

TAX 650 Final Project Guidelines and Rubric

Overview

The final project for this course is the creation of a memorandum with appendix (7–10 pages).

As an associate working in a privately held enterprise or working with privately held clients, it is imperative to be able to advise clients on the tax implications of their financial investments. The ability to model the tax consequences of transactions and do cost benefit analysis is crucial.

For your final project, you will model the role of an associate working in a private consulting firm. You will demonstrate your ability to advise clients on whether they should operate as a sole proprietor, a partnership, an S corporation, or a C corporation. Additionally, using your tax research skills and understanding of federal income taxation, you will have the opportunity to evaluate tax consequences from sales and distributions for their compliance with the Internal Revenue Code and Treasury regulations.

The project is divided into **four milestones**, which will be submitted at various points throughout the course to scaffold learning and ensure quality final submissions. These milestones will be submitted in **Modules Three, Five, Seven, and Eight**. The final product will be submitted in **Module Nine**.

In this assignment, you will demonstrate your mastery of the following course outcomes:

- Recommend an appropriate business tax entity based on the analysis of a tax situation for achieving favorable economic impact on the client's taxable income
- Utilize appropriate tax forms and schedules that compute taxable income on individual tax returns and reflect versatility of thought, resulting in the best economic solution for the individual taxpayer
- Apply accrual and cash basis accounting best practices and moral reasoning in determining when business transactions may be reported for income tax purposes
- Assess the economic impact on taxable income for the business tax entity in relation to Internal Revenue Code and Treasury regulations and the optimum desired outcomes for the client
- Evaluate the tax consequences that result from sales or distributions of property for their compliance with IRS Circular 230, Internal Revenue Code, and the American Institute for Certified Public Accountants and for advising the client

Prompt

You are currently working at a mid-sized certified public accounting firm. Your client is Bob Jones. Bob, age 60 and single, has recently retired from IBM. He has \$690,000 available in his 401(k) fund and he is thinking of using that money to open a used car business that will be located at 210 Ocean View Drive in Pensacola, Florida. Bob has estimated that the business might make \$300,000 in taxable income.

Bob's personal wealth including investments in land, stocks, and bonds is about \$14,000,000. He reported an interest income of \$20,000 and dividend income of \$6,000 last year. The \$14,000,000 includes land worth \$9,000,000 that Bob bought in 1966 for \$450,000.

Bob has hired your firm for professional advice regarding whether he should operate as a sole proprietor, a partnership, an S corporation, or a C corporation. He is also considering transferring a possible 40% interest in his new business to his daughter Mandy, age 23 and single.

Prepare a memorandum to the client, recommending a type of business entity, including an appendix of supporting IRS tax schedules and forms.

Specifically, the following **critical elements** must be addressed:

I. Memorandum

- A. Recommend a type of **business entity** for the client to consider based on your tax research. Consider justifying your recommendation using the code and regulations that relate to the business entity.
- B. Differentiate between **accrual accounting and cash basis**. Based on the type of business and the client's accounting system, what is the impact when revenue is recognized?
- C. Based on the decision of accrual vs. cash basis, describe when **revenue** would be **recognized on the sale** of inventory, and how the accrual reporting differs from cash basis.
- D. Determine the **economic impact** on the client's financial situation. Based on your decision, determine the potential tax liability, keeping in mind appropriate Internal Revenue Code and Treasury regulations.
- E. Identify the **tax consequences** on the sale or exchange of the land consistent with capital gain rules. Consider the selling expense, broker's fees, closing costs, appraisals, and surveys and the correct schedule form to complete.
- F. Justify whether or not the client should choose a business entity that has **limited liability protection**. Be sure to include possible future liability issues based on the potential economic impact and appropriate Internal Revenue Code and Treasury regulations.
- G. Describe the **tax effect** on the recommended business entity and the impact it will have on the client's personal tax return. Consider addressing how the business entity affects the completion of the 1040 tax form.

