
A Guide To The

S Corp Vs Partnership Analyzer

By Denver Tax Software, Inc.

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Overview

Why Use This Program

Purpose

This analysis should be run for each new business! The results are likely to be different for each business. Some businesses and their owners will be better off as S Corporations. Other businesses and their owners will be better off as Partnerships. This is a complex analysis. Fortunately, we don't charge a per run fee. Use this program as much as you need it, and save hours - even days of time!

The primary purpose of this program is to significantly reduce the time needed to determine whether an entity should be an S Corporation versus a Partnership, LLC or Sole Proprietorship. This analysis requires two tax projections for each shareholder. One projection for the owners assumes that they are shareholders in an S Corp, and the other projection assumes that they are owners in a Partnership, LLC or Sole Proprietorship.

The secondary purpose of this program is analyze the tax consequences of changing levels of S Corporation shareholders Wages or Partnership partners' Guaranteed Payments.

These are not simple computations, and this is better left to this program!

Getting The Most Out Of This Program

Quick Start

To make this manual more readable, we will often refer to the S Corporation Vs. Partnership/LLC/Sole Proprietorship Analyzer as the S Corp Vs. Partnership Analyzer.

Newly formed LLCs and Partnerships can have alternative tax treatments. See "Check-The-Box" on page 6.

Go to the section "Installing and Running" on page 3. We have tried to design the program so that you don't have to refer to this manual! When you are entering inputs, there will be a section of the input screen that discusses what you should be

inputting. If you have any questions, please go first to the Tutorial – Example section. See "Tutorial – Example" on page 26.

A discussion about the interpretation of the reports can be found at Analysis Of Reports. See "Analysis Of Reports" on page 20.

The help file is identical to this manual. The help file, accessed by clicking on the **Help** menu choice, has the same Table Of Contents (Contents) and index that this printed manual does. However, the help file has word search features which are not possible with the written manual.

When the program installs, it also installs a copy of this manual in Adobe's Acrobat (.pdf) format. If you want a hard copy of the manual, click on the manual icon in the Denver Tax Software Group (**Start - Programs - Denver Tax Software Group**). That will bring up the manual in the Acrobat Reader. The manual can be printed from the Acrobat program.

How To Get A Complete Understanding Of This Program

Read this manual! The S Corp Vs. Partnership/LLC/Sole Proprietorship Analysis chapter discusses how the S Corp Vs. Partnership/LLC/Sole Proprietorship analysis is performed in depth. See: "S Corp Vs. Partnership/LLC/Sole Proprietorship Analysis" on page 6.

Installing and Running

System Requirements

Operating System: Microsoft® Windows® versions 95, 98, ME, NT 4, 2000 or XP.
Please refer to the readme.txt file to see if service packs might be required.

Installation

All commands you need to enter will be typed in **bold** type.

Installing To A Single Machine

For the purpose of these instructions, we are assuming that your CD drive is drive D, if it is not, please make the appropriate changes. To install the program to a single machine, use the following steps:

1. Click on the **Start** button.
2. Click on the **Run** menu item.
3. Type **D:SETUP** and press the **ENTER** key.
4. Follow the instructions in the installation program.

Network Installation

Network installation instructions are provided in a separate document to customers who have purchased rights to use this program on additional desktops.

Starting the S Corp Vs. Partnership Analyzer

The Installation program will create a "Denver Tax Software" Start Group, if it doesn't already exist. The **DTS S Corp Vs. Partnership Analyzer** will be placed within this group.

To start the **S Corp Vs. Partnership Analyzer**, click on the **Start** button, click on the **Programs** button, click on the **Denver Tax Software** program group, then click on the **S Corp Vs. Partnership Analyzer** icon.

Limitations

Due to the complexity of S Corps, Partnerships, LLCs and individual income tax computations, it is easier to describe what computations this program can perform. Please refer to the “Capabilities” section that starts on this page.

However, some limitations merit mentioning as follows:

State taxation issues are not addressed.

This is a Quantitative Analysis not a Qualitative Analysis. Thus, the program’s focus is the monetary cost or benefit of being an S Corp Vs. an unincorporated business. Qualitative issues may be important. Examples of Qualitative issues might be a greater need for using estimated tax payments in unincorporated entities.

The program does not make any basis adjustments or keep track of the owners' adjusted basis.

Partnership income and loss allocations are the same for all types of income. For example, you input that a person is a 10% owner, the program will allocate 10% of all income or losses to that owner. In reality, a partner could have different allocation percentages for different types of income and losses.

Minimum Tax is not computed. The Income Tax that the program computes is the "Regular" Income Tax.

S Corp Built-In-Gains Tax is not computed. This is only an issue when switching from a C Corp to an S Corp.

Owners are individuals, not corporations, LLCs or partnerships.

Capabilities

S-Corp Tax Computations

This program:

Allocates Ordinary Income, §1231 items, Capital Gains (losses) and Charitable Contributions to the shareholders.

Adds any Self-Employed Medical Insurance Expenses to the owner's wages.

Determines Employer's FICA tax.

Partnership & Sole Proprietorship

This program:

Allocates Ordinary Income, §1231 items, Capital Gains (losses) and Charitable Contributions to the owners.

Adds any Self-Employed Medical Insurance Expenses to the owner's Guaranteed Payments.

Individual Tax Computations

For each shareholder, this program:

- Computes Income Tax using regular current year tax rates.
- Supports the Joint, Single, Married Filing Separately and Head Of Household filing statuses.
- Computes tax on Net Long-Term Capital Gains at the rates that are used after May 5, 2003.
- Limits Capital Losses appropriately.
- Treats §1231 gains as Long-Term Capital Gains and losses as Ordinary Income.
- Computes Self-Employment Tax and the related deduction for Self-Employment Tax.
- Deducts Self-Employed Medical Insurance. This program does not check to see if the Self-Employment Income limitation applies.
- Computes any Medical Deduction using appropriate limitations.
- Computes Itemized Miscellaneous Deduction using appropriate limitations.
- Determines any phase-out of Itemized Deductions.
- Determines the Standard Deduction, and deducts the larger of Itemized Deductions or the Standard Deduction.
- Determines the Exemption Deduction and any phase-out reduction.
- Determines FICA taxes.

S Corp Vs. Partnership/LLC/Sole Proprietorship Analysis

Check-The-Box

A more appropriate name for this program could be "*Entities Taxed Like S Corporations Vs Entities Taxed Like Traditional Partnerships or Sole Proprietorships*." Wouldn't that be a mouthful?

New Partnerships or LLCs can be taxed as either S Corps, Partnerships or, for single member LLCs, Sole Proprietorships. Thus, if you have an entity that is an LLC, you still would want to determine whether the entity will be taxed as an S Corp, Partnership, or, for single member LLCs, a Sole Proprietorship. [For more information about Entity Classification Elections, see Form 8832 or I.R.C. Section 7701 and related regulations.]

A business that has been formed as a corporation will be taxed as an S Corp if a valid S Corp election has been made. However, an entity formed as a Partnership can be taxed as an S Corp if the correct procedures have been followed.

Analyze This!

This program uses a Quantitative Analysis to determine the costs or benefits of being taxed as an S Corp or an unincorporated entity. It is not enough to consider how the business is taxed. Since the tax consequences to the owners will be different if the business is an S-Corp rather than a Partnership, the owners' tax consequences must be considered.

The program does not consider Qualitative issues. For example, in general, S-Corps and Partnerships have a lower risk of being examined by the IRS than do Sole Proprietorships.

Among other analysis, this program will show the cost or benefit of either reducing or increasing wages for S-Corp shareholders and the cost or benefit of either reducing or increasing Guaranteed Payments for Partnership partners. Some have advocated that shareholders in S-Corps take lower wages and higher S-Corp dividends. This program will show the cost and benefit of such strategy. However, Denver Tax Software, Inc. is not recommending reducing S-Corp wages. This strategy could result in additional payroll tax and payroll tax penalties. The user of

this program should either be a tax professional or consult a tax professional about issues like this.

