

**2023 Chattanooga Bar Association  
Family Law Section Annual CLE  
December 6, 2023**



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***Business Valuation, Personal & Enterprise  
Goodwill, Understanding Income from Tax  
Documents & A Few Complex Forensic  
Accounting Issues***

Presented by:

**Robert Vance, CPA, ABV, CFF, CVA, CFP**



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## Speaker



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- **Robert Vance, CPA, ABV, CFF, CVA, CFP**
- Certified Public Accountant (CPA)
- Accredited in Business Valuation (ABV)
- Certified in Financial Forensics (CFF)
- Certified Valuation Analyst (CVA)
- Accredited in Business Valuation (ABV)

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## Speaker



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- Full time forensic CPA, forensic economist & business valuation analyst
- Forensic & Valuation Services, PLC in Memphis & Chattanooga, Tennessee
- Testified in 63 Courts / Jurisdictions
- 169 testimonies, 32 before a jury
- Member of the Tennessee State Board of Accountancy

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## Disclaimer



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*The content in this seminar will not apply in all situations or in all jurisdictions*

*Examples are for illustration only*

*Different facts often require different assumptions*

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## *Understanding Income from Tax Documents*



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- Bob Vance
- Michael Scott
- Vance Refrigeration, Inc.
- Vance & Scott Properties, LLC

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22222	VOID <input type="checkbox"/>	a Employee's social security number 987-65-4321	For Official Use Only OMB No. 1545-0005	
b Employer identification number (EIN) 12-1234567		1 Wages, tips, other compensation 567,132.00		2 Federal income tax withheld 165,000.00
c Employer's name, address, and ZIP code Vance Refrigeration, Inc. 1725 Slough Avenue Suite 210 Scranton, PA 18503		3 Social security wages 147,000.00		4 Social security tax withheld 9,114.00
d Control number		5 Medicare wages and tips 594,132.00		6 Medicare tax withheld 12,162.10
e Employee's first name and initial Bob		7 Social security tips		8 Allocated tips
Last name Vance		9		10 Dependent care benefits
3764 Elvis Presley Blvd Memphis, TN 38116		11 Nonqualified plans		C 792.00
f Employee's address and ZIP code		13 <input type="checkbox"/> Secretary <input checked="" type="checkbox"/> Statement <input type="checkbox"/> Third party and any		D 27,000.00
15 State Employer's state ID number		14 Other		W 7,300.00
16 State wages, tips, etc.		17 State income tax		12a D 27,900.00
18 Local wages, tips, etc.		19 Local income tax		20 Locality name

Form **W-2** Wage and Tax Statement **2022** Department of the Treasury—Internal Revenue Service  
 Copy A—For Social Security Administration. Send this entire page with Form W-3 to the Social Security Administration; photocopies are not acceptable. For Privacy Act and Paperwork Reduction Act Notice, see the separate instructions. Cat. No. 10134D

**Do Not Cut, Fold, or Staple Forms on This Page**

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Medicare Tax Withholding Calculation:

200,000.00
1.45%
2,900.00
394,132.00
2.35%
9,262.10
12,162.10

**Will individuals calculate Additional Medicare Tax liability on their income tax returns?**

Yes. Individuals will calculate Additional Medicare Tax liability on their individual income tax returns (Form 1040 or 1040-SR), using Form 8959, Additional Medicare Tax. Individuals will also report Additional Medicare Tax withheld by their employers on their individual income tax returns. Any Additional Medicare Tax withheld by an employer will be applied against all taxes shown on an individual's income tax return, including any Additional Medicare Tax liability.



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**Form W-2 Reference Guide for Box 12 Codes**

<b>A</b>	Uncollected social security or RRTA tax on tips	<b>L</b>	Substantiated employee business expense reimbursements	<b>Y</b>	Deferrals under a section 409A nonqualified deferred compensation plan
<b>B</b>	Uncollected Medicare tax on tips (but not Additional Medicare Tax)	<b>M</b>	Uncollected social security or RRTA tax on taxable cost of group-term life insurance over \$50,000 (former employees only)	<b>Z</b>	Income under a nonqualified deferred compensation plan that fails to satisfy section 409A
<b>C</b>	Taxable cost of group-term life insurance over \$50,000	<b>N</b>	Uncollected Medicare tax on taxable cost of group-term life insurance over \$50,000 (but not Additional Medicare Tax) (former employees only)	<b>AA</b>	Designated Roth contributions under a section 401(k) plan
<b>D</b>	Elective deferrals under a section 401(k) cash or deferred arrangement plan (including a SIMPLE 401(k) arrangement)	<b>P</b>	Excludable moving expense reimbursements paid directly to members of the Armed Forces	<b>BB</b>	Designated Roth contributions under a section 403(b) plan
<b>E</b>	Elective deferrals under a section 403(b) salary reduction agreement	<b>Q</b>	Non-taxable combat pay	<b>DD</b>	Cost of employer-sponsored health coverage
<b>F</b>	Elective deferrals under a section 408(k)(6) salary reduction SEP	<b>R</b>	Employer contributions to an Archer MSA	<b>EE</b>	Designated Roth contributions under a governmental section 457(b) plan
<b>G</b>	Elective deferrals and employer contributions (including nonelective deferrals) to a section 457(b) deferred compensation plan	<b>S</b>	Employee salary reduction contributions under a section 408(p) SIMPLE plan	<b>FF</b>	Permitted benefits under a qualified small employer health reimbursement arrangement
<b>H</b>	Elective deferrals to a section 501(c)(18)(D) tax-exempt organization plan	<b>T</b>	Adoption benefits	<b>GG</b>	Income from qualified equity grants under section 83(i)
<b>J</b>	Non-taxable sick pay	<b>V</b>	Income from exercise of nonstatutory stock option(s)	<b>HH</b>	Aggregate deferrals under section 83(i) elections as of the close of the calendar year
<b>K</b>	20% excise tax on excess golden parachute payments	<b>W</b>	Employer contributions (including employee contributions through a cafeteria plan) to an employee's health savings account (HSA)		

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**2022 W-2 and EARNINGS SUMMARY**  
**Bob Vance (Vance Refrigeration)**

Your Gross Pay was adjusted as follows to produce your W-2 Statement.

	Wages, Tips Other Compensation <b>Box 1 of W-2</b>	Social Security Wages <b>Box 3 of W-2</b>	Medicare Wages* <b>Box 5 of W-2</b>
<b>Gross Pay</b>	<b>618,000.00</b>	<b>618,000.00</b>	<b>618,000.00</b>
Memo: Gifts	300.00	300.00	300.00
Memo: GP Lf	792.00	792.00	792.00
Dental Pre Tax	-1,440.00	-1,440.00	-1,440.00 } Cafeteria Plan
Medical	-15,770.00	-15,770.00	-15,770.00 } Cafeteria Plan
Vision	-450.00	-450.00	-450.00 } Cafeteria Plan
Health Savings (HAS)	-7,300.00	-7,300.00	-7,300.00 } Health Savig Acct
401k Regular (W/ Catch up over 50)	-27,000.00	0.00	0.00
Excess FICA	0.00	-447,132.00	0.00
<b>W-2 Wages</b>	<b>567,132.00</b>	<b>147,000.00</b>	<b>594,132.00</b>

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Schedule K-1 (Form 1120-S) 2022  
 Department of the Treasury Internal Revenue Service  
 For calendar year 2022, or tax year beginning / / 2022 ending / /

**Shareholder's Share of Income, Deductions, Credits, etc.**  
 See separate instructions.

**Part I Information About the Corporation**


A Corporation's employer identification number 12-1234567  
 B Corporation's name, address, city, state, and ZIP code VANCE REFRIGERATION, INC. 1725 SLOUGH AVENUE, STE 210 SCRANTON PA 18503  
 C IRS Center where corporation filed return Kansas City, MO 64999-0013  
 D Corporation's total number of shares beginning of tax year end of tax year

**Part II Information About the Shareholder**

E Shareholder's identifying number 987-65-4321  
 F Shareholder's name, address, city, state, and ZIP code BOB VANCE 3764 ELVIS PRESLEY BLVD MEMPHIS TN 38116  
 G Current year allocation percentage 85.00000 %  
 H Shareholder's number of shares beginning of tax year end of tax year  
 I Loans from shareholder beginning of tax year end of tax year

**Part III Shareholder's Share of Current Year Income, Deductions, Credits, and Other Items**

1	Ordinary business income (loss)	13	Credits
2	Net rental real estate income (loss)		
3	Other net rental income (loss)		
4	Interest income		
5A	Ordinary dividends		
5B	Qualified dividends	14	Schedule K-3 is attached if checked
6	Royalties	15	Alternative minimum tax (AMT) items
7	Net short-term capital gain (loss)		
8A	Net long-term capital gain (loss)		
8B	Collectibles (28%) gain (loss)		
8C	Unrecaptured section 1250 gain		
9	Net section 1231 gain (loss)	16	Items affecting shareholder basis
10	Other income (loss)	C	6,375.
11	Section 179 deduction	D	170,000.
12	Other deductions		
		17	Other information
		Y	STMT

  
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Schedule K-1 (Form 1065) 2022  
 Department of the Treasury Internal Revenue Service  
 For calendar year 2022, or tax year beginning / / 2022 ending / /

**Partner's Share of Income, Deductions, Credits, etc.**  
 See separate instructions.

**Part I Information About the Partnership**

A Partnership's employer identification number 76-5432100  
 B Partnership's name, address, city, state, and ZIP code VANCE & SCOTT PROPERTIES, LLC 1725 SLOUGH AVENUE, STE 210 SCRANTON, PA 18503  
 C IRS center where partnership filed return KANSAS CITY, MO  
 D Check if this is a publicly traded partnership (PTP)

**Part II Information About the Partner**


E Partner's SSN or TIN (Do not use TIN of a disregarded entity. See instructions.) 987-65-4321  
 F Name, address, city, state, and ZIP code for partner entered in E. See instructions. BOB VANCE 3764 ELVIS PRESLEY BLVD MEMPHIS TN 38116  
 G General partner of LLC member-manager Limited partner or other LLC member  
 H1 Domestic partner Foreign partner  
 H2 If the partner is a disregarded entity (DE), enter the partner's TIN name  
 H What type of entity is this partner? INDIVIDUAL  
 I If this partner is a retirement plan (RAMP/IRA/Keogh/etc.), check here  
 J Partner's share of profit, loss, and capital (see instructions):  
 Beginning Ending  
 Profit 65.00000 % 75.00000 %  
 Loss 65.00000 % 75.00000 %  
 Capital 65.00000 % 75.00000 %  
 Check if decrease is due to sale or exchange of partnership interest

K Partner's share of liabilities:  
 Beginning Ending  
 Nonrecourse \$ \$  
 Qualified nonrecourse financing \$ 232,500. \$ 331,406.  
 Recourse \$ \$  
 Check this box if item K includes liability amounts from lower-tier partnerships

L Partner's Capital Account Analysis  
 Beginning capital account \$ 25,000.  
 Capital contributed during the year \$ 15,000.  
 Current year net income (loss) \$ 43,125.  
 Other increase (decrease) (attach explanation) \$ \$  
 Withdrawals and distributions \$ (85,000.)  
 Ending capital account \$ (-1,875.)

**Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items**

1	Ordinary business income (loss)	14	Self-employment earnings (loss)
2	Net rental real estate income (loss)	A	7,500.
3	Other net rental income (loss)		
4A	Guaranteed payments for services		
4B	Guaranteed payments for capital		
4C	Total guaranteed payments		
5	Interest income	15	Credits
6A	Ordinary dividends		
6B	Qualified dividends	16	Schedule K-3 is attached if checked
6C	Dividend equivalents	17	Alternative minimum tax (AMT) items
7	Royalties		
8	Net short-term capital gain (loss)		
9A	Net long-term capital gain (loss)	19	Distributions
9B	Collectibles (28%) gain (loss)	A	85,000.
9C	Unrecaptured section 1250 gain		
10	Net section 1231 gain (loss)	20	Other information
11	Other income (loss)	N	STMT 56,250.
12	Section 179 deduction	Z	STMT
13	Other deductions		
M			7,500.
21	Foreign taxes paid or accrued		
22	More than one activity for at-risk purposes*		
23	More than one activity for passive activity purposes*		
	*See attached statement for additional information.		

