Why File A Corporate Income Tax Return?

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Access to Accurate Information and Responsible Individuals to Answer Questions. It's hard to explain or track down answers for decisions and transactions 10 years after the fact. Access to current information ensures accurate filing.

Documentation of NOLs. Filing the corporate return is one method of documenting the Net Operating Losses (NOLs) of the company. We are better prepared to offer advice and address questions about NOLs should they become a discussion point when talking about a "deal."

Statute of Limitations. One of the most important reasons to file an income tax return is the statute of limitations, which begins upon the filing of the tax return. It is important to identify any potential tax liabilities should a company anticipate selling or other ownership transactions. If you have not filed tax returns for 10 years, the buyer is assuming all of the liabilities. When returns are filed in a timely manner, many potential issues exist outside the statute of limitations and potential liabilities are limited to the open years.

Foreign Reporting Requirements. Companies that have foreign operations or are foreign controlled require Form 5471 to be filed by the due date of the US income tax return including extensions. IRC Section 6038(b)(1) provides for a monetary penalty of $10,000 for each Form 5471 that is filed after the due date of the income tax return (including extensions) or does not include the complete and accurate information described in Section 6038(a). The penalty will apply whether or not any tax is due on Form 1120.

Tax Elections. Many tax elections can be made on timely filed returns that are beneficial to the taxpayer, despite the fact an NOL exists. Most of these tax elections cannot be made on a tax return that is filed late.

Sarbanes-Oxley. Failure to file and pay taxes requires a CPA firm to alert the audit committee to the fact the returns have not been filed.

Professional Fees. It is less costly to have your CPA prepare tax returns "as you go" rather than trying to catch up several years all at once. The tax returns are the natural step after the audit. The CPA firm already has most of the documents it requires to prepare an accurate return at that time; therefore, the company's accounting staff will have a more pleasant experience preparing returns annually, rather than many years at one time.

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