Analysis For The Business

Overview -- Business Analysis

The business will not be paying Income Taxes. Items of income and loss will be passed through to the owners. In general, the S-Corp will pass-through the same types of items as a Partnership will. The biggest difference will have to do with employment taxes rather than income taxes. S Corporation Ordinary Income is not subject to employment taxes. Partnership Ordinary Income might be subject to employment taxes (Self-Employment Taxes). S Corporation Shareholder Wages and Partnership Guaranteed Payments are very similar in nature and are both subject to employment taxes. Shareholder Wages and Partnership Guaranteed Payments are paid as compensation for services, not because the recipient is an owner.

Items that S Corps and Partnerships pass-through to their owners that are reflected in this program are as follows:

- Ordinary Income. This amount most likely will differ for S Corp stockholders than for Partnership partners.
- Long-Term and Short-Term Capital Gains
- Section 1231 income or losses.
- Charity Deductions.

S Corp

When a shareholder receives compensations for services rendered to the corporation, the compensation is in the form of wages. These wages reduce the Ordinary Income pass-through that is passed through to the shareholders.

S Corp shareholders receive this Ordinary Income pass-through in proportion to their ownership percentage. The stockholder wages that are paid are based, in theory, on the value of the service rendered, not the ownership percentage.

The S Corp Ordinary Income pass-through is NOT subject to employment taxes.

The S Corp pays the employer's portion of the FICA tax. This FICA tax is also a deduction at arriving at Ordinary Income.

Partnership

The closest thing to stockholder wages for a partnership are Guaranteed Payments. Guaranteed payments reduce the Ordinary Income pass-through. It is certainly possible for person with a small ownership interest in the partnership (10%, for example) to receive a large amount of Guaranteed Payments.

Unlike S Corp Ordinary Income pass-throughs, Partnership Ordinary Income pass-throughs might be subject to some degree of Self-Employment Tax. It is not unusual for 100% of partnership Ordinary Income to be subject to Self-Employment Tax.

Self-Employed Medical Insurance Premiums

If the S Corporation or partnership pay medical insurance for the owners, those payments are not deducted as Employee Benefits, but are deducted as wages or Guaranteed Payments, respectively to the S Corp or the partnership. Thus, those premiums reduce the Ordinary Income. According to Circular E, even though these premiums are compensation subject to income tax, they are not subject to employment tax.

S Corp Vs. Partnership Analyzer automatically adds these premiums to the Stockholder Wages and the Guaranteed Payments.

Sole Proprietors do not normally receive Guaranteed Payments. Since this program treats a Sole Proprietor as a Partnership with one 100% partner, Guaranteed Payments for the Sole Proprietorship will be equal to the amount of the Self-Employed Medical Insurance Premiums unless the user included some Guaranteed Payment for the owner.

Sole Proprietorship

A Sole Proprietorship is an unincorporated business with only one owner. Sole Proprietorship's Ordinary Income is subject to both income tax and Self-Employment Tax.

For tax purposes, one can think of a Sole Proprietorship as a Partnership with only one partners. For this program, enter an owner of a Sole Proprietorship as a partner with a 100% ownership interest.

Sole Proprietors do not receive Guaranteed Payments. However, for the purpose of this program, the amount of Self-Employed Medical Insurance Premium for the owner will be the Guaranteed Payment amount. This does not cause an inaccuracy with the results because all of a Sole Proprietor's income is subject to Income and Self-Employment Taxes.

Owners Analysis

The program makes two projections for the taxpayer:

As a shareholder in an S-Corp.

As a partner in a Partnership.

In the Detailed Report, each taxpayer's projection is on a separate page. That way you can discuss the tax projection with an individual taxpayer without revealing information about other owners.

For information about what type of Individual Income Tax computations this program can perform see "Individual Tax Computations" on page 5.

Using The S Corp Vs. Partnership/LLC/Sole Proprietorship Analyzer

The Startup Options Screen

The first screen to appear when starting the program is the About Screen. This is where you will find the program's version. It also has a button that will help you locate information about your system. That information might come in handy if technical support is needed, or if you are simply curious. Click on the OK button.

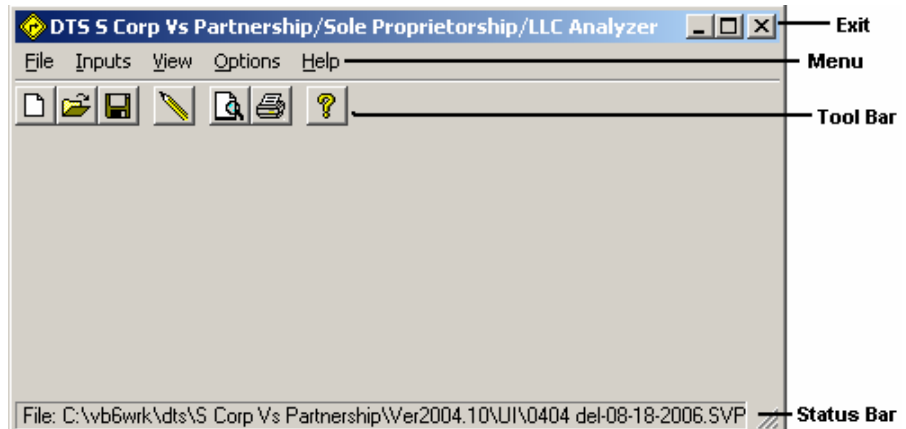
The next screen is the Startup Options Screen.



If this is going to be a new scenario, **click** on the **New Scenario** button. If you are going to use a previously saved file, **click** on the **Old Scenario** button.

The next screen that will appear is the Input Screen. The Input Screen is discussed in detail in a separate section. See "Inputs" on page 12.

The Main Window



Basic Parts Of The Main Window

Minimize, Maximize – Restore Size, and Exit Buttons

The upper right portion of the Main Window has the standard buttons to minimize, maximize – restore size and exit. If you have used any other programs designed for 32 bit Windows systems, you are already familiar with these buttons.

Menu File Inputs View Options Help

This is where you can pick menu choices. See "Menu", below.

Tool Bar

Using the Tool Bar is typically the fastest and easiest way to use the program. Tool Bar choices are described with the Menu selections. See "Menu", below.

Status Bar

File: C:\vb6wrk\dts\S Corp Vs Partnership\Ver2004.10\UI\0404 del-08-18-2006.SVP

This displays what file or scenario is active.

Menu


File


New . This brings up a blank input screen.

Open . This brings up a screen where you can choose a previously saved file. Once the file has been selected, the input screen will appear with that file's information.

Save . This saves the current scenario to the file shown in the Status Bar.


Save As.... This is where you can choose a filename.

Print Preview...  Use this to display the reports to the screen. You can display any combination of Input Report, Detailed Analysis Report or Summary Report.


Print...  Prints the reports. You can print any combination of Input Report, Detailed Analysis Report or Summary Report.

Exit. Exit the program.

Inputs

Inputs  Enter information into the program. This will bring up The Input Screen. See "Inputs" on page 12.


View

Reports...  Displays the reports on the screen. You can display any combination of Input Report, Detailed Analysis Report or Summary Report. See "Analysis Of Reports" on page 20.

Options

Fonts.... You can change the fonts to make the reports appear differently. We recommend staying with Courier or Courier New.

Help

Contents  Displays the table of contents for the help file.

Search For Help On.... This gives you the choice to search the help file using either the index or a keyword search.

About. This displays the information about the DTS S Corporation Vs. Partnership/LLC/Sole Proprietorship Analyzer. This is where you can find the program's version number and ways to contact DTS.

Inputs

Entering Information

Data Entry

The S Corp Vs. Partnership Analyzer uses the normal input procedures that most Windows programs use. To move from one input to another you can either use the mouse to select the input item you want, or press the **TAB** key to move through them. To exit an input screen you can use the mouse to click on the appropriate button.

You may find it easier to enter numeric information using the numeric keypad. If so, make sure the **Num Lock** key is on.