  
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**What is Bob Vance's True Income?**

**Scenario 1**

Vance Refrigeration, Inc. W-2 (Box 1)	\$567,132.00
Vance & Scott Properties, LLC K-1 (Rental Real Estate-Line 2)	\$43,125.00
Vance Refrigeration, Inc. K-1 (Ordinary Income-Line 1)	<u>\$158,525.00</u>
<b>Taxable Income</b>	<b><u>\$768,782.00</u></b>

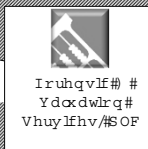
**Scenario 2**

Vance Refrigeration, Inc. Paystub (Gross Pay)	\$618,000.00
Vance & Scott Properties, LLC K-1 (Guaranteed Payments-Line 4)	\$7,500.00
Vance & Scott Properties, LLC K-1 (Distributions-Line 19)	\$85,000.00
Vance Refrigeration, Inc. K-1 (Items Aff. S'holder Basis, i.e. Distributions-Line 16)	<u>\$170,000.00</u>
<b>True Income ?</b>	<b>\$880,500.00</b>
Vance Refrigeration, Inc.-Increase in Loans to Shareholder During Year	\$55,000.00
Vance & Scott Properties, LLC -Increase in Loans to Partners During Year	<u>\$130,000.00</u>
<b>True Income !</b>	<b><u>\$1,065,500.00</u></b>



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**Business Valuation**



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## If You Don't Remember Anything Else Today



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- A business valuation is essentially the Present Value of the future expected benefits (cash flow)
- A closely-held business is, in reality, only worth the present value of the future cash flow over and above a “normal” owner compensation; a.k.a Ongoing Earning Capacity
- The Ongoing Earning Capacity is the cash flow return on investment the willing buyer “receives” by investing in this particular business
- The Discount Rate (Capitalization Rate) represents the risk an investor is willing to accept for the potential reward an investment in the company will return

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## If You Don't Remember Anything Else Today



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- Consider whether the Owner simply owns a job with little value otherwise
- The particular owner's interest is being valued, not necessarily the entire company (unless he/she owns 100%)

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## Standard of Value in TN: Fair Market Value



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### Definition per IRS Revenue Ruling 59-60

“The price at which a property would change hands between a willing buyer and a willing seller when the former is not under any compulsion to buy and the latter is not under any compulsion to sell and both parties have reasonable knowledge of the relevant facts.”

### Powell v. Powell - 2003

The Fair Market Value Standard as in IRS Rev. Rul. 59-60 **does not** have to be strictly followed when valuing a closely-held business in a Tennessee divorce

124 S.W.3d 100 (Tenn. Ct. App. 2003)

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## Three Approaches to Valuation



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### Market Approach

- Comparable sales of other businesses; similar to pricing your home for sale using comps in the neighborhood
- Guideline Transactions Method
- Publicly Traded Guideline Companies Method

### Asset Approach

- Start with the balance sheet of a business, but with identifiable tangible and intangible assets adjusted to Fair Market Value minus liabilities
- Adjusted Net Asset Value Method

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## Three Approaches to Valuation



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### Income Approach

- Net present value of expected future benefits to the owner, usually the cash flow, with the discount rate/multiplier being risk adjusted
  - Capitalization of Earnings Method
  - Discounted Cash Flow Method

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## What is Included in Each Approach?



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- The inclusion of **both** Personal and Enterprise Goodwill is implied in the final conclusion of value using the valuation approaches of :
  - **Market Approach - Yes**
  - **Income Approach - Yes**
  - **Asset Approach - No**
- Usually all assets and debts of the business are included with the Market and Income Approach conclusions of value unless you identify "Non-Operating Assets" like an airplane or FL condo for a business with only 1 location - add these into the value after the Method is calculated

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## What is Included in Each Approach?



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Conclusion of Value Using an Income Approach		750,000
<u>"Hard" Assets and Debts</u>		
Cash	75,000	
Accounts Receivable	50,000	
FMV of Equipment	100,000	
Loan	(60,000)	
Adjusted Net Asset Value		<u>165,000</u>
<b>Total Goodwill (a balancing or plug figure using this build-up)</b>		<b><u>585,000</u></b>

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## Normalizing Expense Adjustments



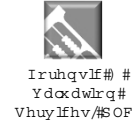
I r u h q v l f # #  
Y d α d w l r q #  
V h u y l f h v # S O F

### Income Statement Normalizing Adjustments

	Dec 2022	Dec 2021	Dec 2020	Dec 2019	Dec 2018
Historic Net Income Before Taxes	42,000	40,000	(32,000)	(12,500)	55,000
Adjustments to Expense:					
Owner Compensation #1-Actual	(314,914)	(379,766)	(286,260)	(318,692)	(124,204)
Owner Compensation #2-Actual	(257,414)	(319,764)	(224,156)	(254,170)	(75,796)
<b>Owner Compensation #1-Adjusted</b>	<b>150,000</b>	<b>150,000</b>	<b>150,000</b>	<b>150,000</b>	<b>150,000</b>
<b>Owner Compensation #2-Adjusted</b>	<b>125,000</b>	<b>125,000</b>	<b>125,000</b>	<b>125,000</b>	<b>125,000</b>
Rent Paid to Owners-Actual	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)
Rent Paid to Owners-Adjusted	50,000	50,000	50,000	50,000	50,000
	<u>(347,327)</u>	<u>(474,530)</u>	<u>(285,416)</u>	<u>(347,862)</u>	<u>25,000</u>
Net Increase (Decrease) to Net Income	347,327	474,530	285,416	347,862	(25,000)
<b>Adjusted Net Income</b>	<b><u>389,327</u></b>	<b><u>514,530</u></b>	<b><u>253,416</u></b>	<b><u>335,362</u></b>	<b><u>30,000</u></b>

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## Normalizing Expense Adjustments



### Income Statement Normalizing Adjustments

	Dec 2022	Dec 2021	Dec 2020	Dec 2019	Dec 2018
Historic Net Income Before Taxes	42,000	40,000	(32,000)	(12,500)	55,000
Adjustments to Expense:					
Owner Compensation #1-Actual	(314,914)	(379,766)	(286,260)	(318,692)	(124,204)
Owner Compensation #2-Actual	(257,414)	(319,764)	(224,156)	(254,170)	(75,796)
<b>Owner Compensation #1-Adjusted</b>	<b>225,000</b>	<b>225,000</b>	<b>225,000</b>	<b>225,000</b>	<b>225,000</b>
<b>Owner Compensation #2-Adjusted</b>	<b>200,000</b>	<b>200,000</b>	<b>200,000</b>	<b>200,000</b>	<b>200,000</b>
Rent Paid to Owners-Actual	(100,000)	(100,000)	(100,000)	(100,000)	(100,000)
Rent Paid to Owners-Adjusted	50,000	50,000	50,000	50,000	50,000
	<u>(197,327)</u>	<u>(324,530)</u>	<u>(135,416)</u>	<u>(197,862)</u>	<u>175,000</u>
Net Increase (Decrease) to Net Income	197,327	324,530	135,416	197,862	(175,000)
<b>Adjusted Net Income</b>	<b><u>239,327</u></b>	<b><u>364,530</u></b>	<b><u>103,416</u></b>	<b><u>185,362</u></b>	<b><u>(120,000)</u></b>

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### Capitalization Of Earnings Economic Stream

Weighted Evenly	Dec 2022	Dec 2021	Dec 2020	Dec 2019	Dec 2018
Adjusted Income Before Taxes	\$389,327	\$514,530	\$253,416	\$335,362	\$30,000
Adjusted Depreciation	14,345	1,786	1,633	11,050	23,185
	403,672	516,316	255,049	346,412	53,185
<b>Weight</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>
Weighted Average	314,927				
Less Ongoing Depreciation	<u>(10,400)</u>				
Sub-Total	304,527				
Less State Taxes	6.5% <u>(19,794)</u>				
Taxable Base	284,733				
Less Federal Taxes	<u>(94,296)</u>				
Sub-Total	190,437				
Add Back Ongoing Depreciation/Amortization	10,400				
Decrease/(Increase) in Capital Expenditures	<u>(10,000)</u>				
Ongoing Earning Capacity	<u>190,837</u>				
Capitalization Multiple	x 4.4				
<b>Indicated Operating Value</b>	<b>= <u>\$833,242</u></b>				
Capitalization Rate	÷ 22.9%				
<b>Indicated Operating Value</b>	<b>= <u>\$833,242</u></b>				


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Capitalization Of Earnings Economic Stream Zero on COVID Years	Dec 2022	Dec 2021	Dec 2020	Dec 2019	Dec 2018
Adjusted Income Before Taxes	\$389,327	\$514,530	\$253,416	\$335,362	\$30,000
Adjusted Depreciation	14,345	1,786	1,633	11,050	23,185
	403,672	516,316	255,049	346,412	53,185
<b>Weight</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>1</b>
Weighted Average	267,756				
Less Ongoing Depreciation	(16,193)				
Sub-Total	251,563				
Less State Taxes	6.5% (16,352)				
Taxable Base	235,211				
Less Federal Taxes	(74,982)				
Sub-Total	160,229				
Add Back Ongoing Depreciation/Amortization	16,193				
Decrease/(Increase) in Capital Expenditures	(10,000)				
Ongoing Earning Capacity	166,422				
Capitalization Multiple	x 4.4				
<b>Indicated Operating Value</b>	<b>= \$726,642</b>				
Capitalization Rate	÷ 22.9%				
<b>Indicated Operating Value</b>	<b>= \$726,642</b>				

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## Weighting of Values in the Conclusion



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Conclusion of Value-Heavier Weight to Income Approach		
	Indicated Value	Weight Percent
Asset Approach-Adjusted Net Asset Value Method	625,000	25.0%
Market Approach	350,000	0.0%
Income Approach	850,000	75.0%
<b>Calculated Weighted Average Conclusion of Value</b>	<b>\$793,750</b>	<b>100.0%</b>
<b>Rounded</b>	<b>\$794,000</b>	
Conclusion of Value-Even Method Weighting		
	Indicated Value	Weight Percent
Asset Approach-Adjusted Net Asset Value Method	625,000	33.3%
Market Approach	350,000	33.3%
Income Approach	850,000	33.3%
<b>Calculated Weighted Average Conclusion of Value</b>	<b>\$608,273</b>	<b>100.0%</b>
<b>Rounded</b>	<b>\$608,000</b>	

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## Personal & Enterprise Goodwill

- Tennessee has a well-established case law history that does not provide for the inclusion of **Personal Goodwill** (a.k.a. professional goodwill) as an asset of the marital estate, but does allow for the inclusion of **Enterprise Goodwill** (a.k.a. business goodwill)
- Personal goodwill is generally not to be considered in the valuation of professional practices and small, closely-held businesses **primarily** dependent upon the individual for success or profits

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## **Smith (Middle Section 1985) - No GW**



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- This is THE base personal goodwill case
- Law practice (professional practice) is marital property if the non-professional spouse made contributions related to the practice during the marriage (i.e. worked as bookkeeper, helped spouse through school)
- Business goodwill of a professional practices isn't a marital asset which should be accounted for in equitable distribution
- Assets and accounts receivable should be taken into account when valuing a professional practice

*Smith v. Smith*, 709 S.W.2d (Tn. Ct. App. 1985)

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## **Hazard (Western Section 1991) - No GW**



I r u h q v l f # #  
Y d o c d w l r q #  
V h u y l f h v # S O F

- Sole practitioner physician
- Practice was highly specialized and very dependent upon personal referrals from other physicians
- Goodwill in a professional practice is not a marital asset subject to equitable distribution
- Sole practitioner professional practice is to be valued using the "net tangible assets with ascertainable value."  
Cites *Smith v. Smith*
- Net Asset Value a.k.a. Net Book Value

*Hazard v. Hazard*, 833 S.W.2d 911 (Tn. Ct. App. 1991)

31

## **Witt (Middle Section 1992) - GW Allowed**



I r u h q v l f # #  
Y d o c d w l r q #  
V h u y l f h v # S O F

- Large outpatient radiological diagnostic clinic
- If the professional practice or closely-held business is large and diverse enough and not solely dependent on the individual, goodwill may be considered as part of the ownership interest
- Dr. Witt's clinic was found to have separate goodwill that was not directly related to his professional or personal goodwill
- Size Does Matter

*Witt v. Witt*, No. 01-A-019110CH00360, 1992 WL 52746  
(Tenn. Ct. App. Mar. 20, 1992)

32

## **Harmon (Western Section 2000) - No to Buy-Sell**



I r u h q v l f # #  
Y d o c d w l r q #  
V h u y l f h v # S O F

- Buy-sell agreement of a closely-held corporation, not signed by the non-shareholder spouse, is not binding on that spouse and is only a consideration
- Very large medical practice and goodwill was considered as part of the marital ownership interest;
- Court found that “[s]ince [the] Husband will continue to experience the benefits of being a ... shareholder and an employee,’ factors such as those deleted from the valuation [like goodwill] in the buy-sell agreement are pertinent to the valuation of Husband's interests for purposes of the division of marital property.”

