations website).**
 - Value Line does **not** always report country of incorporation.

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Update Country in myCLUB.com



- In myCLUB.com, Treasurer must confirm “Country” in myCLUB.com Security settings for each security.
 - myCLUB.com: Accounting > Securities > Update Security Settings.
- For ETFs or mutual funds that own non-US securities, select “Various” as country.
 - However, funds & ETFs will report on 1099 amounts & source countries of each foreign transaction; contact ICLUB Support for assistance.
- Going forward, do this for each new security purchased by club.

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Generating Club’s Federal Return



- 2 new schedules are generated:
 - Schedule K-2 (submitted to IRS with return).
 - Schedule K-3 (given to partners & submitted to IRS with return).
- **These are now generated even if club has no foreign income transactions.**

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Schedule K-2



- Schedule K-2 (Form 1065), “**Partner’s Share of Income, Deductions, Credits, etc.—International**” submitted w/Form 1065.
 - 19-page form w/12 parts, though only Parts II and III are relevant to typical club.
 - **Nearly all fields on schedule will be blank.**
 - Supplements will detail amounts by country code.

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Schedule K-3



- Schedule K-3 (Form 1065), “**Partner’s Share of Income, Deductions, Credits, etc.—International**” submitted w/Form 1065 & must be issued to each partner.
 - 20-page form w/13 parts, though only Parts II and III are relevant to typical club.
 - Entire form must be provided to partners.
 - **Nearly all fields on schedule will be blank.**
 - Supplements will detail amounts by country code.
 - In myICLUB, included w/K-1 after tax forms are generated.

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Member Downloads of K-3



- Members download own K-3 with K-1 from myICLUB.com Taxes tab.
 - Will be 20+ pages in length, mostly blank – only Part II, Part III, & supplements have values.
- Members use K-3 details on personal tax return preparation.
 - Required if Form 1116 is submitted with member's personal return to claim foreign tax credit.
 - If member has no foreign transactions allocated to them on K-3, schedule is not used for personal return (but club still must provide).

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Reconsider Printing & Mailing



- For 12-person club, IRS return with all schedules may now total 400 pages.
 - e-Filing with myICLUB.com is much more desirable.
- Printing & distributing K-1 & K-3 for each partner now more expensive & time-consuming.
 - Have members download their own K-1 & K-3 from myICLUB.com Taxes tab.

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Already Generated Federal Return?



- Latest update to myICLUB.com Club Tax Printer released 2/15/2022.
- Before finalizing return, re-do Allocation of Income & Expenses, then Regenerate Federal return.
- If you already submitted Form 1065 to IRS without K-2 & K-3, you do NOT need to submit amended return UNLESS 1 or more member will be submitting Form 1116 with their personal IRS return to request foreign tax credit.

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Special IRS Handling for 2021 Tax Year



- IRS has stated that since Schedule K-2 & K-3 reporting is new in tax year, enforcement will be lenient.
- However, clubs must make good-faith effort to comply with regulations.

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QUESTION BREAK

USE QUESTIONS BOX IN WEBINAR APPLET



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COMMON PROBLEMS

COMMON PROBLEMS



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IRS e-Filed Return Is Rejected



- IRS will reject your return if EIN and/or club name do not match prior year returns, or 1099 from brokerage, or original EIN application form.
- Make sure both name & EIN are correct on your e-Filed return.
- Watch out if using abbreviations – will probably need to use full name of club.

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Withdrawal Spans End & Start of Year



- Do not value or enter withdrawals on 12/31 or 1/1.
- Try to complete & date withdrawals before 12/30 or wait until after 1/2.
- Remember not to enter any transactions on 12/31 – move them to 12/30.

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Distributions from REITs



- Due to Tax Reform Act, REIT income is handled differently starting in 2018.
- REIT distributions that were previously considered non-qualifying dividends now meet requirements to be considered **Qualifying Business Income (QBI)** for purposes of Section 199A deductions.
- Section 199A-qualifying REIT dividends are now reported on 1099.
- These dividends will be included on Schedule K-1s to partners as investment income.

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Handling Section 199A Distributions from REIT



- When editing REIT distributions at year end in myICLUB.com, include Section 199A dividends as “Dividends.”
- In Allocation of Income & Expenses, an extra box will appear showing REIT’s name & the total dividends recorded.
 - Enter amount of qualified dividends received from REIT as identified by the REIT.
 - The remainder will be non-qualified dividends that meet section 199A.
- The Allocation will then distribute these dividends to partners & report on line 20 of K-1 with code Z.

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Is Form 1099 Late?



- Club can file for an automatic 6-month extension using **IRS Form 7004**.
- Brokerage may still release 1099s before March 15 filing & you might be able to file on time.
 - Get everything ready to file your club return now.
 - When 1099 arrives, validate that 1099 corresponds to your records & e-File for immediate submission.
- If you file for extension, you can still file before March 15.
- Point members to **myICLUB Member Tax Summary** report which provides preliminary info to get started on personal returns.

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Deduction Eliminated for Investment Expenses



- Tax Reform Act eliminated individual's deduction for investment expenses.
 - Most club members never had enough expenses to deduct any investment expenses, so this change won't impact many.
- Accounting software still allows for entry of "investment" & "non-investment" expenses, but these are not reported on K-1 or 1065.

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QUESTION BREAK

USE QUESTIONS BOX IN WEBINAR APPLET



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FOR DISBANDING CLUBS



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Disbanding Takes Several Months



- Disbanding clubs must file final 1065 by 15th day of 3rd month following termination of partnership.
- Club that decides to disband in December will not likely be able to complete process in time to avoid filing return in next year.
- Disbanding clubs can use prior-year ICLUBcentral Club Tax Printer software to generate “short-year” final return.
- **NOTE:** If current year IRS forms are available by filing deadline (usually late in calendar year), you must use those & not prior year forms.
 - See: www.iclub.com/support/CA3support.asp#disband

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GETTING HELP

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Where to Get Help



- ICLUBcentral's Frequently Asked Questions (FAQ)
 - www.iclub.com/faq/
- Software Manuals:
 - www.iclub.com/support/downloads.asp

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ICLUBcentral Technical Support



- Online:
 - www.iclub.com/support
- Frequently Asked Questions:
 - www.iclub.com/faq/
- Telephone:
 - 1-877-33-ICLUB
 - 9:30 AM to 6:00 PM Eastern Time
 - Monday through Friday

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Thank You!



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