How To Move Around The Input Screens

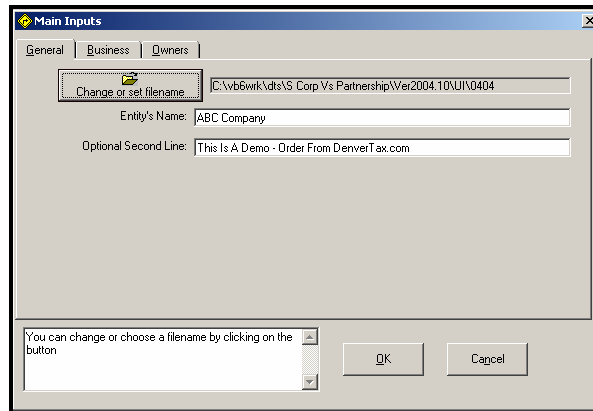
The input screens are broken down into tabbed dividers similar to a tabbed notebook. To move to a different tab simply click on the tab you want to move to. The Main Input screen tabs are *General*, *Business* and *Owners*. The Owner Input screen tabs are *Basic Information*, *Income*, *Adjustments* and *Deductions*.

How To Exit The Input Screens

When working with an input form, the **OK** button or **ENTER** key will exit the form and save the information you entered to a file. The **Cancel** button is used to exit the screen without saving the information you entered.

Main Inputs

General Tab



Change or set filename

This is an improvement on the Windows interface. With most Windows programs, when you click on a form's OK button you just move to the next screen. When you click on the OK button in this program, it actually saves your data for you.

Click on the  button to choose or change a filename.

Entity's Name

Enter the corporation's name.

Optional Second Line

Enter information that you would want to appear as the second line on the reports.

Business Tab

Main Inputs

General | **Business** | Owners

Taxable Income Before Capital Gains, Sec. 1231 Items, Charitable Contributions, S Corp Owners Wages or Partners Guaranteed Payments: 250,000

Long-Term Capital Gains: -20,000

Short-Term Capital Gains: 10,000

Section 1231 Items: -8,000

Charitable Contributions: 2,000

You can change or choose a filename by clicking on the button

OK Cancel

Base Taxable Income

This is taxable income, excluding Stockholder Wages, Guaranteed Payments, Capital Gains, Sec. 1231 items and Charitable Deductions. To indicate a loss, use a minus sign.

Long-Term Capital Gains

Enter Long-Term Capital Gains or Losses. For losses, use a minus sign.

Short-Term Capital Gains

Enter the corporation's Short-Term Capital Gains or Losses. For loss positions, use a minus sign.

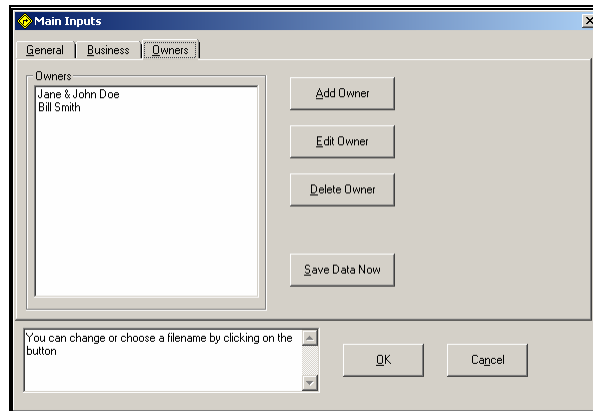
Section 1231 Items

Enter the corporation's Section 1231 Gains or Losses. For losses, enter a minus sign.

Charitable Contributions

Enter the corporation's charitable contributions. The program will compute any limitations.

Owners Tab



Owners List Box

This lists the owners. If you need to edit or delete a owner's information, click on the Owner's name before clicking on the **Edit** or **Delete** buttons

Add Owner Button

Click on this button to add a owner and enter that owner's information. If both spouse's are shareholders, enter them as one shareholder for the purpose of this program.

Edit Owner Button

To edit a owner's information, first, click on the owner's name in the **Owner List Box**, and second click on the **Edit Owner** button.

Delete Owner Button

To delete a owner's information, first, click on the owner's name in the **Owner List Box**, and second click on the **Delete Owner** button.

Save Data Now

Click on this button to save all your data now. After clicking on this button, you will be able to resume entering data in this screen.

Owner Input Screen

General Tab

	SPOUSE 1	SPOUSE 2
Ownership Percent:	50.00%	10.00%
S Corp Wages:	100,000	15,000
Other Wages:	5,000	0
Partnership Guaranteed Payments:	76,500	11,500
SE Income Percent:	80.00%	100.00%

Owner

Enter the owner's name.

Filing Status

Click on the appropriate Filing Status choice.

Exemptions

Enter the number of exemptions. Mom, Dad & Junior = 3.

Since the Social Security Tax portion of FICA or the Self-Employment tax is on a per person, not per taxpayer basis, this program can handle situations where one or both spouses are owners. If this is not Married Filing Jointly, only enter information for Spouse 1!

Ownership Percent

Enter the Ownership Percent. (50.5% should be entered as 50.5)

S Corp Wages

Enter any wages paid from the S Corp. If one of the spouses' is not an owner, enter 0.

Exclude any Self-Employed Medical Insurance Premiums from this input. If applicable, the program will add that in latter.

Other Wages

Enter any wages paid from sources outside of the business. Example, if Spouse 1 receives \$5,000 a year from Wal-Mart, enter 5000 for Spouse 1.

Partnership Guaranteed Payments

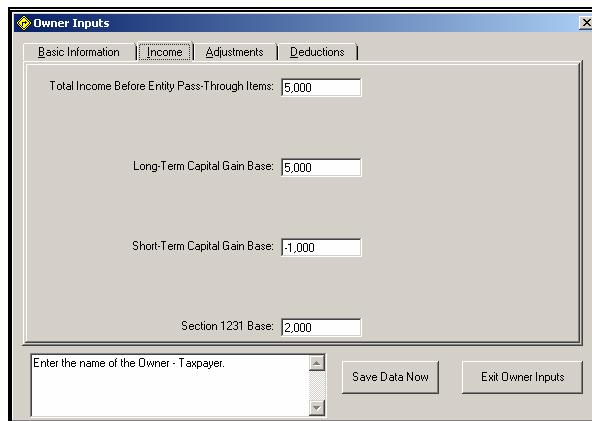
Enter any Guaranteed Payments here.

Exclude any Self-Employed Medical Insurance Premiums from this input. If applicable, the program will add that in latter.

SE Income Percent

Enter the percent of Partnership Ordinary Income that is subject to Self-Employment Tax. In very many cases, this number should be 100%. (Enter 50.5% as 50.5).

Income Tab



Total Income Before Entity Pass-Through Items

Enter the Total Income with the following exclusions. **EXCLUDE** from this ALL Wages, Capital Gains, Section 1231 items, all Partnership, Schedule C or S Corp items.

Long-Term Capital Gain Base

Enter the Long-Term Capital Gains for this taxpayer. **EXCLUDE** any S-Corp or Partnership items. This amount should not have been included in Total Income Before Entity Pass-Through Items, above. Enter losses as negative amounts.

Short-Term Capital Gain Base

Enter the Short-Term Capital Gains for this taxpayer. **EXCLUDE** any S-Corp or Partnership items. This amount should not have been included in Total Income Before Entity Pass-Through Items, above. Enter losses as negative amounts.

Section 1231 Base

Enter the Section 1231 income or loss for this taxpayer. EXCLUDE any S-Corp or Partnership items. This amount should not have been included in Total Income Before Entity Pass-Through Items, above. Enter losses as negative amounts.

Adjustments Tab

The screenshot shows a software window titled "Owner Inputs" with a tabbed interface. The "Adjustments" tab is selected. It contains two input fields: "Adjustments To Income" with the value "2,000" and "Self-Employed Health Insurance Premiums" with the value "7,000". At the bottom of the window, there is a scrollable text box containing the following text: "This is total income for the taxpayer, excluding wages, capital gains, Section 1231 items, S-Corp pass-through items or partnership/sole proprietorship items." To the right of this text box are two buttons: "Save Data Now" and "Exit Owner Inputs".