*Harmon v. Harmon*, 25 TAM 15-22 (Tn. Ct. App. 2000)

33



## ***Inzer* (Middle Section 2009) - Yes to Buy-Sell**



I r u h q v l f # #  
Y d o d w l r q #  
V h u y l f h v # S O F

- Husband owned a 24% interest in a Sonic restaurant and signed a buy/sell agreement with a low valuation method
- Wife, not an owner, signed an agreement stating she agreed to be bound by the same terms
- Court found that the value of the business should be determined based upon the buy/sell agreement since the wife had signed the agreement
- The case was remanded for determination of the value in accordance with the agreement

*Inzer v. Inzer*, No. M2008-00222-COA-R3-CV (Tenn.Ct.App. 2009)

34

## ***Eberting* (Eastern Section 2012) - GW Allowed**



I r u h q v l f # #  
Y d o d w l r q #  
V h u y l f h v # S O F

- Sole practitioner orthodontia practice value at FMV by Vance at \$700k; included Enterprise (not Personal) Goodwill
- Opposing expert valued practice At \$224k using net book value with no Goodwill
- Very importantly, Dr. Eberting had purchased the practice several years before for MORE than \$224k and testified he would not think of selling it today for that price

*Eberting v. Eberting*, No. E2010-02471-COA-R3CV, 2012 WL 605512 (Tenn. Ct. App. Feb. 27, 2012)

35

## Eberting continued



Iruhqvlf# #  
Ydædwlrq#  
Vhuylfhv/#SOF

- Trial judge found value to be \$500k, which was a value indicated by the owner in a PFS
- Chancellor knew that any value north of \$224k was including goodwill (he confirmed this to me afterwards)
- Appellate court quote: *“A trial judge, as the fact finder, is not required to check his or her common sense at the door when considering evidence.”*
- Upheld the \$500k trial value

36

## Hartline (Eastern Section 2013) - No Goodwill w/ Sole Prop. Dentist



Iruhqvlf# #  
Ydædwlrq#  
Vhuylfhv/#SOF

- Sole practitioner “country” dentist; did not brand his name separately
- Trial value was \$468k included goodwill; based on the Market Approach-Guideline Transaction Method
- Appellate court remanded for a value with no goodwill
- “...sole practitioner of an unincorporated dental practice, whether his business could continue without him is speculative, leading to the conclusion that the goodwill of Husband’s practice should not be considered in valuing said practice.”

*Hartline v. Hartline*, No. E2012-02593-COA-R3CV, 2014 WL 103801  
(Tenn. Ct. App. Jan. 13, 2014)

37

## **Barnes (Middle Section 2014) - Goodwill Allowed w/ Sole Prop. Dentist**



Iruhqvlf# #  
Ydædwlrq#  
Vhuylfhv/#SOF

- Sole practitioner dentist; enterprise goodwill allowed
- Practice branded with the name of Shelbyville Family Dentistry with large staff and great location
- H's expert used income approach-\$735k which, remember, provides for goodwill (enterprise & personal)
- Trial court crafted its own goodwill allocation method, but made a math error

*Barnes v. Barnes*, No. M2012-02085-COA-R3-CV, 2014 WL 1413931 (Tenn. Ct. App. Apr. 10, 2014)

38

## **Barnes continued**



Iruhqvlf# #  
Ydædwlrq#  
Vhuylfhv/#SOF

- Trial court used H's expert figure of \$735k less personal goodwill of \$349k leaving enterprise value of \$386k
- Applied a Discount for Lack of Marketability ("DLOM") of 15% to arrive at \$328k
- Value upheld by appellate court, but, held that DLOM was error based on *Bertuca* (now irrelevant)
- Valuation should not have been impacted by the lack of marketability of H's interest, unless of course there was some indication that a sale of his interest was necessary or desirable

39



## Why is *Bertuca* Irrelevant?



I r u h q v l f # #  
Y d o d w l r q #  
V h u y l f h v # S O F

- In 2017, TN Legislature passed TCA § 36-4-121(c)(10)
- (c) In making equitable division of marital property, the court shall consider all relevant factors including:
  - (10) In determining the value of an interest in a closely held business or similar asset, all relevant evidence, including valuation methods typically used with regard to such assets without regard to whether the sale of the asset is reasonably foreseeable. Depending on the characteristics of the asset, such considerations could include, but would not be limited to, a lack of marketability discount, a discount for lack of control, and a control premium, if any should be relevant and supported by the evidence;

40

## *Lunn* (Eastern Section 2015) - No Goodwill w/ Sole Proprietor Dentist



I r u h q v l f # #  
Y d o d w l r q #  
V h u y l f h v # S O F

- Sole proprietor dentist
- Vance valued at \$639k using income approach and deducted personal goodwill of \$209k using the MUM to arrive at “divorce value” of \$430k; included enterprise goodwill of \$277k
- Opp. expert at \$52k; H at \$450k on a PFS
- Trial court valued at \$430k

*Lunn v. Lunn*, No. E2014-00865-COA-R3-CV (Tenn. Ct. App. June 29, 2015)

41



## Lunn continued



I r u h q v l f # #  
Y d o d w l r q #  
V h u y l f h v # S O F

- Appellate Decision: “As the trial court properly recognized, this Court has repeatedly held that professional goodwill in a sole proprietorship is an intangible asset that is not divisible as marital property upon divorce because it is personal to the proprietor. [See, e.g., *Hartline and Eberting*.]”
- “Although the courts of our state have recognized the existence of “enterprise” or “business” goodwill as a distinct concept from professional or personal goodwill, [see, e.g., *McKee, York*], this Court has been reluctant to allow enterprise goodwill to be divided as a marital asset upon divorce when the business involved is a sole proprietorship, as here.”
- “Based on this precedent, we determine that the adoption of a valuation that expressly included enterprise goodwill was erroneous *because the business involved was a sole proprietorship* [emphasis added].”

42

## Fuller (Eastern Section 2016) - Trail Income Is Not Goodwill



I r u h q v l f # #  
Y d o d w l r q #  
V h u y l f h v # S O F

- Sole practitioner CFP; business value based on “trail income” ruled to be a marital asset separate and apart from any goodwill
- Industry expert: trail income value was “two times a year’s trail, plus . . . one times the [direct] commission”
- The salability aspect was determined by the Court to be the controlling factor in distinguishing its nature from the concept of goodwill

*Fuller v. Fuller*, No. E2016-00243-COA-R3-CV(Tenn. Ct. App. Dec 21, 2016)

43

## Fuller continued



I r u h q v l f # #  
Y d o d w l r q #  
V h u y l f h v # S O F

- The ruling states “In contrast to professional [personal] goodwill, Father’s trail income could be sold separately.”
- Remanded for double dip due to using trail income in business value and income available for support

44

## Mabie (Western Section 2017) - Goodwill Allowed (Size Does Matter)



I r u h q v l f # #  
Y d o d w l r q #  
V h u y l f h v # S O F

- Physician; 1/12 owner in pulmonary practice in Memphis
- Capitalization of Earnings value of \$586,000 upheld
- H argued for the stock control agreement-citing *Harmon*
- “his expert was right, Wife’s expert [Vance] was wrong, and that should constitute reversible error”

*Mabie v. Mabie*, No. W2015-01699-COA-R3-CV(Tenn. Ct. App. Jan 9, 2017)

45

## Mabie continued



I r u h q v l f # #  
Y d o c d w l r q #  
V h u y l f h v # S O F

- “..to suggest that someone who can make 700, 800, 900,000 dollars per year progressively, that his ownership interest is only worth 8,000 dollars defies logic.” [quote from Vance]
- “And, as we have stated before, a trial judge, as fact finder, is not required to check his or her common sense at the door when considering evidence.” [cite from Eberting]

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## Cela (Middle Section 2021)- Goodwill Allowed with Formula



I r u h q v l f # #  
Y d o c d w l r q #  
V h u y l f h v # S O F

- Speech Therapy Practice; Sole-member LLC
- Wife’s expert-it is a sole prop. professional services so no goodwill and used net asset approach - \$82,000
- Husband’s expert, Josh Hedrick-testified the company is a “true business” used income approach - \$790,000
  - Not a “classic sole proprietorship” because it “is marketed under Mark Their Words (MTW ) and performs work as a collection and a team of folks, not as [Wife].”
  - MTW’s legal dispute over its former name (More Than Words), he asserted that “from an economic perspective, you are not going to spend money fighting over a worthless thing”

*Cela v. Cela*, No. M2019-01861-COA-R3-CV (Tenn. Ct. App. July 30, 2021)

47



## *Cela* continued



I r u h q v l f # #  
Y d o d w l r q #  
V h u y l f h v # S O F

- Wife accounted for only 14.3% of MTW's total revenue; that is, 85.7% of MTW revenue was generated by other providers
- Trial court accepted the value of \$790,000 provided by Husband's expert but determined that a 14.3% reduction was appropriate to account for Wife's personal goodwill

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## *Cela* continued



I r u h q v l f # #  
Y d o d w l r q #  
V h u y l f h v # S O F

- *Cela* appellate court:
  - Wife handed off her patients to other providers during a leave of absence in 2016
  - The company's business carried on successfully during Wife's absence
  - Business continued uninterrupted during a subsequent 8 week leave of absence by Wife in 2018
  - Wife does not go to MTW's second location
  - The therapy services Wife provides to patients account only for 14.3% of the MTW's production

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## ***Cela* continued**



Iruhqvlf# #  
Ydædwlrq#  
Vhuylfhv/#SOF

- **Cela appellate court:**
  - Wife repeatedly testified that people are making money for her
  - MTW is a successful enterprise
  - Wife has established a business model that leverages others' skills and services to generate income
  - MTW is not reliant on any single specific provider

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## ***Chase* (Eastern Section 2022) - Goodwill Allowed with Medical Practice**



Iruhqvlf# #  
Ydædwlrq#  
Vhuylfhv/#SOF

- Husband's expert testified no need for alimony due to asset division and being able to earn 5% potential income of \$8,000 to \$10,000 per month, thereby obviating any need for alimony
- Wife's expert testified such a rate of return had not been achieved by the parties in the past, according to the parties' income tax returns
- Trial court and appellate court sided with Wife's expert on the rate of return issue - but we as forensic experts can demonstrate that just because an issue has not historically been a certain way does not mean it cannot be different going forward

*Chase v. Chase*, No. E2021-01300-COA-R3-CV (Tenn. Ct. App. Dec. 9, 2022)

51

## Chase continued



Iruhqvlf# #  
Ydædwlrq#  
Vhuylfhv/#SOF

- All was not lost for Wife in that she was awarded \$1,600 per month for 3 years in rehabilitative alimony plus \$7,000 per month alimony *in futuro*
- H's Medical practice - W's expert at \$350k; H's at \$110k; court at \$255k
- On appeal H argued that the evidence preponderated against that value because that value necessarily includes some element of **personal goodwill**; the appellate court disagreed with Husband's claim
- It was argued that the business possessed features of **both enterprise and personal goodwill** and this argument was found to be valid

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## Chase continued



Iruhqvlf# #  
Ydædwlrq#  
Vhuylfhv/#SOF

- Trial court found that the factors establishing the enterprise goodwill are less prevalent than those of personal goodwill
  - APRS employed 12 employees, including a nurse practitioner and an aesthetician who billed separately for their services
  - Husband was still the primary generator of income
  - Husband's work ethics and his personal goodwill increase the income stream of the business and not consider personal goodwill in valuing the business

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## Chase continued



Iruhqvlf# #  
Ydædwlrq#  
Vhuylfhv/#SOF

- Appellate court concluded that the trial court did not err in setting a value for the business that was greater than its net asset value based upon such factors as
  1. The business's income stream in recent years
  2. APRS's status as a corporation
  3. Differing asset values, including the value of inventory
  4. APRS's employment of other revenue-generating employees
  5. The increase in cash on hand in APRS by the time of trial

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## A Few Complex Forensic Accounting Issues



Iruhqvlf# #  
Ydædwlrq#  
Vhuylfhv/#SOF

55



## **Byrd (Western Section 2022)**

**Which Expert Can Testify, Impartiality Under Rule 706,  
Consequences of Not Cooperating and Proper Business  
Valuation Methods**



Iruhqvlf# #  
Ydædwlrq#  
Vhuylfhv/#SOF

*As the trial judge Bob Weiss put it, “the games have to stop” and “this was very much a case of hiding the ball, and that was the problem.”*

- Mike Pascal was the testifier
- Husband and his brother owned and operated two McDonald’s franchises
- FVS had valued approximately 65 McDonald’s restaurant franchises in the past two years

*Byrd v. Byrd*, No. W2021-00926-COA-R3-CV (Tenn. Ct. App. Oct. 31, 2022)

56

## **Byrd continued**



Iruhqvlf# #  
Ydædwlrq#  
Vhuylfhv/#SOF

- Husband admitted to being on 5 bank accounts, but we found him on about 12
- McDonald’s restaurants were paying for virtually all of the personal expenses on his behalf; about \$17k per month
- Collected information showed sixteen bank accounts “with millions of dollars being transferred in from unknown sources and millions transferred out to unknown destinations”
- Our previous experience was that McDonald’s corporate uses a **net cash flow** multiplier for valuation which we could not use due to the personal expenses

57



## Byrd continued



I r u h q v l f # #  
Y d o d w l r q #  
V h u y l f h v # S O F

- We used the guideline transaction method of the market approach based on gross revenues
- H's PFS showed a value of \$4.1M; not coincidentally, we valued at \$4.0M
- Appeal had 4 issues:
  1. Outdated Information
  2. Expert Substitution Expert Impartiality
  3. Whether the court appointed expert appointed under rule 706 (Tennessee rules of civil procedure) owed a duty of impartiality; and
  4. Improper Valuation Method

58

## Byrd continued



I r u h q v l f # #  
Y d o d w l r q #  
V h u y l f h v # S O F

1. Outdated Information
2. Expert Substitution
  - a. Pascal was stipulated by both attorneys as an expert
  - b. Husband's counsel objected to any further testimony from Pascal; he argued that the trial court had "appointed" only Vance