II. Conclusion

- A. Evaluate the **economic impact** on the client's **personal returns** based on the recommended entity. Justify why the client would not choose the other business entities by informing the client of the differences.
- B. Justify your recommendation regarding the client's daughter having an **ownership interest**. Provide details supporting the recommendation taking into consideration the jargon and mechanics of the transaction.
- C. Summarize, using moral reasoning, **cash or accrual basis accounting systems** in relation to the selected business entity. Consider how the accounting system impacts revenue recognition, consistent with Internal Revenue Code and Treasury regulations.
- D. Describe the after **tax effects** on the client's **cash flow** based on the sale of the land that is needed to provide the funds necessary to start the business. Consider including capital gains tax rules.
- E. Explain whether or not the client and his child should take a **salary or cash distribution** according to tax purposes and Internal Revenue Code and Treasury regulations. Consider the type of business and the tax effect whether it is salary, dividends, or cash withdrawal.

III. Appendix

Based on your recommendation to the client regarding proprietorship, taxable income, and sale of land, complete the appropriate tax schedules and forms described below.

- A. Prepare the appropriate page of **Form 1040** and include the sale of the client's land on the appropriate tax schedule and form for the recommended business entity. Be certain to complete each tax schedule and form accurately and completely.
- B. Prepare the appropriate **schedule and tax forms** to reflect taxable income based on your calculations and the disposition of asset. Be certain to complete each tax schedule and form accurately and completely.
- C. Illustrate how creative problem solving and versatility of thought impact **professional advice** that you intended to result in the best economic solutions for the client. Consider providing real-world examples to support your claims.

Milestones

Milestone One: Gross Income and Capital Gains

In **Module Three**, you will submit a draft of the gross income and capital gains, analyzing the following critical elements: I. Memorandum, section E, and II. Conclusion, sections D and E. You must compute the property disposition capital gain and taxation of gross income. In completing this assignment, consider the tax effect of salary dividends or cash withdrawal in accordance with Internal Revenue Code and Treasury regulations. This assignment will be submitted as a Word document. **This milestone is graded with the Milestone One Rubric.**

Milestone Two: Revenue Recognition and Accounting Methods

In **Module Five**, you will submit a draft of the revenue recognition and accounting methods, summarizing the following critical elements: I. Memorandum, sections B, C, and D, and II. Conclusion, section C. You will determine revenue recognition and the economic impact of the client's financial situation. Based on your decision, determine the potential tax liability, keeping in mind appropriate Internal Revenue Code and Treasury regulations. This assignment will be submitted as a Word document. **This milestone is graded with the Milestone Two Rubric.**

Milestone Three: Choice of Business Entity

In **Module Seven**, you will submit a draft of the choice of business entity, analyzing the following critical elements: I. Memorandum, sections A, F, and G, and II. Conclusion, sections A and B. The short paper will communicate tax aspects of business entities to the client. This assignment will be submitted as a Word document. **This milestone is graded with the Milestone Three Rubric.**

Milestone Four: Tax Forms

In **Module Eight**, you will submit IRS draft tax forms, analyzing all of the critical elements in III. Appendix, sections A, B, and C. Based on your research, the tax forms and schedules will support your recommendation to the client. This assignment will be submitted as completed tax forms, which are provided to you in your textbook resource CD or on the IRS website. **This milestone is graded with the Milestone Four Rubric.**

Final Submission: Memorandum With Appendix

In **Module Nine**, you will submit a memorandum with an appendix to the client and all IRS tax forms and schedules necessary to support your advice. It should be a complete, polished artifact containing **all** of the critical elements of the final product. It should reflect the incorporation of feedback gained throughout the course. **This submission is graded with the Final Product Rubric.**

Deliverables

Milestone	Deliverable	Module Due	Grading
One	Gross Income and Capital Gains	Three	Graded separately; Milestone One Rubric
Two	Revenue Recognition and Accounting Methods	Five	Graded separately; Milestone Two Rubric
Three	Choice of Business Entity	Seven	Graded separately; Milestone Three Rubric
Four	Tax Forms	Eight	Graded separately; Milestone Four Rubric
	Final Submission: Memorandum With Appendix	Nine	Graded separately; Final Product Rubric

Final Product Rubric

Guidelines for Submission: Your memorandum must be 7 to 10 pages in length (plus a cover page and references) and must be written in APA format. Use double spacing, 12-point Times New Roman font, and one-inch margins. Your memorandum must include an appendix containing electronic versions of the appropriate IRS tax schedules and forms. Include at least three references cited in APA format.