Adjustments To Income

Enter adjustments to income, excluding the Self-Employment Tax Deduction and the Self-Employed Health Insurance deduction. IRAs, Moving Expenses, etc. should be included in this amount.

Self-Employed Health Insurance Premiums

Enter health insurance premiums that were paid as a tax-free C-Corp fringe. This program will compute the SE Health Insurance deduction, if applicable.

Deductions Tab

Owner Inputs

Basic Information | Income | Adjustments | **Deductions**

Medical Expenses: 10,000

Itemized Misc. Expenses: 15,000

Other Itemized Deductions: 8,000

This is total income for the taxpayer, excluding wages, capital gains, Section 1231 items, S-Corp pass-through items or partnership/sole proprietorship items.

Save Data Now Exit Owner Inputs

Medical Expenses

Enter expenses that qualify for the medical deduction. The program will apply the limitation. *Exclude* SE Health Insurance premiums in this expense, even if they have been entered elsewhere.

Itemized Misc. Expenses

Enter Itemized Misc. Expenses. This amount should include IRA fees, certain investment related fees, etc. This program will compute any limitations.

Other Itemized Deductions

Enter Itemized Deductions there were not included elsewhere. These should include Mortgage Interest deductions, deductions for State and Local Taxes and Charitable Deductions.

Analysis Of Reports

Overview Of Reports

Input Report

This report is for diagnostic purposes.

Detailed Analysis Report

This report indicates how the analysis was done. These numbers support the totals in the Summary Report. We recommend keeping the Detailed Analysis Report in the client's file for support. Depending on the client's level of sophistication, this report might be considered "too much information."

Summary Report

This report shows whether the business and the owners are better or worse off in an S-Corp Vs. a Partnership. This is ideal to present to your clients.

Detailed Analysis Report

S Corp Computations

S-CORPORATION:

Taxable Income Before Capital Gains, Sec. 1231 Items, Shareholders' Wages and Contributions	250,000
Less, Employer FICA For Stockholders	12,880
Less, Shareholders Wages	181,000

Ordinary Income Pass Through	56,120
	=====

Employer FICA Taxes:

	Unincorp.	S-Corp	Difference
	-----	-----	-----
Jane & John Doe	0	8,366	-8,366
Bill Smith	0	4,514	-4,514
	-----	-----	-----
Total	0	12,880	-12,880
	=====	=====	=====

Ordinary Income is determined as follows:

Start with Taxable Income before Capital Gains, §1231 items, Shareholders' Wages, Contributions and Employer's FICA on Shareholders' Wages.

Subtract the employer's portion of FICA paid on the Shareholders' Wages.

Subtract Shareholders' Wages. The Shareholders' Wages amount is the total Shareholders' Wages that the user inputted PLUS any Self-Employed Medical Insurance Premiums.

Employer FICA is determined without considering wages from other sources. This is why the Employer FICA may be different than Employee FICA. If the total wages from the S Corp and other sources exceeds to Social Security Wage Maximum, the Employee's FICA will be reduced by the Excess FICA. This program assumes that the Excess FICA will reduce the employee's share of FICA from the S Corp.

Partnership/Sole Proprietorship Computations

PARTNERSHIP/SOLE PROPRIETOR:

Taxable Income Before Capital Gains, Sec. 1231 Items, Partners' Guaranteed Payments and Contributions	250,000
Less, Guaranteed Payments	145,000

Ordinary Income	105,000
	=====

Ordinary Income is determined as follows:

Start with Taxable Income before Capital Gains, §1231 items, Guaranteed Payments and Contributions.

Subtract Guaranteed Payments. The Guaranteed Payment amount is the total Guaranteed Payments that the user inputted PLUS any Self-Employed Medical Insurance Premiums.

Owner Computations

	Unincorp.	S-Corp	Difference
Base Income	5,000	5,000	0
Wages - Not From Entity	5,000	5,000	0
Wages - From S-Corp	0	122,000	-122,000
S-Corp Ordinary Income	0	33,672	-33,672
Partnership Ordinary Income	63,000	0	63,000
Partnership Guaranteed Payments	95,000	0	95,000
Capital Gains	-2,000	-2,000	0
Sec 1231 Losses	-2,800	-2,800	0
Total Income	163,200	160,872	2,328
Base Adjustments to Income	2,000	2,000	0
SE Tax Deduction	8,885	0	8,885
Self-Employed Health Ins Deduction	7,000	7,000	0
Total Adjustments to Income	17,885	9,000	8,885
Adjusted Gross Income	145,315	151,872	-6,557
Medical Deduction	0	0	0
Miscellaneous Deductions	12,094	11,963	131
Contribution Pass-Through	1,200	1,200	0
Other Itemized Deductions	8,000	8,000	0
Total Itemized Deductions	21,294	21,163	131
Itemized Deduction Reduction	78	275	-197
Net Itemized Deductions	21,216	20,888	328
Standard Deduction	9,700	9,700	0
Larger Deduction	21,216	20,888	328
Taxable Income Before Exemptions	124,099	130,984	-6,885
Less, Exemption Deduction	12,400	12,400	0
Exemption Deduction Reduction	0	0	0
Taxable Income	111,699	118,584	-6,885

Items to note are as follows:

S Corp Wages are the wages that the user inputted plus any Self-Employed Medical Insurance Premiums.

S Corp Ordinary Income is the S Corp Ordinary Income computed by the program multiplied by the combined ownership percentages of both spouses.

Partnership Ordinary Income is the Partnership Ordinary Income computed by the program multiplied by the combined ownership percentages of both spouses.

Partnership Guaranteed Payments are the Guaranteed Payments that the user inputted plus any Self-Employed Medical Insurance Premiums.

Capital Gains and §1231 Losses are the owner's amounts for these items if they were not owners in this entity, plus the pass-through amounts from the S Corp or Partnership.

The Self-Employment Tax and Self-Employment Tax Deduction are determined from the spouses' Partnership Ordinary Income pass-through plus Partnership Guaranteed Payments.

SELF-EMPLOYMENT TAX & EMPLOYEES FICA ON S-CORP WAGES:

Employees FICA From S-Corp Wages

	Unincorp.	S-Corp	Difference
Withheld From Spouse 1's Wages	0	6,641	-6,641
Withheld From Spouse 2's Wages	0	1,415	-1,415
Total Employees FICA	0	8,056	-8,056

The above computation assumes that, if the combined S-Corp wages and wages from other sources result in excess FICA, the reduction in FICA will be related to the S-Corp wages.

Any medical insurance premiums paid by the business will be added to wages paid by the S-Corporation.

Self-Employment Taxes From Partnership/Sole Proprietor

	Unincorp.	S-Corp	Difference
SE Tax For Spouse 1	14,167	0	14,167
SE Tax For Spouse 2	3,603	0	3,603
Total Self-Employment Tax	17,770	0	17,770
Combined SE Tax & Employees' FICA	17,770	8,056	9,714
SE TAX, EMP. FICA AND INCOME TAX	39,170	31,217	7,953

The program shows Self-Employment Tax, Employees FICA and Income Tax detail and total of all taxes.

Summary Report

BUSINESS TAX

	Unincorp.	S-Corp	Difference
	-----	-----	-----
Employer FICA on Stockholder Comp	0	12,880	-12,880
	=====	=====	=====

OWNERS TAXES

	Unincorp.	S-Corp	Difference
	-----	-----	-----
Individual Income Taxes	35,358	36,010	-652
Owners FICA & SE Taxes	30,769	12,570	18,199
	-----	-----	-----
Total Owners Taxes	66,127	48,580	17,547
	=====	=====	=====

COMBINED OWNER & BUSINESS TAXES

	Unincorp.	S-Corp	Difference
	-----	-----	-----
Total Business Tax	0	12,880	-12,880
Total Owner Taxes	66,127	48,580	17,547
	-----	-----	-----

COMBINED TAXES	66,127	61,460	4,667
	=====	=====	=====

The Summary Report shows the consequences of the combined owners' and entity's taxes. This shows quantitatively whether an S Corp will result in lower or higher taxes than a Partnership/Sole Proprietorship.