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## Byrd continued



Iruhqvlf# #  
Ydædwlrq#  
Vhuylfhv/#SOF

3. Expert Impartiality - Whether the court appointed expert appointed under rule 706 owed a duty of impartiality
  - a. Rule 706 allows a court to appoint its own expert witness
  - b. Appellate court acknowledged that the trial court's order did state that Vance was "appointed as a forensic accountant," but it is clear from the remainder of the record that I was Wife's retained expert and not appointed pursuant to Rule 706
  - c. Appellate court rejected Husband's argument that the court violated Rule 706 by allowing Pascal to testify in place of Vance and for the same reason rejected Husband's argument that Vance, Pascal, and the FVS firm "violated a duty of impartiality" owed under Rule 706

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## Byrd continued



Iruhqvlf# #  
Ydædwlrq#  
Vhuylfhv/#SOF

4. Improper Valuation Method
  - a. We used the **guideline transaction method** of the market approach for the McDonald's franchises at issue due to the \$17k of personal expenses
  - b. Counsel argued that the market approach is not a valuation method typically used to value a closely held corporation
  - c. We tapped the data metrics from the 65 franchises we had recently valued utilizing a multiplier with the **gross income versus the net income or net cash flow**
  - d. Average of 65 stores was around \$2.0M per store
  - e. We valued at \$4.0M (2 stores) but Pascal testified that since Husband had valued the 2 himself at \$4.1M - that was reasonable
  - f. Our value was affirmed by the appellate court

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## Lucchesi (Western Section 2019)



Iruhqvlf# #  
Ydædwlrq#  
Vhuylfhv/#SOF

### Major Issues:

- Value of Family Business at Date of Marriage
- Husband's True Income for Support Purposes
- Using Appraisals Made by the County Tax Assessor
- \$950,000 of assets in the division that were undisclosed by Husband that FVS found

*Lucchesi v. Lucchesi*, No. W2017-01864-COA-R3-CV (Tenn. Ct. App. Jan. 23, 2019)

62

## Lucchesi continued



Iruhqvlf# #  
Ydædwlrq#  
Vhuylfhv/#SOF

### Background:

- Married late in 1994; almost 22 years through 2016
- Husband's family sold local business ("Family Business") for \$11m in 2012; Husband was 1/3 owner and netted \$3.7m in proceeds
- Parties stipulated that Family Business stock was Husband's separate property at DOM
- Husband "invested" in many assets after the sale with the proceeds (i.e., claimed these were purchased with separate assets); many were rental properties that were not rented

63



## Lucchesi continued



I r u h q v l f # #  
Y d o c d w l r q #  
V h u y l f h v # S O F

- “This court and counsel for Husband frequently admonished Husband that his behavior was unacceptable in the courtroom, causing the court on one occasion to require Husband to step into the hallway for a period of approximately 15 minutes.”
- “At one point during Wife’s testimony, this court ordered Husband to remove himself from the line of sight of Wife as she testified, required him to sit by the court’s clerk for a period of approximately one (1) hour.”

64

## Lucchesi continued



I r u h q v l f # #  
Y d o c d w l r q #  
V h u y l f h v # S O F

### Value of Family Business at Date of Marriage:

- Parties stipulated that stock was Husband’s separate property at DOM
- Husband and 2 brothers ran the company; he was operations and financial manager and claimed to be a product expert, but, he claims he had little to do with the appreciation in value from DOM to Date of Sale in 2012
- He said all appreciation was market forces due to a brand of product they were allowed to carry
- Proof showed otherwise

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## Lucchesi continued



### Value of Family Business at Date of Marriage:

- We needed to establish the value at or near the date of marriage 22 years in the past
- 7 family members owned 100% of stock in 1994 & 1996
- Family business was losing \$ and in a lot of debt in 1996
- Buried in the dustbin of company records, we found documents:
  - 3 siblings sold out in 1996 under a Stock Purchase Agreement for \$726.39/share implying total co. value of \$735,000
  - The company repurchased stock and owed the debt back

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<u>Before Buy-Out</u>	<u>Shares</u>	<u>Year Sold</u>	<u>Sale Price</u>	<u>Per Share</u>
Aunt	150.00	1997	\$160,000	\$1,066.67
Brother 1	300.00			
Brother 2	100.00			
Husband	100.00			
Sister 1	100.00	1996	\$75,000	\$750.00
Sister 2	100.00	1996	\$75,000	\$750.00
Brother 3	100.00	1996	\$75,000	\$750.00
Total	<u>950.00</u>			
		<b>Value</b>		
<u>After Buy-Out in 1996</u>	<u>Shares</u>	<u>Per Share</u>	<u>Value</u>	
Aunt	0.00			
Brother 1	100.00	\$750.00	\$75,000	
Brother 2	100.00	\$750.00	\$75,000	
<b>Husband</b>	<b>100.00</b>	<b>\$750.00</b>	<b>\$75,000</b>	
Sister 1	0.00			
Sister 2	0.00			
Brother 3	0.00			
Total	<u>300.00</u>		<u>\$225,000</u>	

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## Lucchesi continued



Iruhqvlf# #  
Ydædwlrq#  
Vhuylfhv/#SOF

### Husband's Expert:

- For the 1994 value, Husband's expert produced a Calculation Engagement which he had never done before
- Applied the 2012 transaction multiples from the sale to the financials from 1994 (18 years in the past) which he had never done before either
- Price to Revenues, Price to GP and Price to EBITDA
- He opined on a range of values from \$4.7m to \$1.7m
- Admitted on stand that the 1996 transaction was an "actual transaction" at arm's length and that an actual transaction is a good indicator of value
- **He was a good witness for our side**

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## Lucchesi continued



Iruhqvlf# #  
Ydædwlrq#  
Vhuylfhv/#SOF

### Trail Court Rulings:

- "Under the market approach, transactions within the company's own stock or owner interest can be used to determine a company's common equity value."
- "It is clear that both Husband and Wife substantially contributed to the preservation and appreciation of Husband's interest in [Family Business]."
- "This court finds it incredible that the siblings would agree to accept \$75,000 for shares that would realistically have been worth close to \$500,000 based upon [opposing expert's] calculations."

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## Lucchesi continued



Iruhqvlf# #  
Ydædwlrq#  
Vhuylfhv/#SOF

### Trail Court Rulings:

- Judge values the stock at DOM at \$75k (FVS opinion)
- Court found that stock appreciated in value by \$3.7m less the \$75k; and it was all marital
- Huge ruling in our favor as virtually all of the property purchased by Husband with the sale proceeds was marital
- **Appellate court found no error**

70

## Lucchesi continued



Iruhqvlf# #  
Ydædwlrq#  
Vhuylfhv/#SOF

### Husband's True Income for Support Purposes:

- Husband turned down employment paying \$100k from the Family Business buyer, but his 2 brothers took similar paying positions with the buyer and still work there; Husband said he could make more as a venture capitalist
- Husband produced draft, unfiled tax returns; we proved he left off hundreds of thousands of dollars of income from these drafts
- We produced analysis showing income to be \$17k per month; Trial Court ruled he had income of \$27k per month
- **Husband did not appeal this ruling**

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## Lucchesi continued

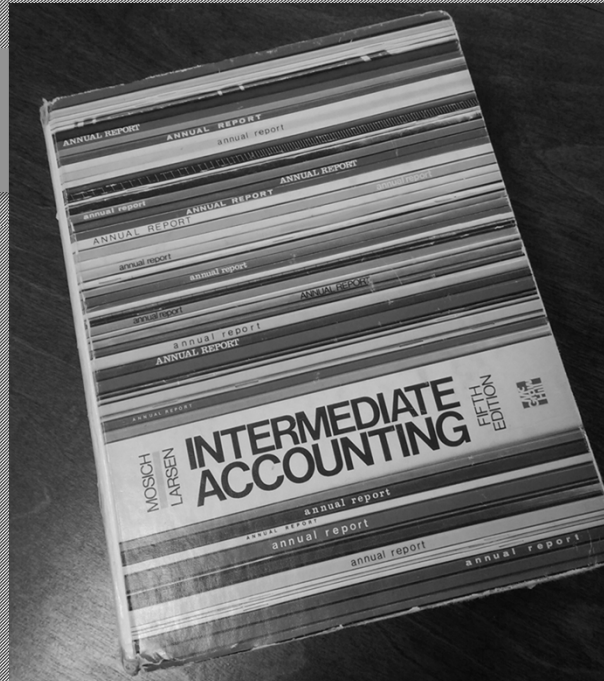


Iruhqvlf# #  
Ydædwlrq#  
Vhuylfhv/#SOF

Vance is not Qualified!

- Husband's Counsel Argued:
  - **Nobody** uses the county assessor's office value for real estate
  - On top of that, Vance is not qualified to opine about real estate improvements or real estate values

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Iruhqvlf# #  
Ydædwlrq#  
Vhuylfhv/#SOF

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76

## Lucchesi continued



Iruhqvlf# #  
Ydædwlrq#  
Vhuylfhv/#SOF

Vance is not a Real Estate Appraiser!

- The court adopted Vance's opinion as to the value of the real estate, which were based on the appraisals made by the respective county tax assessors
- Husband contended that the court erred in adopting these values because Vance "was not qualified in the field of real estate appraisals" and should not be using the county tax assessor values
- The appellate court stated: "The testimony of Mr. Vance cited by Husband in his brief does not reveal a lack of trustworthiness in the underlying tax appraisals"
- **Appellate Court upheld trial court ruling**

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## Lucchesi continued



Iruhqvlf# #  
Ydædwlrq#  
Vhuylfhv/#SOF

Marital Balance Sheet:

- Trial judge used a majority of asset values FVS provided
- Included \$950,000 of assets in the division that were undisclosed by Husband that FVS found; including the "Unnamed Condo" being depreciated on 2014 tax return
- We sought information and values from Husband through counsel about many assets which he did not provide
- Appellate Court stated: "To adopt Husband's argument would effectively reward him for his failure to produce the information which was sought by Wife; this court will not countenance such a result."
- **Appellate court upheld values on most all of the assets, but remanded for more proof on the Unnamed Condo**

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## Lucchesi continued



I r u h q v l f # #  
Y d o d w l r q #  
V h u y l f h v / # S O F

### Be Careful What You Ask For:

- Husband appealed the alimony in solido of \$200k as excessive and Wife appealed the alimony as insufficient
- Appellate court agreed with Wife and ruled the award of alimony in solido should be **increased to \$300k** to cover the amount of attorney's fees and costs Wife incurred
- Also remanded so as to determine whether an award of rehabilitative and/or transitional alimony would be appropriate
- If not, the trial court should consider an **additional award** of long-term support, in light of Wife's demonstrated need

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## Affirmations from the *Lucchesi* Decision



I r u h q v l f # #  
Y d o d w l r q #  
V h u y l f h v / # S O F

1. An arm's length "actual transaction" of stock sold between family members can be considered proof of value
2. An expert witness and counsel should consider the practical aspect of claiming that siblings would agree to accept \$75,000 in 1994 for shares that would have been theoretically worth close to \$500,000 based upon your expert's calculations
3. No Calculation Engagement for a case that is going to trial
4. A party that turns down a job offer for \$100,000 with claims of being able to make more with their "venture capitalism" should actually go about earning that money and not invest in rental properties that produce no rent

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## Affirmations from the *Lucchesi* Decision



Iruhqvlf# #  
Ydædwlrq#  
Vhuylfhv/#SOF

5. Using values of real estate from the county tax assessor's appraisal is sufficient and usable at trial if the party in control of the asset offers no written proof of value
6. An expert witness is not required to be a certified real estate appraiser if offering proof of the value of real estate from the county tax assessor's appraisal
7. It is not unreasonable for an expert witness to use the cost of an asset or investment if the party that bought it refuses to offer proof of its existence
8. A party will probably be assessed attorney's fees and expert witness costs if he fails to disclose \$950,000 of marital assets the expert ultimately uncovers

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## Thank you!



Iruhqvlf# #  
Ydædwlrq#  
Vhuylfhv/#SOF

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**U.S. Income Tax Return for an S Corporation**

Department of the Treasury  
Internal Revenue Service

Do not file this form unless the corporation has filed or is attaching Form 2553 to elect to be an S corporation.  
Go to [www.irs.gov/Form1120S](http://www.irs.gov/Form1120S) for instructions and the latest information.

**2022**

For calendar year 2022 or tax year beginning \_\_\_\_\_, 2022, ending \_\_\_\_\_, 20

<b>A</b> S election effective date 01/01/2009	<b>TYPE OR PRINT</b>	Name VANCE REFRIGERATION, INC.	<b>D</b> Employer identification number 12-1234567
<b>B</b> Business activity code number (see instructions) 423600		Number, street, and room or suite no. If a P.O. box, see instructions. 1725 SLOUGH AVENUE, STE 210	<b>E</b> Date incorporated 01/01/2009
<b>C</b> Check if Sch. M-3 attached <input type="checkbox"/>		City or town, state or province, country, and ZIP or foreign postal code SCRANTON PA 18503	<b>F</b> Total assets (see instructions) \$ 1,104,000.

