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Tax & Business Alert – July 2025

Abstract: When a business closes, there are tax responsibilities to meet. Of course, a final income tax return must be filed, but there are other steps you must complete as well. Here's a rundown of the basic requirements.

Closing a business? Here's how to stay on top of your tax duties

Businesses close for various reasons. Perhaps you're ready to embark on a welcome change such as retirement or launching a new venture. Or maybe it just no longer makes financial sense to continue operating your current business. Whatever the reason, closing your business is a significant milestone, and part of wrapping things up means taking care of a few tax responsibilities.

Final income tax returns

You'll need to file a final income tax return and other required forms for your last year of operation. The specific forms you'll file depend on your business structure:

Sole proprietorships: File Schedule C, *Profit or Loss from Business*, with your individual return for the year you close. You may also need to report self-employment tax.

Partnerships: File Form 1065, *U.S. Return of Partnership Income*, and report capital gains/losses on Schedule D. Mark the return and each Schedule K-1 as "final."

All corporations: File Form 966, *Corporate Dissolution or Liquidation*, if you adopt a resolution to dissolve the corporation or liquidate stock.

C corporations: File Form 1120, *U.S. Corporation Income Tax Return*, for the closing year and report capital gains/losses on Schedule D. Check the "final return" box.

S corporations: File Form 1120-S, *U.S. Income Tax Return for an S Corporation*, for the year of closure and report gains/losses on Schedule D. Mark the return and each Schedule K-1 as "final."

Regardless of business structure, additional forms may be required if you sell the business, report the sale of business property or record asset acquisitions.

Final payments to all workers

If you have employees, you must pay them whatever final wages and compensation are owed, make final federal tax deposits and report employment taxes. Don't neglect to withhold all income, Social Security and Medicare taxes due and pay these taxes over to the IRS. Overlooking that requirement can result in full personal liability for what's known as the Trust Fund Recovery Penalty. That's an outcome to avoid.

Did you pay any independent contractors at least \$600 during the calendar year you're closing your business? If so, you must report those payments on Form 1099-NEC, "Nonemployee Compensation."

More loose ends to be tied

If your business has an employee retirement plan, it's essential to properly terminate it and distribute any remaining benefits. That process comes with its own checklist, including specific notice, funding and filing requirements. The same is true for employee benefit accounts such as flexible spending accounts, Health Savings Accounts and other programs for your employees.

There are additional complex tax matters that may come into play, such as cancellation of debt, using up net operating losses, unlocking passive activity losses, depreciation recapture and even bankruptcy-related considerations. Addressing them can feel overwhelming — but you don't have to do it alone. We're here to help.

Don't forget about your business records. We can guide you on how long to keep them. And when everything's squared away, you'll also need to close your IRS business account. Note that while the Employer Identification Number itself is permanent, after receiving confirmation that the business has closed – and verifying that there are no outstanding taxes or other issues – the IRS will make the account inactive.

What's left?

If your business is unable to pay all the taxes it owes, we can explain the available payment options to you. Contact us to discuss these issues and get answers to any questions.