Tutorial – Example

A New Scenario Example

Choose A Filename

Most of the time it doesn't make much difference whether you use the **TAB** or **ENTER** key. This tutorial will use the **ENTER** key whenever possible. When the tutorial directs you to use the **TAB** key, that would be a situation where using the **TAB** and **ENTER** keys will make the program function differently.

Start the program. If you have any questions on how to do this, see "Starting the S Corp Vs. Partnership Analyzer" on page 3.

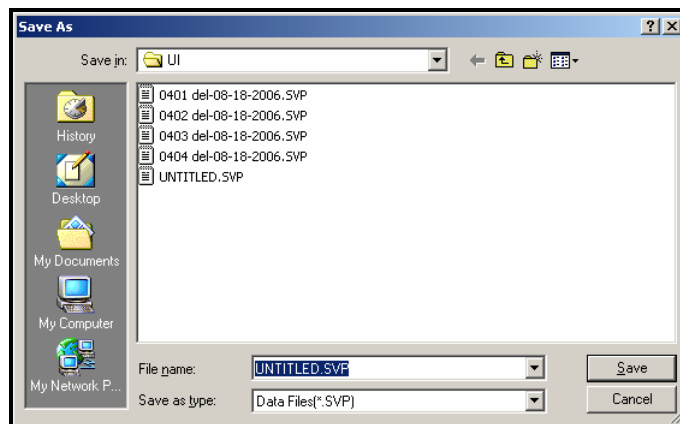
The first screen is the *About S Corp Vs. Partnership/Sole Proprietorship/LLC Analyzer* window. Click on the **OK** button.



At the *Startup Options* screen, click on the **New Scenario** button. This will immediately bring up the input screen.



Click on the *Change or set filename* button.



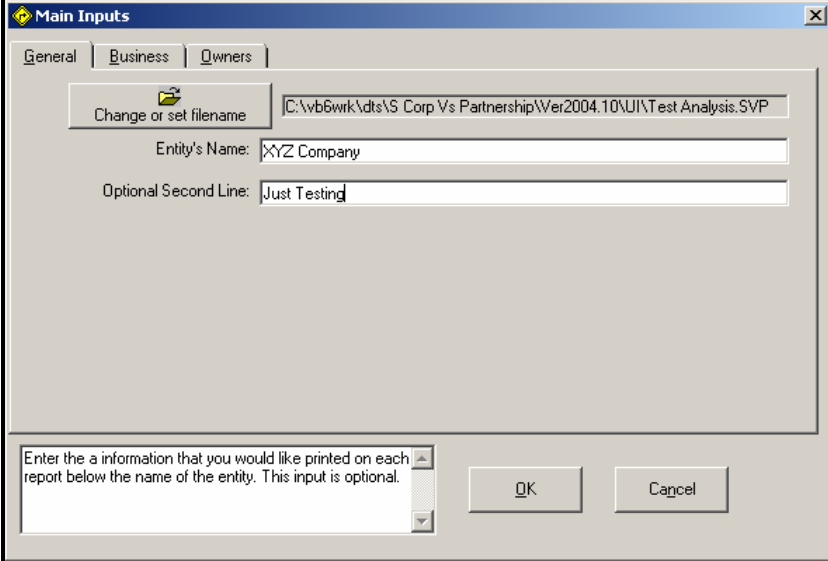
In the *Save As* screen, type **Test Analysis** in the *File name* input. Click the **Save** button to return to the input screen. Press the **TAB** key.

Main Inputs Screen

For the **Entity's Name** input enter **XYZ Company** and press the **ENTER** key.

For the **Optional Second Line** input enter **Just Testing**.

At this time the screen should look something like this:



The screenshot shows the 'Main Inputs' dialog box with the 'General' tab selected. The 'Change or set filename' button is visible, along with the file path 'C:\vb6wrk\dts\S Corp Vs Partnership\Ver2004.10\UI\Test Analysis.SVP'. The 'Entity's Name' field contains 'XYZ Company' and the 'Optional Second Line' field contains 'Just Testing'. At the bottom, there is a text area with the instruction 'Enter the a information that you would like printed on each report below the name of the entity. This input is optional.' and 'OK' and 'Cancel' buttons.

Click on the **Business** tab.

For the **Taxable Income Before Capital Gains, Sec. 1231 Items...** input enter **250000** and press the **ENTER** key.

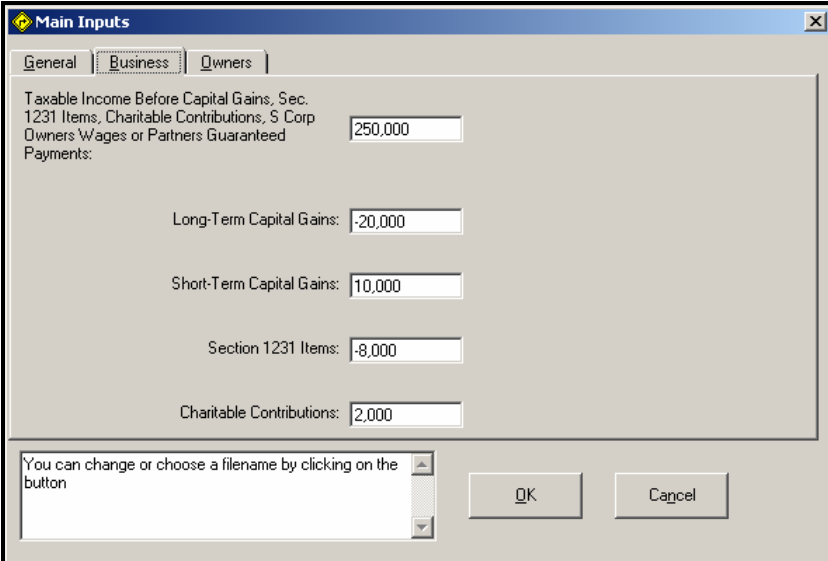
For the **Long-Term Capital Gains** input enter **-20000** and press the **ENTER** key.

For the **Short-Term Capital Gains** input enter **10000** and press the **ENTER** key.

For the **Section 1231 Items** input enter **-8000** and press the **ENTER** key.

For the **Charitable Contributions** input enter **2000** and press the **ENTER** key.

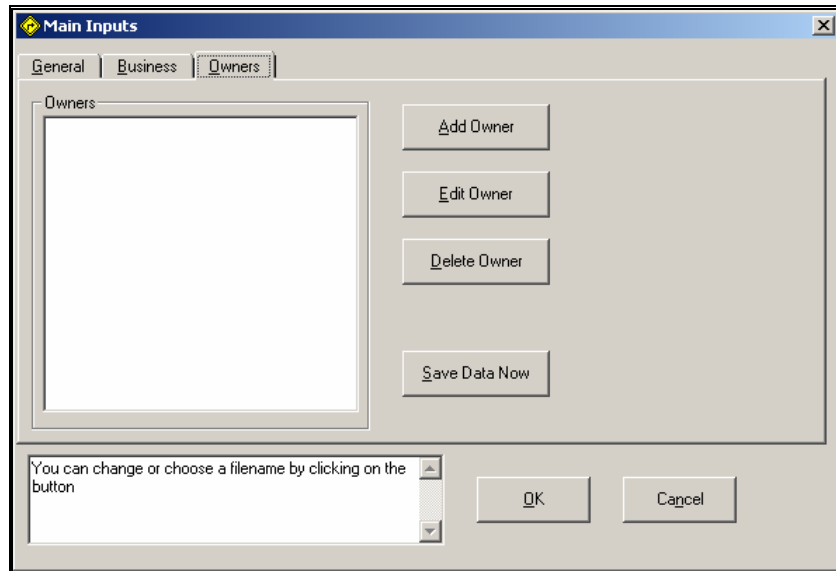
At this time the screen should look something like this:



The screenshot shows the 'Main Inputs' dialog box with the 'Business' tab selected. The 'Taxable Income Before Capital Gains, Sec. 1231 Items, Charitable Contributions, S Corp Owners Wages or Partners Guaranteed Payments' field contains '250,000'. The 'Long-Term Capital Gains' field contains '-20,000', the 'Short-Term Capital Gains' field contains '10,000', the 'Section 1231 Items' field contains '-8,000', and the 'Charitable Contributions' field contains '2,000'. At the bottom, there is a text area with the instruction 'You can change or choose a filename by clicking on the button' and 'OK' and 'Cancel' buttons.