**G** Is the corporation electing to be an S corporation beginning with this tax year? See instructions.  Yes  No  
**H** Check if: (1)  Final return (2)  Name change (3)  Address change (4)  Amended return (5)  S election termination  
**I** Enter the number of shareholders who were shareholders during any part of the tax year . . . . . 2  
**J** Check if corporation: (1)  Aggregated activities for section 465 at-risk purposes (2)  Grouped activities for section 469 passive activity purposes

**Caution:** Include **only** trade or business income and expenses on lines 1a through 21. See the instructions for more information.

<b>Income</b>	<b>1a</b> Gross receipts or sales . . . . .	<b>1a</b>	4,250,000.	
	<b>b</b> Returns and allowances . . . . .	<b>1b</b>		
	<b>c</b> Balance. Subtract line 1b from line 1a . . . . .			<b>1c</b> 4,250,000.
	<b>2</b> Cost of goods sold (attach Form 1125-A) . . . . .			<b>2</b> 2,305,000.
	<b>3</b> Gross profit. Subtract line 2 from line 1c . . . . .			<b>3</b> 1,945,000.
	<b>4</b> Net gain (loss) from Form 4797, line 17 (attach Form 4797) . . . . .			<b>4</b>
<b>5</b> Other income (loss) (see instructions—attach statement) . . . . .			<b>5</b>	
<b>6</b> <b>Total income (loss).</b> Add lines 3 through 5 . . . . .			<b>6</b> 1,945,000.	
<b>Deductions</b> (see instructions for limitations)	<b>7</b> Compensation of officers (see instructions—attach Form 1125-E) . . . . .			<b>7</b> 618,000.
	<b>8</b> Salaries and wages (less employment credits) . . . . .			<b>8</b> 750,000.
	<b>9</b> Repairs and maintenance . . . . .			<b>9</b> 15,000.
	<b>10</b> Bad debts . . . . .			<b>10</b>
	<b>11</b> Rents . . . . .			<b>11</b> 275,000.
	<b>12</b> Taxes and licenses . . . . .			<b>12</b> 15,500.
	<b>13</b> Interest (see instructions) . . . . .			<b>13</b>
	<b>14</b> Depreciation from Form 4562 not claimed on Form 1125-A or elsewhere on return (attach Form 4562)			<b>14</b> 27,500.
	<b>15</b> Depletion ( <b>Do not deduct oil and gas depletion.</b> ) . . . . .			<b>15</b>
	<b>16</b> Advertising . . . . .			<b>16</b> 50,000.
	<b>17</b> Pension, profit-sharing, etc., plans . . . . .			<b>17</b>
	<b>18</b> Employee benefit programs . . . . .			<b>18</b>
	<b>19</b> Other deductions (attach statement) MEALS (.50%) . . . . .			<b>19</b> 7,500.
	<b>20</b> <b>Total deductions.</b> Add lines 7 through 19 . . . . .			<b>20</b> 1,758,500.
	<b>21</b> <b>Ordinary business income (loss).</b> Subtract line 20 from line 6 . . . . .			<b>21</b> 186,500.
<b>Tax and Payments</b>	<b>22a</b> Excess net passive income or LIFO recapture tax (see instructions) . . . . .	<b>22a</b>		
	<b>b</b> Tax from Schedule D (Form 1120-S) . . . . .	<b>22b</b>		
	<b>c</b> Add lines 22a and 22b (see instructions for additional taxes) . . . . .			<b>22c</b>
	<b>23a</b> 2022 estimated tax payments and 2021 overpayment credited to 2022 . . . . .	<b>23a</b>		
	<b>b</b> Tax deposited with Form 7004 . . . . .	<b>23b</b>		
	<b>c</b> Credit for federal tax paid on fuels (attach Form 4136) . . . . .	<b>23c</b>		
	<b>d</b> Add lines 23a through 23c . . . . .			<b>23d</b>
	<b>24</b> Estimated tax penalty (see instructions). Check if Form 2220 is attached . . . . . <input type="checkbox"/>			<b>24</b>
	<b>25</b> <b>Amount owed.</b> If line 23d is smaller than the total of lines 22c and 24, enter amount owed . . . . .			<b>25</b>
	<b>26</b> <b>Overpayment.</b> If line 23d is larger than the total of lines 22c and 24, enter amount overpaid . . . . .			<b>26</b>
<b>27</b> Enter amount from line 26: <b>Credited to 2023 estimated tax</b> <b>Refunded</b> . . . . .			<b>27</b>	

**Sign Here** Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Signature of officer	Date	CHIEF REFRIGERANT OFFICER Title	May the IRS discuss this return with the preparer shown below? See instructions. <input type="checkbox"/> Yes <input type="checkbox"/> No
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<b>Paid Preparer Use Only</b>	Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
	Firm's name	Self-Prepared			Firm's EIN
	Firm's address				Phone no.

**Schedule B Other Information** (see instructions)

- |   | Yes | No |
|---|-----|----|
| <b>1</b> Check accounting method: <b>a</b> <input checked="" type="checkbox"/> Cash <b>b</b> <input type="checkbox"/> Accrual<br><b>c</b> <input type="checkbox"/> Other (specify) _____  |     |    |
| <b>2</b> See the instructions and enter the:<br><b>a</b> Business activity <u>Retail sales / web sales</u> <b>b</b> Product or service <u>REFRIGERATION</u>   |     |    |
| <b>3</b> At any time during the tax year, was any shareholder of the corporation a disregarded entity, a trust, an estate, or a nominee or similar person? If "Yes," attach Schedule B-1, Information on Certain Shareholders of an S Corporation . . .   |     | X  |
| <b>4</b> At the end of the tax year, did the corporation:<br><b>a</b> Own directly 20% or more, or own, directly or indirectly, 50% or more of the total stock issued and outstanding of any foreign or domestic corporation? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (v) below . . . . . |     | X  |

(i) Name of Corporation	(ii) Employer Identification Number (if any)	(iii) Country of Incorporation	(iv) Percentage of Stock Owned	(v) If Percentage in (iv) Is 100%, Enter the Date (if applicable) a Qualified Subchapter S Subsidiary Election Was Made

- |  | Yes | No |
|--|-----|----|
| <b>b</b> Own directly an interest of 20% or more, or own, directly or indirectly, an interest of 50% or more in the profit, loss, or capital in any foreign or domestic partnership (including an entity treated as a partnership) or in the beneficial interest of a trust? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (v) below . . . . . |     | X  |

(i) Name of Entity	(ii) Employer Identification Number (if any)	(iii) Type of Entity	(iv) Country of Organization	(v) Maximum Percentage Owned in Profit, Loss, or Capital

- |   | Yes | No |
|---|-----|----|
| <b>5a</b> At the end of the tax year, did the corporation have any outstanding shares of restricted stock? . . . . .<br>If "Yes," complete lines (i) and (ii) below.<br><b>(i)</b> Total shares of restricted stock . . . . .<br><b>(ii)</b> Total shares of non-restricted stock . . . . . |     | X  |

- |   | Yes | No |
|---|-----|----|
| <b>b</b> At the end of the tax year, did the corporation have any outstanding stock options, warrants, or similar instruments? . . . . .<br>If "Yes," complete lines (i) and (ii) below.<br><b>(i)</b> Total shares of stock outstanding at the end of the tax year . . . . . 10,000<br><b>(ii)</b> Total shares of stock outstanding if all instruments were executed . . . . . 10,000 | X   |    |

- |   | Yes | No |
|---|-----|----|
| <b>6</b> Has this corporation filed, or is it required to file, <b>Form 8918</b> , Material Advisor Disclosure Statement, to provide information on any reportable transaction? . . . . . |     | X  |

- |   | Yes | No |
|---|-----|----|
| <b>7</b> Check this box if the corporation issued publicly offered debt instruments with original issue discount . . . . . <input type="checkbox"/><br>If checked, the corporation may have to file <b>Form 8281</b> , Information Return for Publicly Offered Original Issue Discount Instruments. |     |    |

- |   | Yes | No |
|---|-----|----|
| <b>8</b> If the corporation <b>(a)</b> was a C corporation before it elected to be an S corporation <b>or</b> the corporation acquired an asset with a basis determined by reference to the basis of the asset (or the basis of any other property) in the hands of a C corporation, <b>and (b)</b> has net unrealized built-in gain in excess of the net recognized built-in gain from prior years, enter the net unrealized built-in gain reduced by net recognized built-in gain from prior years. See instructions . . . . . \$ _____ |     |    |

- |  | Yes | No |
|--|-----|----|
| <b>9</b> Did the corporation have an election under section 163(j) for any real property trade or business or any farming business in effect during the tax year? See instructions . . . . . |     | X  |

- |   | Yes | No |
|---|-----|----|
| <b>10</b> Does the corporation satisfy one or more of the following? See instructions . . . . .   |     | X  |
| <b>a</b> The corporation owns a pass-through entity with current, or prior year carryover, excess business interest expense.  |     |    |
| <b>b</b> The corporation's aggregate average annual gross receipts (determined under section 448(c)) for the 3 tax years preceding the current tax year are more than \$27 million and the corporation has business interest expense. |     |    |
| <b>c</b> The corporation is a tax shelter and the corporation has business interest expense.<br>If "Yes," complete and attach <b>Form 8990</b> , Limitation on Business Interest Expense Under Section 163(j).                        |     |    |

- |  | Yes | No |
|--|-----|----|
| <b>11</b> Does the corporation satisfy <b>both</b> of the following conditions? . . . . .  |     | X  |
| <b>a</b> The corporation's total receipts (see instructions) for the tax year were less than \$250,000.  |     |    |
| <b>b</b> The corporation's total assets at the end of the tax year were less than \$250,000.<br>If "Yes," the corporation is not required to complete Schedules L and M-1. |     |    |

<b>Schedule B Other Information</b> (see instructions) <i>(continued)</i>		Yes	No
<b>12</b>	During the tax year, did the corporation have any non-shareholder debt that was canceled, was forgiven, or had the terms modified so as to reduce the principal amount of the debt? . . . . . If "Yes," enter the amount of principal reduction . . . . . \$ _____		X
<b>13</b>	During the tax year, was a qualified subchapter S subsidiary election terminated or revoked? If "Yes," see instructions . . . . .		X
<b>14a</b>	Did the corporation make any payments in 2022 that would require it to file Form(s) 1099? . . . . .	X	
<b>b</b>	If "Yes," did or will the corporation file required Form(s) 1099? . . . . .	X	
<b>15</b>	Is the corporation attaching Form 8996 to certify as a Qualified Opportunity Fund? . . . . . If "Yes," enter the amount from Form 8996, line 15 . . . . . \$ _____		X

<b>Schedule K Shareholders' Pro Rata Share Items</b>		Total amount	
<b>Income (Loss)</b>	<b>1</b> Ordinary business income (loss) (page 1, line 21) . . . . .	<b>1</b>	186,500.
	<b>2</b> Net rental real estate income (loss) (attach Form 8825) . . . . .	<b>2</b>	
	<b>3a</b> Other gross rental income (loss) . . . . . <b>3a</b>		
	<b>b</b> Expenses from other rental activities (attach statement) . . . . . <b>3b</b>		
	<b>c</b> Other net rental income (loss). Subtract line 3b from line 3a . . . . . <b>3c</b>		
	<b>4</b> Interest income . . . . . <b>4</b>		
	<b>5</b> Dividends: <b>a</b> Ordinary dividends . . . . . <b>5a</b> <b>b</b> Qualified dividends . . . . . <b>5b</b>		
	<b>6</b> Royalties . . . . . <b>6</b>		
	<b>7</b> Net short-term capital gain (loss) (attach Schedule D (Form 1120-S)) . . . . . <b>7</b>		
	<b>8a</b> Net long-term capital gain (loss) (attach Schedule D (Form 1120-S)) . . . . . <b>8a</b> <b>b</b> Collectibles (28%) gain (loss) . . . . . <b>8b</b> <b>c</b> Unrecaptured section 1250 gain (attach statement) . . . . . <b>8c</b>		
<b>9</b> Net section 1231 gain (loss) (attach Form 4797) . . . . . <b>9</b>			
<b>10</b> Other income (loss) (see instructions) . . . . . Type: <b>10</b>			
<b>Deductions</b>	<b>11</b> Section 179 deduction (attach Form 4562) . . . . . <b>11</b>		
	<b>12a</b> Charitable contributions . . . . . <b>12a</b>		
	<b>b</b> Investment interest expense . . . . . <b>12b</b>		
	<b>c</b> Section 59(e)(2) expenditures . . . . . Type: <b>12c</b>		
<b>d</b> Other deductions (see instructions) . . . . . Type: <b>12d</b>			
<b>Credits</b>	<b>13a</b> Low-income housing credit (section 42(j)(5)) . . . . . <b>13a</b>		
	<b>b</b> Low-income housing credit (other) . . . . . <b>13b</b>		
	<b>c</b> Qualified rehabilitation expenditures (rental real estate) (attach Form 3468, if applicable) . . . . . <b>13c</b>		
	<b>d</b> Other rental real estate credits (see instructions) Type: <b>13d</b>		
	<b>e</b> Other rental credits (see instructions) . . . . . Type: <b>13e</b>		
	<b>f</b> Biofuel producer credit (attach Form 6478) . . . . . <b>13f</b> <b>g</b> Other credits (see instructions) . . . . . Type: <b>13g</b>		
<b>Inter-national</b>	<b>14</b> Attach Schedule K-2 (Form 1120-S), Shareholders' Pro Rata Share Items—International, and check this box to indicate you are reporting items of international tax relevance . . . . . <input type="checkbox"/>		
<b>Alternative Minimum Tax (AMT) Items</b>	<b>15a</b> Post-1986 depreciation adjustment . . . . . <b>15a</b>		
	<b>b</b> Adjusted gain or loss . . . . . <b>15b</b>		
	<b>c</b> Depletion (other than oil and gas) . . . . . <b>15c</b>		
	<b>d</b> Oil, gas, and geothermal properties—gross income . . . . . <b>15d</b>		
	<b>e</b> Oil, gas, and geothermal properties—deductions . . . . . <b>15e</b>		
	<b>f</b> Other AMT items (attach statement) . . . . . <b>15f</b>		
<b>Items Affecting Shareholder Basis</b>	<b>16a</b> Tax-exempt interest income . . . . . <b>16a</b>		
	<b>b</b> Other tax-exempt income . . . . . <b>16b</b>		
	<b>c</b> Nondeductible expenses . . . . . <b>16c</b>		7,500.
	<b>d</b> Distributions (attach statement if required) (see instructions) . . . . . <b>16d</b>		200,000.
	<b>e</b> Repayment of loans from shareholders . . . . . <b>16e</b>		
	<b>f</b> Foreign taxes paid or accrued . . . . . <b>16f</b>		