Instructor Feedback: This activity uses an integrated rubric in Blackboard. Students can view instructor feedback in the Grade Center. For more information, review [these instructions](#).

Critical Elements	Exemplary	Proficient	Needs Improvement	Not Evident	Value
Memo: Business Entity	Meets “Proficient” criteria and details are justified using appropriate Internal Revenue Code and Treasury regulations relevant to recommended business entity (100%)	Recommends a type of business entity for the client to consider that is based on tax research (90%)	Recommends a type of business entity but either the cited Internal Revenue Code and Treasury regulations are inaccurate or details are cursory (70%)	Does not recommend a type of business entity (0%)	6.4

Memo: Accrual Accounting vs. Cash Basis	Meets "Proficient" criteria and provides a full description of which entities require accrual and when it is optional (100%)	Differentiates between accrual accounting and cash basis and identifies the impact of the revenue (90%)	Differentiates between accrual accounting and cash basis and identifies the impact of the revenue, but the details are inaccurate or cursory (70%)	Does not differentiate between accrual accounting and cash basis or does not identify the impact of the revenue (0%)	6.4
Memo: Revenue Recognized on the Sale	Meets "Proficient" criteria and describes the installment method of reporting revenue (100%)	Describes when revenue would be recognized and how the reporting differs for accrual accounting vs. cash basis (90%)	Describes when revenue would be recognized and how the reporting differs but details are inaccurate or cursory (70%)	Does not describe when revenue would be recognized or how the reporting differs (0%)	6.4
Memo: Economic Impact	Meets "Proficient" criteria and addresses payroll tax issues and self-employment tax (100%)	Determines the economic impact on the client's financial situation and potential tax liability, and determinations are consistent with Internal Revenue Code and Treasury regulations (90%)	Determines the economic impact on the financial situation and potential tax liability but either the referenced Internal Revenue Code and Treasury regulations are inaccurate or details are cursory (70%)	Does not determine the economic impact on the financial situation and potential tax liability (0%)	6.4
Memo: Tax Consequences	Meets "Proficient" criteria and comprehensively addresses all expenses including how best to report on the schedule (100%)	Identifies the tax consequences on the sale or exchange of the land consistent with capital gains rules (90%)	Identifies tax consequences but details are either inconsistent with capital gains rules or cursory (70%)	Does not identify tax consequences (0%)	6.4
Memo: Limited Liability Protection	Meets "Proficient" criteria and includes information about limited liability companies (100%)	Justifies whether or not the client should choose a business entity that has limited liability protection and includes possible future liability issues consistent with Internal Revenue Code and Treasury regulations (90%)	Justifies whether or not to choose a business entity that has limited liability protection but does not include possible future liability issues, possible future liability issues are not consistent with Internal Revenue Code and Treasury regulations, or details are either inaccurate or cursory (70%)	Does not justify whether or not to choose a business entity that has limited liability protection (0%)	6.4