Click the **Owners** tab.

The screen should look like this:



Click on the **Add Owner** button.

For the **Taxpayer-Owner** input enter **Jane & John Doe** and press the **ENTER** key.

For the **Filing Status** click on **Joint** and press the **ENTER** key.

For the **Exemptions** input enter **1** and press the **ENTER** key. (For a Joint Filing Status one would expect Exemptions to be two or more. Later, in an example of how an Old Scenario can be edited, we will change this input to 4.)

For the **Ownership Percent – Spouse 1** input enter **50** and press the **ENTER** key.

For the **Ownership Percent – Spouse 2** input enter **10** and press the **ENTER** key.

For the **S Corp Wages – Spouse 1** input enter **100000** and press the **ENTER** key.

For the **S Corp Wages – Spouse 2** input enter **15000** and press the **ENTER** key.

For the **Other Wages – Spouse 1** input enter **5000** and press the **ENTER** key.

For the **Other Wages – Spouse 2** just press the **ENTER** key.

For the **Partnership Guaranteed Payments – Spouse 1** input enter **76500** and press the **ENTER** key.

For the **Partnership Guaranteed Payments – Spouse 2** input enter **11500** and press the **ENTER** key.

For the **SE Income Percent – Spouse 1** input enter **80** and press the **ENTER** key.

For the **SE Income Percent – Spouse 2** input enter **100** and press the **ENTER** key.

The screen should now look like this:

The screenshot shows the 'Owner Inputs' window with the 'Basic Information' tab selected. The 'Taxpayer-Owner' field contains 'Jane & John Doe'. The 'Filing Status' dropdown menu is open, showing 'Single', 'Joint', and 'Married Sep.' options. The 'Exemptions' field is set to '4'. Below this, there are two columns for 'SPOUSE 1' and 'SPOUSE 2' with the following values: Ownership Percent (50.00% and 10.00%), S Corp Wages (100,000 and 15,000), Other Wages (5,000 and 0), Partnership Guaranteed Payments (76,500 and 11,500), and SE Income Percent (80.00% and 100.00%). At the bottom, there is a text input field for the owner's name and two buttons: 'Save Data Now' and 'Exit Owner Inputs'.

Click on the **Income** tab.

For the **Total Income Before Entity Pass-Through Items** input enter **5000** and press the **ENTER** key.

For the **Long-Term Capital Gains Base** input enter **5000** and press the **ENTER** key.

For the **Short-Term Capital Gains Base** input enter **-1000** and press the **ENTER** key.

For the **Section 1231 Base** input enter **2000** and press the **ENTER** key.

The screen should now look like this:

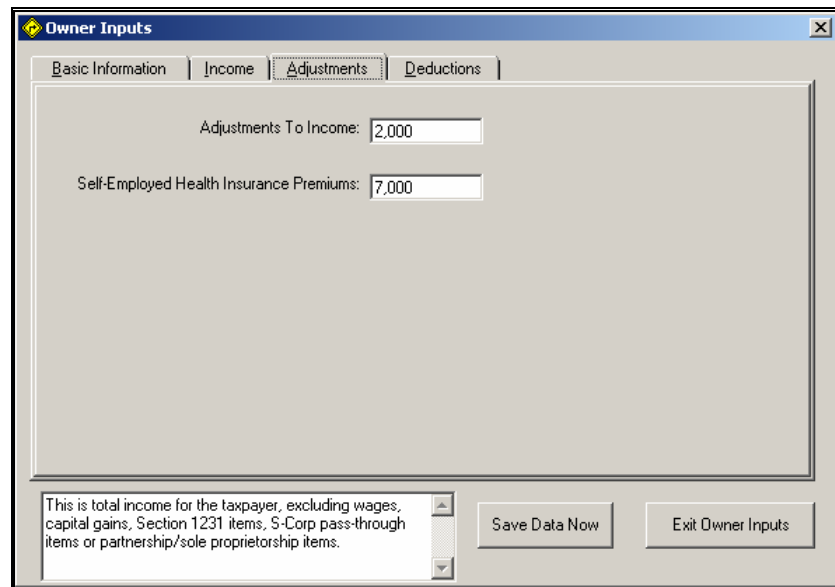
The screenshot shows the 'Owner Inputs' window with the 'Income' tab selected. The 'Total Income Before Entity Pass-Through Items' field is set to '5,000'. The 'Long-Term Capital Gain Base' field is set to '5,000'. The 'Short-Term Capital Gain Base' field is set to '-1,000'. The 'Section 1231 Base' field is set to '2,000'. At the bottom, there is a text input field for the owner's name and two buttons: 'Save Data Now' and 'Exit Owner Inputs'.

Click on the **Adjustments** tab.

For the **Adjustments To Income** input enter **2000** and press the **ENTER** key.

For the **Self-Employed Health Insurance Premiums** input enter **7000** and press the **ENTER** key.

The screen should now look like this:



The screenshot shows a software window titled "Owner Inputs" with a tabbed interface. The "Adjustments" tab is selected. It contains two input fields: "Adjustments To Income:" with the value "2,000" and "Self-Employed Health Insurance Premiums:" with the value "7,000". At the bottom, there is a scrollable text area with the following text: "This is total income for the taxpayer, excluding wages, capital gains, Section 1231 items, S-Corp pass-through items or partnership/sole proprietorship items." To the right of the text area are two buttons: "Save Data Now" and "Exit Owner Inputs".

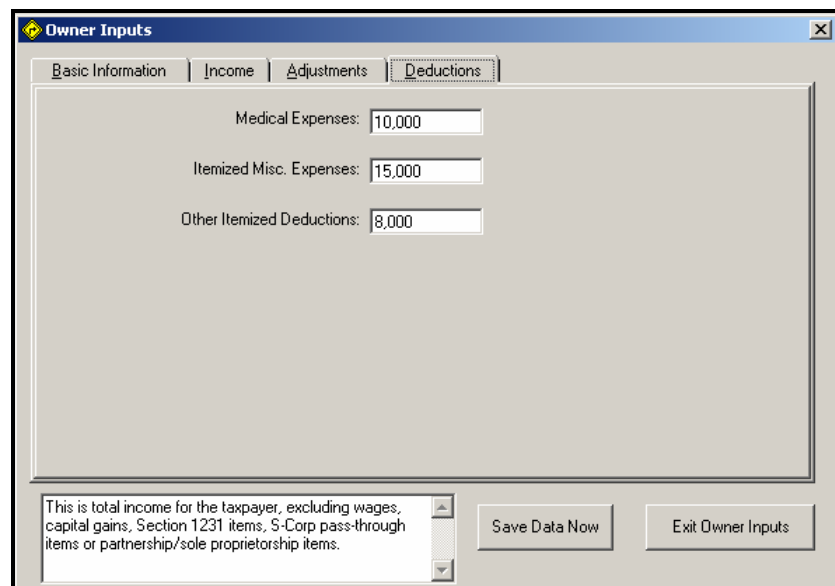
Click on the **Deductions** tab.

For the **Medical Expenses** input enter **10000** and press the **ENTER** key.

For the **Itemized Misc. Expenses** input enter **15000** and press the **ENTER** key.

For the **Other Itemized Deductions** input enter **8000** and press the **ENTER** key.