<b>Schedule K</b>		<b>Shareholders' Pro Rata Share Items</b> (continued)	<b>Total amount</b>	
<b>Other Information</b>	<b>17a</b>	Investment income . . . . .	<b>17a</b>	
	<b>b</b>	Investment expenses . . . . .	<b>17b</b>	
	<b>c</b>	Dividend distributions paid from accumulated earnings and profits . . . . .	<b>17c</b>	0.
	<b>d</b>	Other items and amounts (attach statement) ** SEC 199A INFO: SEE STMT A		
<b>Reconciliation</b>	<b>18</b>	<b>Income (loss) reconciliation.</b> Combine the amounts on lines 1 through 10 in the far right column. From the result, subtract the sum of the amounts on lines 11 through 12d and 16f .	<b>18</b>	186,500.

<b>Schedule L</b>		<b>Balance Sheets per Books</b>		<b>Beginning of tax year</b>		<b>End of tax year</b>	
		<b>(a)</b>	<b>(b)</b>	<b>(c)</b>	<b>(d)</b>		
<b>Assets</b>							
<b>1</b>	Cash . . . . .		125,000.		375,000.		
<b>2a</b>	Trade notes and accounts receivable . . . . .	50,000.		75,000.			
<b>b</b>	Less allowance for bad debts . . . . .	( )	50,000.	( )	75,000.		
<b>3</b>	Inventories . . . . .		500,000.		195,000.		
<b>4</b>	U.S. government obligations . . . . .						
<b>5</b>	Tax-exempt securities (see instructions) . . . . .						
<b>6</b>	Other current assets (attach statement) . . . . .						
<b>7</b>	Loans to shareholders . . . . .		10,000.		65,000.		
<b>8</b>	Mortgage and real estate loans . . . . .						
<b>9</b>	Other investments (attach statement) . . . . .		15,000.		196,500.		
<b>10a</b>	Buildings and other depreciable assets . . . . .	175,000.		275,000.			
<b>b</b>	Less accumulated depreciation . . . . .	( 50,000.)	125,000.	( 77,500.)	197,500.		
<b>11a</b>	Depletable assets . . . . .						
<b>b</b>	Less accumulated depletion . . . . .	( )		( )			
<b>12</b>	Land (net of any amortization) . . . . .						
<b>13a</b>	Intangible assets (amortizable only) . . . . .						
<b>b</b>	Less accumulated amortization . . . . .	( )		( )			
<b>14</b>	Other assets (attach statement) . . . . .						
<b>15</b>	<b>Total assets</b> . . . . .		825,000.		1,104,000.		
<b>Liabilities and Shareholders' Equity</b>							
<b>16</b>	Accounts payable . . . . .		300,000.		337,000.		
<b>17</b>	Mortgages, notes, bonds payable in less than 1 year . . . . .		360,000.		495,000.		
<b>18</b>	Other current liabilities (attach statement) . . . . .				175,000.		
<b>19</b>	Loans from shareholders . . . . .						
<b>20</b>	Mortgages, notes, bonds payable in 1 year or more . . . . .						
<b>21</b>	Other liabilities (attach statement) . . . . .						
<b>22</b>	Capital stock . . . . .		10,000.		13,000.		
<b>23</b>	Additional paid-in capital . . . . .		0.		100,000.		
<b>24</b>	Retained earnings . . . . .		155,000.		134,000.		
<b>25</b>	Adjustments to shareholders' equity (attach statement) . . . . .						
<b>26</b>	Less cost of treasury stock . . . . .		( 0.)		( 150,000.)		
<b>27</b>	<b>Total liabilities and shareholders' equity</b> . . . . .		825,000.		1,104,000.		



**Schedule M-1 Reconciliation of Income (Loss) per Books With Income (Loss) per Return**

**Note:** The corporation may be required to file Schedule M-3. See instructions.

<b>1</b>	Net income (loss) per books . . . . .	179,000.	<b>5</b>	Income recorded on books this year not included on Schedule K, lines 1 through 10 (itemize):	
<b>2</b>	Income included on Schedule K, lines 1, 2, 3c, 4, 5a, 6, 7, 8a, 9, and 10, not recorded on books this year (itemize) -----		<b>a</b>	Tax-exempt interest \$ -----	
<b>3</b>	Expenses recorded on books this year not included on Schedule K, lines 1 through 12, and 16f (itemize):		<b>6</b>	Deductions included on Schedule K, lines 1 through 12, and 16f, not charged against book income this year (itemize):	
<b>a</b>	Depreciation \$ -----		<b>a</b>	Depreciation \$ -----	
<b>b</b>	Travel and entertainment \$ 7,500.	7,500.	<b>7</b>	Add lines 5 and 6 . . . . .	
<b>4</b>	Add lines 1 through 3 . . . . .	186,500.	<b>8</b>	Income (loss) (Schedule K, line 18). Subtract line 7 from line 4 . . . . .	186,500.

**Schedule M-2 Analysis of Accumulated Adjustments Account, Shareholders' Undistributed Taxable Income Previously Taxed, Accumulated Earnings and Profits, and Other Adjustments Account**  
(see instructions)

	(a) Accumulated adjustments account	(b) Shareholders' undistributed taxable income previously taxed	(c) Accumulated earnings and profits	(d) Other adjustments account
<b>1</b> Balance at beginning of tax year . . . . .	155,000.			
<b>2</b> Ordinary income from page 1, line 21 . . . . .	186,500.			
<b>3</b> Other additions . . . . .				
<b>4</b> Loss from page 1, line 21 . . . . .	( )			
<b>5</b> Other reductions MEALS AND ENTERTAINMENT . . . . .	( 7,500.)			( )
<b>6</b> Combine lines 1 through 5 . . . . .	334,000.			
<b>7</b> Distributions . . . . .	200,000.	0.	0.	0.
<b>8</b> Balance at end of tax year. Subtract line 7 from line 6 . . . . .	134,000.	0.	0.	0.

Name <b>VANCE REFRIGERATION, INC.</b>		Employer identification number <b>12-1234567</b>	
<b>1</b>	Inventory at beginning of year . . . . .	<b>1</b>	500,000
<b>2</b>	Purchases . . . . .	<b>2</b>	2,000,000
<b>3</b>	Cost of labor . . . . .	<b>3</b>	
<b>4</b>	Additional section 263A costs (attach schedule) . . . . .	<b>4</b>	
<b>5</b>	Other costs (attach schedule) . . . . .	<b>5</b>	
<b>6</b>	<b>Total.</b> Add lines 1 through 5 . . . . .	<b>6</b>	2,500,000
<b>7</b>	Inventory at end of year . . . . .	<b>7</b>	195,000
<b>8</b>	<b>Cost of goods sold.</b> Subtract line 7 from line 6. Enter here and on Form 1120, page 1, line 2 or the appropriate line of your tax return. See instructions . . . . .	<b>8</b>	2,305,000
<b>9a</b>	Check all methods used for valuing closing inventory: (i) <input type="checkbox"/> Cost (ii) <input checked="" type="checkbox"/> Lower of cost or market (iii) <input type="checkbox"/> Other (Specify method used and attach explanation.) ▶		
<b>b</b>	Check if there was a writedown of subnormal goods . . . . .	▶ <input type="checkbox"/>	
<b>c</b>	Check if the LIFO inventory method was adopted this tax year for any goods (if checked, attach Form 970) . . . . .	▶ <input type="checkbox"/>	
<b>d</b>	If the LIFO inventory method was used for this tax year, enter amount of closing inventory computed under LIFO . . . . .	<b>9d</b>	
<b>e</b>	If property is produced or acquired for resale, do the rules of section 263A apply to the entity? See instructions . . . . .	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
<b>f</b>	Was there any change in determining quantities, cost, or valuations between opening and closing inventory? If "Yes," attach explanation . . . . .	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Section references are to the Internal Revenue Code unless otherwise noted.

**What's New**

**Small business taxpayers.** For tax years beginning after December 31, 2017, the following apply.

- A small business taxpayer (defined below), may use a method of accounting for inventories that either: (1) treats inventories as nonincidental materials and supplies, or (2) conforms to the taxpayer's financial accounting treatment of inventories.
- A small business taxpayer is not required to capitalize costs under section 263A.

**General Instructions**

**Purpose of Form**

Use Form 1125-A to calculate and deduct cost of goods sold for certain entities.

**Who Must File**

Filers of Form 1120, 1120-C, 1120-F, 1120S, or 1065, must complete and attach Form 1125-A if the applicable entity reports a deduction for cost of goods sold.

**Inventories**

Generally, inventories are required at the beginning and end of each tax year if the production, purchase, or sale of

merchandise is an income-producing factor. See Regulations section 1.471-1. If inventories are required, you generally must use an accrual method of accounting for sales and purchases of inventory items.

**Exception for certain taxpayers.** A small business taxpayer (defined below), can adopt or change its accounting method to account for inventories in the same manner as material and supplies that are nonincidental, or conform to its treatment of inventories in an applicable financial statement (as defined in section 451(b)(3)), or if it does not have an applicable financial statement, the method of accounting used in its books and records prepared in accordance with its accounting procedures. See section 471(c)(3).

A small business taxpayer claiming exemption from the requirement to keep inventories is changing its method of accounting for purposes of section 481. For additional guidance on this method of accounting, see Pub. 538, Accounting Periods and Methods. For guidance on changing to this method of accounting, see Form 3115 and the Instructions for Form 3115.

**Small business taxpayer.** A small business taxpayer is a taxpayer that (a) has average annual gross receipts of \$25 million or less (indexed for inflation) for the 3 prior tax years, and (b) is not a tax shelter (as defined in section 448(d)(3)). See Pub. 538.

**Uniform capitalization rules.** The uniform capitalization rules of section 263A generally require you to capitalize, or include in inventory, certain costs incurred in connection with the following.

- The production of real property and tangible personal property held in inventory or held for sale in the ordinary course of business.
- Real property or personal property (tangible and intangible) acquired for resale.
- The production of real property and tangible personal property for use in its trade or business or in an activity engaged in for profit.

A small business taxpayer (defined above) is not required to capitalize costs under section 263A. See section 263A(i).

See the discussion on section 263A uniform capitalization rules in the instructions for your tax return before completing Form 1125-A. Also see Regulations sections 1.263A-1 through 1.263A-3. See Regulations section 1.263A-4 for rules for property produced in a farming business.

Schedule K-1 (Form 1120-S)

2022

Department of the Treasury Internal Revenue Service

For calendar year 2022, or tax year

beginning / / 2022 ending / /

Shareholder's Share of Income, Deductions, Credits, etc. See separate instructions.

Part I Information About the Corporation

A Corporation's employer identification number 12-1234567
B Corporation's name, address, city, state, and ZIP code VANCE REFRIGERATION, INC. 1725 SLOUGH AVENUE, STE 210 SCRANTON PA 18503
C IRS Center where corporation filed return Kansas City, MO 64999-0013
D Corporation's total number of shares Beginning of tax year End of tax year

Part II Information About the Shareholder

E Shareholder's identifying number 987-65-4321
F Shareholder's name, address, city, state, and ZIP code BOB VANCE 3764 ELVIS PRESLEY BLVD MEMPHIS TN 38116
G Current year allocation percentage 85.00000 %
H Shareholder's number of shares Beginning of tax year End of tax year
I Loans from shareholder Beginning of tax year End of tax year

For IRS Use Only

Part III Shareholder's Share of Current Year Income, Deductions, Credits, and Other Items

Table with 4 columns: Line number, Description, Amount, and Other information. Includes rows for Ordinary business income (158,525), Net rental real estate income, Other net rental income, Interest income, Ordinary dividends, Qualified dividends, Royalties, Net short-term capital gain, Net long-term capital gain, Collectibles (28%) gain, Unrecaptured section 1250 gain, Net section 1231 gain (6,375), Other income (170,000), Section 179 deduction, and Other deductions.

