# Tax Return Problem 9: Partnership

# Instructions:

Please complete AAA Fast Plumbing’s 2020 tax return based upon the facts presented below. If required information is missing, use reasonable assumptions to fill in the gaps. Ignore all AMT calculations and AMT related reporting items.

Michael Rodriguez and Devontae Johnson have been life-long friends. Both Michael and Devontae started to work for the same national plumbing repair company immediately after graduating from technical college. After nearly a decade of working for that same company, Michael and Devontae decided to venture out on their own and form their own plumbing company called AAA Fast Plumbing Repair (AAA). They formed AAA as a limited liability company (LLC). Michael and Devontae each own 50% of the company. The company has been successful primarily based upon reputation and the fact that AAA is available 24 hours a day, seven days a week. Although AAA charges a premium for after normal business hour calls, most of its competitors will not perform services past 9 p.m. and, thus, AAA finds itself often as one of the only available choices for middle of the night emergencies.

AAA has several employees and because of implementing technology solutions to aid in its call dispatch program, AAA has been able to expand its service area to now include a three-county area instead of just one.

# Information relating to AAA and its owners is as follows:

Name of Company: AAA Fast Plumbing Repair, LLC

Address: 1456 East Buena Vista Blvd.

Los Angeles, CA 90001 (has not changed since inception)

Company formed and started: January 1, 2012

Accounting Method: Cash

Tax-year end: December 31

Employer Identification Number: 34-7652143

# Members’ Information:

Michael Rodriguez

1515 West Bloomington Street

Los Angeles, CA 90001

SSN- 585-31-4060  
Phone: 555-234-8745

# Profit/Loss/Capital membership interest is 50%.

Devontae Johnson

19 East Violet Circle

Los Angeles, CA 90001

SSN: 585-31-6060  
Phone: 555-213-0989

# Profit/Loss/Capital membership interest is 50%.

# Other information:

For any ‘yes’ or ‘no’ questions on Schedule B, assume the answer is ‘no’ unless explicitly stated in the facts below.

* AAA is a domestic limited liability company.
* Michael and Devontae are U.S. citizens and are not related, each owning 50% of the LLC.
* Both Michael and Devontae are managing members.
* All of AAA’s activities constitute a qualified trade or business, and the salaries and wages expense from the income statement is the same as W-2 wages paid by AAA in 2020.
* The total unadjusted basis for all assets placed in service for the prior 10 years matches the book value of all assets reported on the balance sheet.
* Michael is the Partnership Representative and AAA is not electing out of the centralized partnership audit regime.
* Both Michael and Devontae are active in the business and work full-time for AAA.
* The debt owed to First National Bank is a non-recourse obligation and neither Michael nor Devontae have guaranteed its repayment (see balance sheet below). This debt is not directly tied to any specific asset but is rather a debt secured against all of the assets of the company.
* During the year, Michael and Devontae each contributed $20,000 to the capital of AAA.
* AAA makes the de minimis safe harbor election under the Tangible Property Regs
* AAA does not maintain any inventory. AAA purchases supplies and has a policy of expensing such purchases as paid for tax and book purposes consistent with existing tax law.
* AAA uses MACRS depreciation for both tax and book purposes.
* During the year, Michael and Devontae each received a $75,000 distribution from AAA.
* During the year, AAA acquired the following assets (all assets were placed in service on the acquisition dates as indicated below):
  + Service vans-new (not Luxury Automobiles) July 1, 2020 $500,000
  + Plumbing machinery/equipment-new July 1, 2020 $250,000
* AAA will not claim Section 179 expense for any of the current year asset additions but otherwise wishes to maximize its 2020 depreciation deduction for the newly acquired assets.
* AAA’s tax depreciation on assets acquired in tax years prior to 2020 is $102,813.

# Financial Statements:

**AAA Plumbing, LLC**Balance Sheet  
December 31, 2020

# Balance Sheet

12/31/2019 12/31/2020

Assets:

Cash $ 30,000 $ 45,000

Tax-exempt Securities 100,000 100,000

Building 4,000,000 4,000,000

Less: Acc. Depreciation (551,282) (653,842)

Equipment 2,500,000 3,250,000

Less: Acc. Depreciation (1,481,400) (2,231,653)

Land 1,000,000 1,000,000

Total Assets: $5,597,318 $5,509,505

Liabilities and Capital:

Note Payable-First National Bank $4,267,318 $4,046,673

Note Payable-Michael Rodriguez 300,000 300,000

Note Payable-Devontae Johnson 200,000 200,000

Capital Account-MR 415,000 481,416

Capital Account-DJ 415,000 481,416

Total Liabilities and Capital: $5,597,318 $5,509,505

**AAA Plumbing, LLC**Income Statement  
For the year ending December 31, 2020

Item Amount

Income:

Service Revenue-Cash $ 343,565

Service Revenue-Credit Cards $1,922,710

Consulting Revenue-Cash $ 50,950

Consulting Revenue-Credit Cards $ 155,005

Interest Income-First National Bank $ 1,540

Municipal Bond Interest Income $ 2,500

Total Income: $2,476,270

Expenses:

Employee Salaries $ 515,735

Guaranteed payment-MR $ 50,000

Guaranteed payment-DJ $ 50,000

Repairs and Maintenance-Trucks $ 113,415

Rent $ 35,000

Payroll Taxes $ 41,260

Licensing Fees $ 1,750

Property Taxes $ 77,000

Interest Expense $ 235,000

Depreciation $ 852,813

Office Supplies $ 3,420

Employee Training $ 5,675

Advertising $ 18,850

Plumbing supplies $ 15,125

Meals (prior to disallowance) $ 13,740

Travel $ 4,210

Gasoline $ 158,675

Utilities $ 24,940

Telephone $ 16,830

Total Expenses: $2,233,448

Net Income: $ 242,832