The screen should now look like this:

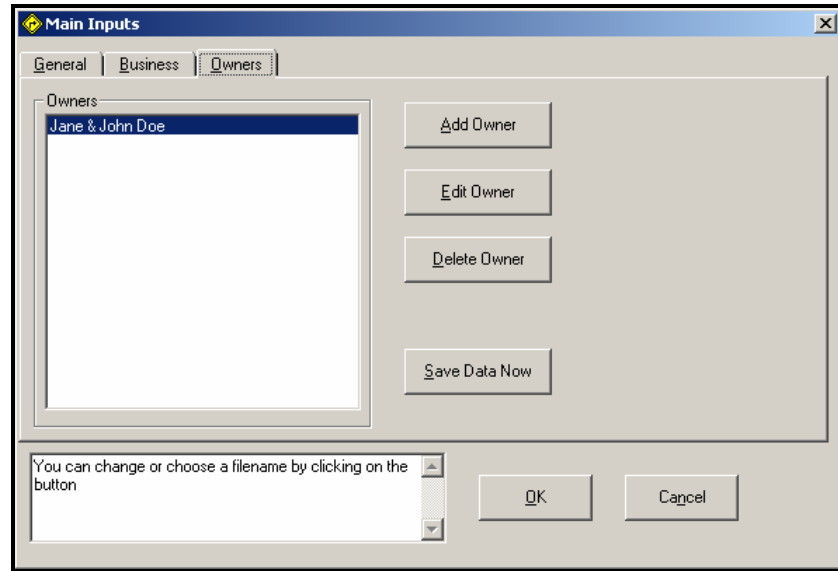


The screenshot shows the same "Owner Inputs" software window, but now the "Deductions" tab is selected. It contains three input fields: "Medical Expenses:" with the value "10,000", "Itemized Misc. Expenses:" with the value "15,000", and "Other Itemized Deductions:" with the value "8,000". The scrollable text area at the bottom contains the same text as in the previous screenshot: "This is total income for the taxpayer, excluding wages, capital gains, Section 1231 items, S-Corp pass-through items or partnership/sole proprietorship items." The "Save Data Now" and "Exit Owner Inputs" buttons are also present.

To save the shareholder's information **click** on the **Save Data Now** button.

To exit this shareholder's input screen **click** on the **Exit Owner Inputs** button.

At this point, the Main Inputs screen (Owners tab) should look like this:



Click on the **Add Owner** button.

For the **Taxpayer-Owner** input enter **Bill Smith** and press the **ENTER** key.

For the **Filing Status** click on **Single** and press the **ENTER** key.

For the **Exemptions** input enter **1** and press the **ENTER** key.

For the **Ownership Percent – Spouse 1** input enter **35** and press the **ENTER** key.
(The total ownership is now 95%. We will deal with changing the 35% to 40% later.)

For the **Ownership Percent – Spouse 2** input press the **ENTER** key.

For the **S Corp Wages – Spouse 1** input enter **50000** and press the **ENTER** key.

For the **S Corp Wages – Spouse 2** input press the **ENTER** key.

For the **Other Wages – Spouse 1** input enter **20000** and press the **ENTER** key.

For the **Other Wages – Spouse 2** just press the **ENTER** key.

For the **Partnership Guaranteed Payments – Spouse 1** input enter **41000** and press the **ENTER** key.

For the **Partnership Guaranteed Payments – Spouse 2** input press the **ENTER** key.

For the **SE Income Percent – Spouse 1** input enter **100** and press the **ENTER** key.

For the **SE Income Percent – Spouse 2** input press the **ENTER** key.

The screen should now look like this:

Owner Inputs

Basic Information | Income | Adjustments | Deductions

Taxpayer-Owner: Bill Smith

Filing Status: Single
Joint
Married Sep.

Exemptions: 1

	SPOUSE 1	SPOUSE 2
Ownership Percent:	35.00%	0.00%
S Corp Wages:	50,000	0
Other Wages:	20,000	0
Partnership Guaranteed Payments:	41,000	0
SE Income Percent:	100.00%	100.00%

For this spouse, enter the percentage of partnership ordinary income is subject to Self-Employment Tax. For most partners, this number would be 100%.

Save Data Now Exit Owner Inputs

Click on the **Income** tab.

For the **Total Income Before Entity Pass-Through Items** input enter **0** and press the **ENTER** key.

For the **Long-Term Capital Gains Base** input enter **-2000** and press the **ENTER** key.

For the **Short-Term Capital Gains Base** input enter **-4000** and press the **ENTER** key.

For the **Section 1231 Base** input enter **-1000** and press the **ENTER** key.

The screen should now look like this:

Owner Inputs

Basic Information | Income | Adjustments | Deductions

Total Income Before Entity Pass-Through Items: 0

Long-Term Capital Gain Base: -2,000

Short-Term Capital Gain Base: -4,000

Section 1231 Base: -1,000

Enter any Section 1231 items this taxpayer. EXCLUDE any S Corp or partnership items. This amount should not have been included in Total Income Before Entity Pass-Through Items, above. Enter losses as negative

Save Data Now Exit Owner Inputs

Click on the **Adjustments** tab.

For the **Adjustments To Income** input enter **0** and press the **ENTER** key.

For the **Self-Employed Health Insurance Premiums** input enter **9000** and press the **ENTER** key.

The screen should now look like this:

The screenshot shows a software window titled "Owner Inputs" with a tabbed interface. The "Deductions" tab is selected. The window contains the following fields and controls:

- Adjustments To Income:
- Self-Employed Health Insurance Premiums:
- Save Data Now button
- Exit Owner Inputs button
- Help text: "Enter health insurance premiums that were paid by the business. This program will add these premiums to S Corp wages and partnership Guaranteed Payments, split between between the spouses, if they are both owners."

Click on the **Deductions** tab.

For the **Medical Expenses** input enter **8000** and press the **ENTER** key.

For the **Itemized Misc. Expenses** input enter **2000** and press the **ENTER** key.

For the **Other Itemized Deductions** input enter **15000** and press the **ENTER** key.

The screen should now look like this:

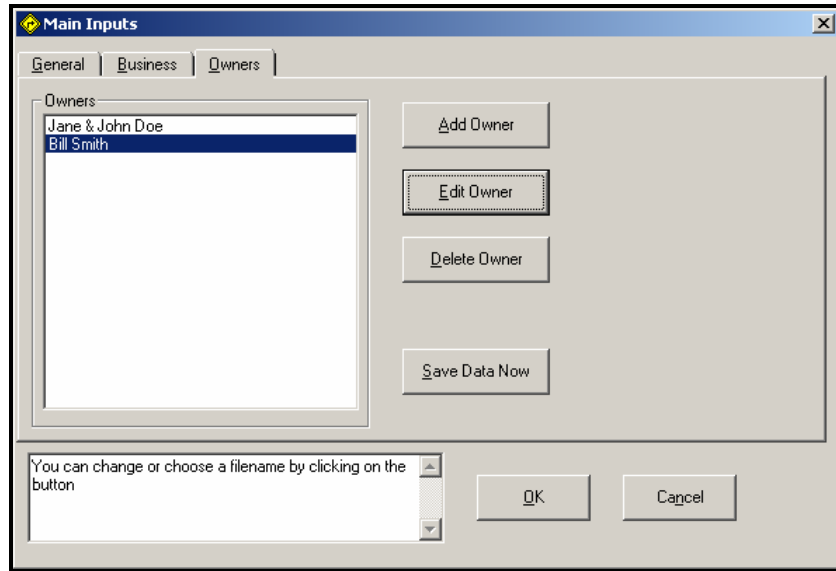
The screenshot shows the same "Owner Inputs" window with the "Deductions" tab selected. The fields are now populated with the following values:

- Medical Expenses:
- Itemized Misc. Expenses:
- Other Itemized Deductions:
- Save Data Now button
- Exit Owner Inputs button
- Help text: "Enter Itemized Deductions there were not included elsewhere. These should include Mortgage Interest deductions, deductions for state and local taxes and charitable deductions."

To save the owners' information **click** on the **Save Data Now** button.

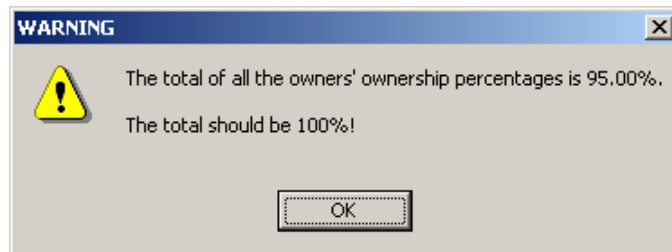
To exit this owners' input screen **click** on the **Exit Owner Inputs** button.