18 More than one activity for at-risk purposes\*
19 More than one activity for passive activity purposes\*
\* See attached statement for additional information.

Schedule K-1 (Form 1120-S)

2022

Department of the Treasury Internal Revenue Service

For calendar year 2022, or tax year

beginning [ ] / [ ] / 2022 ending [ ] / [ ] / [ ]

Shareholder's Share of Income, Deductions, Credits, etc. See separate instructions.

Part I Information About the Corporation

A Corporation's employer identification number 12-1234567
B Corporation's name, address, city, state, and ZIP code VANCE REFRIGERATION, INC. 1725 SLOUGH AVENUE, STE 210 SCRANTON PA 18503
C IRS Center where corporation filed return Kansas City, MO 64999-0013
D Corporation's total number of shares Beginning of tax year End of tax year

Part II Information About the Shareholder

E Shareholder's identifying number 654-32-1789
F Shareholder's name, address, city, state, and ZIP code DWIGHT SCHRUTE SCHRUTE FARMS RURAL RT 6 HONESDALE PA 18431
G Current year allocation percentage 15.00000 %
H Shareholder's number of shares Beginning of tax year End of tax year
I Loans from shareholder Beginning of tax year End of tax year

For IRS Use Only

Part III Shareholder's Share of Current Year Income, Deductions, Credits, and Other Items

Table with 4 columns: Line number, Description, Amount, and Other information. Rows include Ordinary business income (loss) 27,975., Net rental real estate income (loss), Other net rental income (loss), Interest income, Ordinary dividends, Qualified dividends, Royalties, Net short-term capital gain (loss), Net long-term capital gain (loss), Collectibles (28%) gain (loss), Unrecaptured section 1250 gain, Net section 1231 gain (loss), Other income (loss), Section 179 deduction, Other deductions, and Other information.

\* See attached statement for additional information.





**U.S. Return of Partnership Income**

For calendar year 2022, or tax year beginning \_\_\_\_\_, 2022, ending \_\_\_\_\_, 20\_\_\_\_\_.

**2022**

Go to [www.irs.gov/Form1065](http://www.irs.gov/Form1065) for instructions and the latest information.

<b>A</b> Principal business activity RENTAL	<b>Type or Print</b>	Name of partnership VANCE & SCOTT PROPERTIES, LLC	<b>D</b> Employer identification number 76-5432100
<b>B</b> Principal product or service COMM BLDG		Number, street, and room or suite no. If a P.O. box, see instructions. 1725 SLOUGH AVENUE, STE 210	<b>E</b> Date business started 01/01/2019
<b>C</b> Business code number 523900		City or town, state or province, country, and ZIP or foreign postal code SCRANTON PA 18503	<b>F</b> Total assets (see instructions) \$ 515,500.

- G** Check applicable boxes: (1)  Initial return (2)  Final return (3)  Name change (4)  Address change (5)  Amended return
- H** Check accounting method: (1)  Cash (2)  Accrual (3)  Other (specify): \_\_\_\_\_
- I** Number of Schedules K-1. Attach one for each person who was a partner at any time during the tax year: \_\_\_\_\_ 2
- J** Check if Schedules C and M-3 are attached \_\_\_\_\_
- K** Check if partnership: (1)  Aggregated activities for section 465 at-risk purposes (2)  Grouped activities for section 469 passive activity purposes

**Caution:** Include **only** trade or business income and expenses on lines 1a through 22 below. See instructions for more information.

<b>Income</b>	<b>1a</b> Gross receipts or sales . . . . .	<b>1a</b>		
	<b>b</b> Returns and allowances . . . . .	<b>1b</b>		
	<b>c</b> Balance. Subtract line 1b from line 1a . . . . .		<b>1c</b>	
	<b>2</b> Cost of goods sold (attach Form 1125-A) . . . . .		<b>2</b>	
	<b>3</b> Gross profit. Subtract line 2 from line 1c . . . . .		<b>3</b>	
	<b>4</b> Ordinary income (loss) from other partnerships, estates, and trusts (attach statement) . . . . .		<b>4</b>	
	<b>5</b> Net farm profit (loss) (attach Schedule F (Form 1040)) . . . . .		<b>5</b>	
	<b>6</b> Net gain (loss) from Form 4797, Part II, line 17 (attach Form 4797) . . . . .		<b>6</b>	
<b>7</b> Other income (loss) (attach statement) . . . . .		<b>7</b>		
<b>8</b> <b>Total income (loss).</b> Combine lines 3 through 7 . . . . .		<b>8</b>		
<b>Deductions</b> (see instructions for limitations)	<b>9</b> Salaries and wages (other than to partners) (less employment credits) . . . . .		<b>9</b>	
	<b>10</b> Guaranteed payments to partners . . . . .		<b>10</b>	
	<b>11</b> Repairs and maintenance . . . . .		<b>11</b>	
	<b>12</b> Bad debts . . . . .		<b>12</b>	
	<b>13</b> Rent . . . . .		<b>13</b>	
	<b>14</b> Taxes and licenses . . . . .		<b>14</b>	
	<b>15</b> Interest (see instructions) . . . . .		<b>15</b>	
	<b>16a</b> Depreciation (if required, attach Form 4562) . . . . .	<b>16a</b>		
	<b>b</b> Less depreciation reported on Form 1125-A and elsewhere on return . . . . .	<b>16b</b>	<b>16c</b>	
	<b>17</b> Depletion ( <b>Do not deduct oil and gas depletion.</b> ) . . . . .		<b>17</b>	
	<b>18</b> Retirement plans, etc. . . . .		<b>18</b>	
<b>19</b> Employee benefit programs . . . . .		<b>19</b>		
<b>20</b> Other deductions (attach statement) . . . . .		<b>20</b>		
<b>21</b> <b>Total deductions.</b> Add the amounts shown in the far right column for lines 9 through 20 . . . . .		<b>21</b>		
<b>22</b> <b>Ordinary business income (loss).</b> Subtract line 21 from line 8 . . . . .		<b>22</b>		
<b>Tax and Payment</b>	<b>23</b> Interest due under the look-back method—completed long-term contracts (attach Form 8697) . . . . .		<b>23</b>	
	<b>24</b> Interest due under the look-back method—income forecast method (attach Form 8866) . . . . .		<b>24</b>	
	<b>25</b> BBA AAR imputed underpayment (see instructions) . . . . .		<b>25</b>	
	<b>26</b> Other taxes (see instructions) . . . . .		<b>26</b>	
	<b>27</b> <b>Total balance due.</b> Add lines 23 through 26 . . . . .		<b>27</b>	
	<b>28</b> Payment (see instructions) . . . . .		<b>28</b>	
	<b>29</b> <b>Amount owed.</b> If line 28 is smaller than line 27, enter amount owed . . . . .		<b>29</b>	
	<b>30</b> <b>Overpayment.</b> If line 28 is larger than line 27, enter overpayment . . . . .		<b>30</b>	0.

**Sign Here** Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than partner or limited liability company member) is based on all information of which preparer has any knowledge.

Signature of partner or limited liability company member \_\_\_\_\_ Date \_\_\_\_\_

May the IRS discuss this return with the preparer shown below?  
See instructions.  Yes  No

<b>Paid Preparer Use Only</b>	Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
	Firm's name	Self-Prepared			Firm's EIN
	Firm's address				Phone no.

**Schedule B Other Information**

<b>1</b> What type of entity is filing this return? Check the applicable box:				<b>Yes</b>	<b>No</b>	
<b>a</b> <input type="checkbox"/> Domestic general partnership	<b>b</b> <input type="checkbox"/> Domestic limited partnership					
<b>c</b> <input checked="" type="checkbox"/> Domestic limited liability company	<b>d</b> <input type="checkbox"/> Domestic limited liability partnership					
<b>e</b> <input type="checkbox"/> Foreign partnership	<b>f</b> <input type="checkbox"/> Other: .....					
<b>2</b> At the end of the tax year:						
<b>a</b> Did any foreign or domestic corporation, partnership (including any entity treated as a partnership), trust, or tax-exempt organization, or any foreign government own, directly or indirectly, an interest of 50% or more in the profit, loss, or capital of the partnership? For rules of constructive ownership, see instructions. If "Yes," attach Schedule B-1, Information on Partners Owning 50% or More of the Partnership . . . . .					<b>X</b>	
<b>b</b> Did any individual or estate own, directly or indirectly, an interest of 50% or more in the profit, loss, or capital of the partnership? For rules of constructive ownership, see instructions. If "Yes," attach Schedule B-1, Information on Partners Owning 50% or More of the Partnership . . . . .					<b>X</b>	
<b>3</b> At the end of the tax year, did the partnership:						
<b>a</b> Own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of stock entitled to vote of any foreign or domestic corporation? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (iv) below . . . . .					<b>X</b>	
<b>(i)</b> Name of Corporation	<b>(ii)</b> Employer Identification Number (if any)	<b>(iii)</b> Country of Incorporation	<b>(iv)</b> Percentage Owned in Voting Stock			
<b>b</b> Own directly an interest of 20% or more, or own, directly or indirectly, an interest of 50% or more in the profit, loss, or capital in any foreign or domestic partnership (including an entity treated as a partnership) or in the beneficial interest of a trust? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (v) below . . . . .						
<b>(i)</b> Name of Entity	<b>(ii)</b> Employer Identification Number (if any)	<b>(iii)</b> Type of Entity	<b>(iv)</b> Country of Organization	<b>(v)</b> Maximum Percentage Owned in Profit, Loss, or Capital		
<b>4</b> Does the partnership satisfy <b>all four</b> of the following conditions?				<b>Yes</b>	<b>No</b>	
<b>a</b> The partnership's total receipts for the tax year were less than \$250,000.						
<b>b</b> The partnership's total assets at the end of the tax year were less than \$1 million.						
<b>c</b> Schedules K-1 are filed with the return and furnished to the partners on or before the due date (including extensions) for the partnership return.						
<b>d</b> The partnership is not filing and is not required to file Schedule M-3 . . . . .					<b>X</b>	
If "Yes," the partnership is not required to complete Schedules L, M-1, and M-2; item F on page 1 of Form 1065; or item L on Schedule K-1.						
<b>5</b> Is this partnership a publicly traded partnership, as defined in section 469(k)(2)? . . . . .					<b>X</b>	
<b>6</b> During the tax year, did the partnership have any debt that was canceled, was forgiven, or had the terms modified so as to reduce the principal amount of the debt? . . . . .					<b>X</b>	
<b>7</b> Has this partnership filed, or is it required to file, Form 8918, Material Advisor Disclosure Statement, to provide information on any reportable transaction? . . . . .					<b>X</b>	
<b>8</b> At any time during calendar year 2022, did the partnership have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? See instructions for exceptions and filing requirements for FinCEN Form 114, Report of Foreign Bank and Financial Accounts (FBAR). If "Yes," enter the name of the foreign country <u>  CJ  </u> . . . . .				<b>X</b>		
<b>9</b> At any time during the tax year, did the partnership receive a distribution from, or was it the grantor of, or transferor to, a foreign trust? If "Yes," the partnership may have to file Form 3520, Annual Return To Report Transactions With Foreign Trusts and Receipt of Certain Foreign Gifts. See instructions . . . . .					<b>X</b>	
<b>10a</b> Is the partnership making, or had it previously made (and not revoked), a section 754 election? . . . . .					<b>X</b>	
See instructions for details regarding a section 754 election.						
<b>b</b> Did the partnership make for this tax year an optional basis adjustment under section 743(b) or 734(b)? If "Yes," attach a statement showing the computation and allocation of the basis adjustment. See instructions . . . . .					<b>X</b>	
<b>c</b> Is the partnership required to adjust the basis of partnership assets under section 743(b) or 734(b) because of a substantial built-in loss (as defined under section 743(d)) or substantial basis reduction (as defined under section 734(d))? If "Yes," attach a statement showing the computation and allocation of the basis adjustment. See instructions . . . . .					<b>X</b>	