Memo: Tax Effect	Meets “Proficient” criteria and addresses the client’s after tax flow (100%)	Describes the tax effect on the recommended business entity and the impact on the client’s personal tax return (90%)	Describes the tax effect on the recommended business entity and the impact on the client’s personal tax return, but details are irrelevant or cursory (70%)	Does not describe the tax effect on the recommended business entity and the impact on the client’s personal tax return (0%)	6.4
Conclusion: Economic Impact: Personal Returns	Meets “Proficient” criteria and shows keen insight into the advantages and disadvantages of choosing appropriate business entities (100%)	Evaluates the economic impact on the client’s personal returns based on the recommended entity and justifies response by including information about the other entities (90%)	Evaluates the economic impact of client’s personal returns but does not provide justification or details lack relevance or are cursory (70%)	Does not evaluate the economic impact of client’s personal returns (0%)	6.4
Conclusion: Ownership Interest	Meets “Proficient” criteria and uses appropriate voice for the audience (100%)	Justifies recommendation regarding the client’s daughter having an ownership interest using details supporting the recommendation (90%)	Justifies recommendation regarding client’s daughter having an ownership interest but details either lack relevance or are cursory (70%)	Does not justify the recommendation regarding client’s daughter having ownership interest (0%)	6.4
Conclusion: Cash or Accrual Basis Accounting System	Meets “Proficient” criteria and identifies the impact on revenue recognition consistent with Internal Revenue Code and Treasury regulations (100%)	Summarizes, using moral reasoning, cash or accrual basis accounting systems in relation to the selected business entity consistent with appropriate Internal Revenue Code and Treasury regulations (90%)	Summarizes cash or accrual basis accounting systems in relation to the selected business entity, but details either lack moral reasoning or are cursory (70%)	Does not summarize cash or accrual basis accounting systems in relation to the selected business entity (0%)	6.4
Conclusion: Tax Effects on Cash Flow	Meets “Proficient” criteria and cites capital gains tax rules relating to gains and losses (100%)	Describes the after tax effects on the client’s cash flow based on the sale of the land that is needed to start the business (90%)	Describes the after tax effects on the client’s cash flow that are needed to start the business but details are either inaccurate or cursory (70%)	Does not describe the after tax effects on the client’s cash flow that are needed to start the business (0%)	6.4

Conclusion: Salary or Cash Distribution	Meets "Proficient" criteria and includes the tax effect on salary, dividends, or cash withdrawal (100%)	Explains whether or not the client and his child should take a salary or cash distribution according to tax purposes and Internal Revenue Code and Treasury regulations (90%)	Explains whether or not the client and his child should take a salary or cash distribution but details are cursory or not consistent with tax purposes and Internal Revenue code and Treasury regulations (70%)	Does not explain whether or not the client and his child should take a salary or cash distribution (0%)	6.4
Appendix: Form 1040		Prepares the appropriate page of Form 1040 accurately and completely, including the sale of the client's land on the appropriate tax form and schedule (100%)	Prepares the appropriate page of Form 1040 on the appropriate tax form and schedule, but details are either incomplete or inaccurate (70%)	Does not complete the appropriate page of Form 1040 and does not include the sale of the client's land on the appropriate tax form and schedule (0%)	6.4
Appendix: Schedule and Tax Form		Prepares the appropriate schedule and tax form accurately and completely, reflecting taxable income based on calculations and the disposition of asset (100%)	Prepares the appropriate schedule and tax form reflecting taxable income but details are incomplete or inaccurate (70%)	Does not prepare the appropriate tax form reflecting taxable income (0%)	6.4
Appendix: Professional Advice	Meets "Proficient" and provides real-world examples to support claims (100%)	Illustrates how creative problem solving and versatility of thought impacts professional advice intended to result in the best economic solutions for the client (90%)	Illustrates how creative problem solving and versatility of thought impacts professional advice intended to result in the best economic solutions for the client but details are irrelevant or cursory (70%)	Does not illustrate how creative problem solving and versatility of thought impacts professional advice intended to result in the best economic solution for the client (0%)	6.4
Articulation of Response	Submission is free of errors related to citations, grammar, spelling, syntax, and organization and is presented in a professional and easy-to-read format (100%)	Submission has no major errors related to citations, grammar, spelling, syntax, or organization (90%)	Submission has major errors related to citations, grammar, spelling, syntax, or organization that negatively impact readability and articulation of main ideas (70%)	Submission has critical errors related to citations, grammar, spelling, syntax, or organization that prevent understanding of ideas (0%)	4
Earned Total					100%