

Prompt

You are working as an accountant at a mid-size CPA firm. One of your clients is Bob Jones. Bob's personal information is as follows:

DOB: October 10, 1952

SSN: 444-00-4444

Marital Status: Single

Home Address: 5100 Lakeshore Drive, Pensacola, FL 32502

Bob has a very successful used car business located at 210 Ocean View Drive in Pensacola, Florida. Last year, you filed a Schedule C for Bob that had \$1,200,000 in taxable income. The business will have an income growth rate of 10% per year over the next several years. Bob's personal wealth, including investments in land, stocks, and bonds, is about \$14,000,000.

Last year, he reported interest income of \$20,000 and dividend income of \$6,000. The \$14,000,000 includes land worth \$9,000,000 that Bob bought in 1966 for \$450,000. The stocks and bonds have a tax basis of \$1,200,000 and they are currently worth \$5,000,000. All of the investments have been owned for more than a year. In addition to his investments, Bob paid \$140,000 for his home in 1972 and it is now worth \$600,000.

The used car business is currently valued at \$53,000,000 including the land and building, which are worth \$41,000,000. Bob's tax basis in the land and building is \$2,000,000 and \$400,000, respectively. The inventory is worth \$12,000,000, with a cost basis of \$5,000,000; the remaining assets, which include office furniture and equipment, make up the remainder of the business's total value. The office furniture and equipment are fully depreciated.

Bob wants your professional advice regarding whether he should continue to operate as a sole proprietor or convert the business to a partnership, an S corporation, or a C corporation. Based on one of the business entities selected, Bob wants to include Mandy—his daughter—in the business as an owner and manager with a possibility of 40% interest. One of his concerns is what would happen to his business after he passes away.

Mandy's personal tax information is as follows:

Mandy Jones

DOB: June 30, 1990

SSN: 999-99-9999

Marital Status: Single

Home Address: 5990 Langley Road, Pensacola, FL 35203

You will need to describe the tax and limited liability effects on a chosen business entity should Bob decide to reduce the amount of tax paid per year, as well as the protection of personal assets should there be a possible claim against the company's assets.

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