The Main Inputs screen (Owner tab) should look like this:



Click on the **OK** button. This will save your data.

You should get a warning:



Click on the **OK** button. This warning will not stop the program from saving data or making computations. However, this situation should be dealt with before printing reports.

An Old Scenario Example

The Problem

For owner Jane and John Smith the number of exemptions needs to be changed to 2.

For owner Bill Smith the percentage ownership needs to be changed to 40%.

Increase Exemptions

Click on the **Inputs** menu choice.

Click on the **Owners** tab.

Click on **Jane and John Smith** in the Stockholders listbox.

The screen should look like this:

The screenshot shows the 'Main Inputs' dialog box with the 'Owners' tab selected. A list on the left contains 'Jane & John Doe' (highlighted) and 'Bill Smith'. To the right are buttons for 'Add Owner', 'Edit Owner', 'Delete Owner', and 'Save Data Now'. At the bottom, there is a text box with instructions and 'OK' and 'Cancel' buttons.

Click on the **Edit Owner** button.

For the **Exemptions** input enter **4** and press the **ENTER** key.

The screen should now look like this:

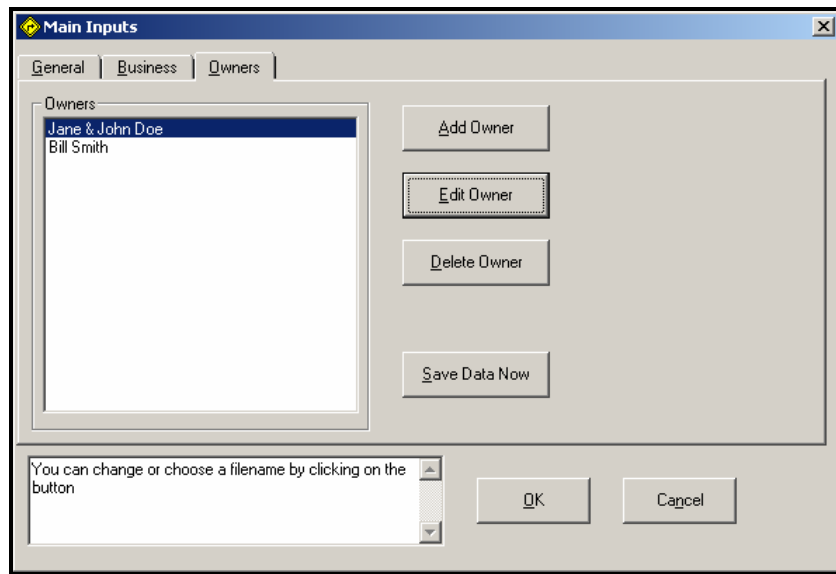
The screenshot shows the 'Owner Inputs' dialog box with the 'Basic Information' tab selected. The 'Taxpayer-Owner' is 'Jane & John Doe'. The 'Filing Status' dropdown is set to 'Joint'. The 'Exemptions' input field contains the number '4'. Below this is a table for spousal information:

	SPOUSE 1	SPOUSE 2
Ownership Percent:	50.00%	10.00%
S Corp Wages:	100,000	15,000
Other Wages:	5,000	0
Partnership Guaranteed Payments:	76,500	11,500
SE Income Percent:	80.00%	100.00%

At the bottom, there is a text box with the instruction 'Enter the number of exemptions. Mom, Dad & Junior = 3.' and buttons for 'Save Data Now' and 'Exit Owner Inputs'.

Click on the **Save Data Now** button followed by the **Exit Owner Inputs** button.

The Main Inputs screen should now look like this:



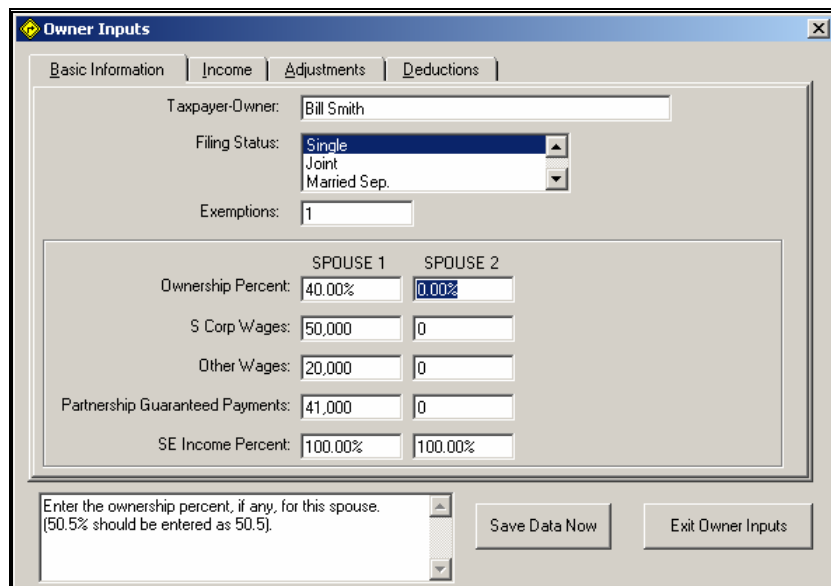
The screenshot shows the 'Main Inputs' window with the 'Owners' tab selected. The 'Owners' listbox contains two entries: 'Jane & John Doe' and 'Bill Smith'. To the right of the listbox are four buttons: 'Add Owner', 'Edit Owner', 'Delete Owner', and 'Save Data Now'. At the bottom of the window, there is a text box with the instruction 'You can change or choose a filename by clicking on the button' and two buttons: 'OK' and 'Cancel'.

Click on Bill Smith in the Owner listbox.

Click on the Edit Owner button.

For the **Ownership Percent – Spouse 1** input enter **40** and press the **ENTER** key.

The screen should now look like this:



The screenshot shows the 'Owner Inputs' window with the 'Basic Information' tab selected. The 'Taxpayer-Owner' field is set to 'Bill Smith'. The 'Filing Status' dropdown menu is set to 'Single'. The 'Exemptions' field is set to '1'. Below this, there is a table with two columns: 'SPOUSE 1' and 'SPOUSE 2'. The 'Ownership Percent' row shows '40.00%' for Spouse 1 and '0.00%' for Spouse 2. The 'S Corp Wages' row shows '50,000' for Spouse 1 and '0' for Spouse 2. The 'Other Wages' row shows '20,000' for Spouse 1 and '0' for Spouse 2. The 'Partnership Guaranteed Payments' row shows '41,000' for Spouse 1 and '0' for Spouse 2. The 'SE Income Percent' row shows '100.00%' for Spouse 1 and '100.00%' for Spouse 2. At the bottom of the window, there is a text box with the instruction 'Enter the ownership percent, if any, for this spouse. (50.5% should be entered as 50.5)' and two buttons: 'Save Data Now' and 'Exit Owner Inputs'.

Click on the Save Data Now and **Exit Owner Inputs** buttons.

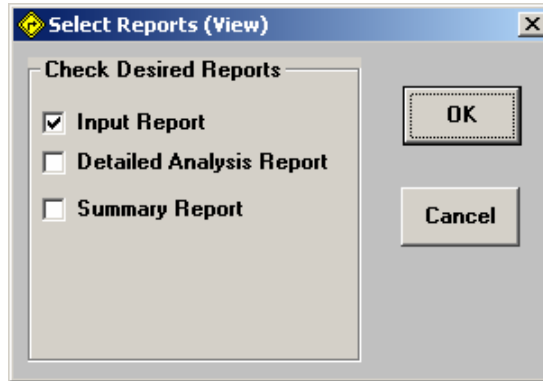
In the Main Inputs screen, **click on the OK** button to save everything and exit the inputs.

View Reports

Use the same data that you entered previously with this example.

To view the reports choose **View – Reports** from the menu.

You will see a Select Reports screen.



Check all three boxes and click on **OK**.

After viewing the reports, exit the program.

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