**Schedule B Other Information** *(continued)*

	Yes	No
<b>11</b> Check this box if, during the current or prior tax year, the partnership distributed any property received in a like-kind exchange or contributed such property to another entity (other than disregarded entities wholly owned by the partnership throughout the tax year) <input type="checkbox"/>		
<b>12</b> At any time during the tax year, did the partnership distribute to any partner a tenancy-in-common or other undivided interest in partnership property?		X
<b>13</b> If the partnership is required to file Form 8858, Information Return of U.S. Persons With Respect to Foreign Disregarded Entities (FDEs) and Foreign Branches (FBs), enter the number of Forms 8858 attached. See instructions		
<b>14</b> Does the partnership have any foreign partners? If "Yes," enter the number of Forms 8805, Foreign Partner's Information Statement of Section 1446 Withholding Tax, filed for this partnership		X
<b>15</b> Enter the number of Forms 8865, Return of U.S. Persons With Respect to Certain Foreign Partnerships, attached to this return		
<b>16a</b> Did you make any payments in 2022 that would require you to file Form(s) 1099? See instructions		X
<b>b</b> If "Yes," did you or will you file required Form(s) 1099?		
<b>17</b> Enter the number of Forms 5471, Information Return of U.S. Persons With Respect to Certain Foreign Corporations, attached to this return		
<b>18</b> Enter the number of partners that are foreign governments under section 892		
<b>19</b> During the partnership's tax year, did the partnership make any payments that would require it to file Forms 1042 and 1042-S under chapter 3 (sections 1441 through 1464) or chapter 4 (sections 1471 through 1474)?		X
<b>20</b> Was the partnership a specified domestic entity required to file Form 8938 for the tax year? See the Instructions for Form 8938		X
<b>21</b> Is the partnership a section 721(c) partnership, as defined in Regulations section 1.721(c)-1(b)(14)?		X
<b>22</b> During the tax year, did the partnership pay or accrue any interest or royalty for which one or more partners are not allowed a deduction under section 267A? See instructions If "Yes," enter the total amount of the disallowed deductions \$		X
<b>23</b> Did the partnership have an election under section 163(j) for any real property trade or business or any farming business in effect during the tax year? See instructions		X
<b>24</b> Does the partnership satisfy one or more of the following? See instructions <b>a</b> The partnership owns a pass-through entity with current, or prior year carryover, excess business interest expense. <b>b</b> The partnership's aggregate average annual gross receipts (determined under section 448(c)) for the 3 tax years preceding the current tax year are more than \$27 million and the partnership has business interest expense. <b>c</b> The partnership is a tax shelter (see instructions) and the partnership has business interest expense. If "Yes" to any, complete and attach Form 8990.		X
<b>25</b> Is the partnership attaching Form 8996 to certify as a Qualified Opportunity Fund? If "Yes," enter the amount from Form 8996, line 15 \$		X
<b>26</b> Enter the number of foreign partners subject to section 864(c)(8) as a result of transferring all or a portion of an interest in the partnership or of receiving a distribution from the partnership Complete Schedule K-3 (Form 1065), Part XIII, for each foreign partner subject to section 864(c)(8) on a transfer or distribution.		
<b>27</b> At any time during the tax year, were there any transfers between the partnership and its partners subject to the disclosure requirements of Regulations section 1.707-8?		X
<b>28</b> Since December 22, 2017, did a foreign corporation directly or indirectly acquire substantially all of the properties constituting a trade or business of your partnership, and was the ownership percentage (by vote or value) for purposes of section 7874 greater than 50% (for example, the partners held more than 50% of the stock of the foreign corporation)? If "Yes," list the ownership percentage by vote and by value. See instructions. Percentage: By vote: By value:		X
<b>29</b> Reserved for future use		
<b>30</b> Is the partnership electing out of the centralized partnership audit regime under section 6221(b)? See instructions. If "Yes," the partnership must complete Schedule B-2 (Form 1065). Enter the total from Schedule B-2, Part III, line 3 If "No," complete Designation of Partnership Representative below.		X

**Designation of Partnership Representative** (see instructions)

Enter below the information for the partnership representative (PR) for the tax year covered by this return.

Name of PR BOB VANCE

U.S. address of PR 3764 ELVIS PRESLEY BLVD MEMPHIS TN 38116

U.S. phone number of PR (901) 111-2222

If the PR is an entity, name of the designated individual for the PR

U.S. address of designated individual

U.S. phone number of designated individual



<b>Schedule K Partners' Distributive Share Items</b>		<b>Total amount</b>	
<b>Income (Loss)</b>	<b>1</b> Ordinary business income (loss) (page 1, line 22)	<b>1</b>	
	<b>2</b> Net rental real estate income (loss) (attach Form 8825)	<b>2</b>	57,500.
	<b>3a</b> Other gross rental income (loss)	<b>3a</b>	
	<b>b</b> Expenses from other rental activities (attach statement)	<b>3b</b>	
	<b>c</b> Other net rental income (loss). Subtract line 3b from line 3a	<b>3c</b>	
	<b>4</b> Guaranteed payments: <b>a</b> Services <b>4a</b> 10,000. <b>b</b> Capital <b>4b</b>	<b>4b</b>	
	<b>c</b> Total. Add lines 4a and 4b	<b>4c</b>	10,000.
	<b>5</b> Interest income	<b>5</b>	
	<b>6</b> Dividends and dividend equivalents: <b>a</b> Ordinary dividends	<b>6a</b>	
	<b>b</b> Qualified dividends <b>6b</b> <b>c</b> Dividend equivalents <b>6c</b>	<b>6c</b>	
	<b>7</b> Royalties	<b>7</b>	
<b>8</b> Net short-term capital gain (loss) (attach Schedule D (Form 1065))	<b>8</b>		
<b>9a</b> Net long-term capital gain (loss) (attach Schedule D (Form 1065))	<b>9a</b>		
<b>b</b> Collectibles (28%) gain (loss)	<b>9b</b>		
<b>c</b> Unrecaptured section 1250 gain (attach statement)	<b>9c</b>		
<b>10</b> Net section 1231 gain (loss) (attach Form 4797)	<b>10</b>		
<b>11</b> Other income (loss) (see instructions) Type: _____	<b>11</b>		
<b>Deductions</b>	<b>12</b> Section 179 deduction (attach Form 4562)	<b>12</b>	
	<b>13a</b> Contributions	<b>13a</b>	
	<b>b</b> Investment interest expense	<b>13b</b>	
	<b>c</b> Section 59(e)(2) expenditures: <b>(1)</b> Type: _____ <b>(2)</b> Amount: _____	<b>13c(2)</b>	
<b>d</b> Other deductions (see instructions) Type: <u>MEDICAL INSURANCE PAYMENTS FOR PARTNERS</u>	<b>13d</b>	10,000.	
<b>Self-Employment</b>	<b>14a</b> Net earnings (loss) from self-employment	<b>14a</b>	10,000.
	<b>b</b> Gross farming or fishing income	<b>14b</b>	
	<b>c</b> Gross nonfarm income	<b>14c</b>	
<b>Credits</b>	<b>15a</b> Low-income housing credit (section 42(j)(5))	<b>15a</b>	
	<b>b</b> Low-income housing credit (other)	<b>15b</b>	
	<b>c</b> Qualified rehabilitation expenditures (rental real estate) (attach Form 3468, if applicable)	<b>15c</b>	
	<b>d</b> Other rental real estate credits (see instructions) Type: _____	<b>15d</b>	
	<b>e</b> Other rental credits (see instructions) Type: _____	<b>15e</b>	
	<b>f</b> Other credits (see instructions) Type: _____	<b>15f</b>	
<b>Inter-national</b>	<b>16</b> Attach Schedule K-2 (Form 1065), Partners' Distributive Share Items—International, and check this box to indicate that you are reporting items of international tax relevance <input type="checkbox"/>		
<b>Alternative Minimum Tax (AMT) items</b>	<b>17a</b> Post-1986 depreciation adjustment	<b>17a</b>	
	<b>b</b> Adjusted gain or loss	<b>17b</b>	
	<b>c</b> Depletion (other than oil and gas)	<b>17c</b>	
	<b>d</b> Oil, gas, and geothermal properties—gross income	<b>17d</b>	
	<b>e</b> Oil, gas, and geothermal properties—deductions	<b>17e</b>	
	<b>f</b> Other AMT items (attach statement)	<b>17f</b>	
<b>Other Information</b>	<b>18a</b> Tax-exempt interest income	<b>18a</b>	
	<b>b</b> Other tax-exempt income	<b>18b</b>	
	<b>c</b> Nondeductible expenses	<b>18c</b>	
	<b>19a</b> Distributions of cash and marketable securities	<b>19a</b>	110,000.
	<b>b</b> Distributions of other property	<b>19b</b>	
	<b>20a</b> Investment income	<b>20a</b>	
	<b>b</b> Investment expenses	<b>20b</b>	
<b>c</b> Other items and amounts (attach statement) See Stmt			
<b>21</b> Total foreign taxes paid or accrued	<b>21</b>		

**Analysis of Net Income (Loss) per Return**

<b>1</b>	Net income (loss). Combine Schedule K, lines 1 through 11. From the result, subtract the sum of Schedule K, lines 12 through 13d, and 21					<b>1</b>	57,500.
<b>2</b>	Analysis by partner type:	(i) Corporate	(ii) Individual (active)	(iii) Individual (passive)	(iv) Partnership	(v) Exempt Organization	(vi) Nominee/Other
<b>a</b>	General partners						
<b>b</b>	Limited partners		57,500.				

**Schedule L Balance Sheets per Books**

		Beginning of tax year		End of tax year	
Assets		(a)	(b)	(c)	(d)
<b>1</b>	Cash		500.		45,500.
<b>2a</b>	Trade notes and accounts receivable				
<b>b</b>	Less allowance for bad debts				
<b>3</b>	Inventories				
<b>4</b>	U.S. Government obligations				
<b>5</b>	Tax-exempt securities				
<b>6</b>	Other current assets (attach statement)				
<b>7a</b>	Loans to partners (or persons related to partners)		10,000.		140,000.
<b>b</b>	Mortgage and real estate loans				
<b>8</b>	Other investments (attach statement)				
<b>9a</b>	Buildings and other depreciable assets	525,000.		525,000.	
<b>b</b>	Less accumulated depreciation	185,000.	340,000.	220,000.	305,000.
<b>10a</b>	Depletable assets				
<b>b</b>	Less accumulated depletion				
<b>11</b>	Land (net of any amortization)		25,000.		25,000.
<b>12a</b>	Intangible assets (amortizable only)				
<b>b</b>	Less accumulated amortization				
<b>13</b>	Other assets (attach statement)				
<b>14</b>	Total assets		375,500.		515,500.
<b>Liabilities and Capital</b>					
<b>15</b>	Accounts payable				
<b>16</b>	Mortgages, notes, bonds payable in less than 1 year				100,000.
<b>17</b>	Other current liabilities (attach statement)				
<b>18</b>	All nonrecourse loans				
<b>19a</b>	Loans from partners (or persons related to partners)				
<b>b</b>	Mortgages, notes, bonds payable in 1 year or more		310,000.		341,875.
<b>20</b>	Other liabilities (attach statement)				
<b>21</b>	Partners' capital accounts		65,500.		73,625.
<b>22</b>	Total liabilities and capital		375,500.		515,500.

**Schedule M-1 Reconciliation of Income (Loss) per Books With Analysis of Net Income (Loss) per Return**

**Note:** The partnership may be required to file Schedule M-3. See instructions.

<b>1</b>	Net income (loss) per books	57,500.	<b>6</b>	Income recorded on books this year not included on Schedule K, lines 1 through 11 (itemize):	
<b>2</b>	Income included on Schedule K, lines 1, 2, 3c, 5, 6a, 7, 8, 9a, 10, and 11, not recorded on books this year (itemize):		<b>a</b>	Tax-exempt interest \$	
<b>3</b>	Guaranteed payments (other than health insurance)		<b>7</b>	Deductions included on Schedule K, lines 1 through 13d, and 21, not charged against book income this year (itemize):	
<b>4</b>	Expenses recorded on books this year not included on Schedule K, lines 1 through 13d, and 21 (itemize):		<b>a</b>	Depreciation \$	
<b>a</b>	Depreciation \$		<b>8</b>	Add lines 6 and 7	
<b>b</b>	Travel and entertainment \$		<b>9</b>	Income (loss) (Analysis of Net Income (Loss), line 1). Subtract line 8 from line 5	57,500.
<b>5</b>	Add lines 1 through 4	57,500.			

**Schedule M-2 Analysis of Partners' Capital Accounts**

<b>1</b>	Balance at beginning of year	65,000.	<b>6</b>	Distributions: <b>a</b> Cash	110,000.
<b>2</b>	Capital contributed: <b>a</b> Cash	61,125.		<b>b</b> Property	
	<b>b</b> Property		<b>7</b>	Other decreases (itemize):	
<b>3</b>	Net income (loss) (see instructions)	57,500.	<b>8</b>	Add lines 6 and 7	110,000.
<b>4</b>	Other increases (itemize):		<b>9</b>	Balance at end of year. Subtract line 8 from line 5	73,625.
<b>5</b>	Add lines 1 through 4	183,625.			

# Rental Real Estate Income and Expenses of a Partnership or an S Corporation

OMB No. 1545-0123

▶ Attach to Form 1065 or Form 1120S.  
 ▶ Go to [www.irs.gov/Form8825](http://www.irs.gov/Form8825) for the latest information.

Name: **VANCE & SCOTT PROPERTIES, LLC** Employer identification number: **76-5432100**

1	Show the type and address of each property. For each rental real estate property listed, report the number of days rented at fair rental value and days with personal use. See instructions. See page 2 to list additional properties.			
	Physical address of each property—street, city, state, ZIP code	Type—Enter code 1–8; see page 2 for list	Fair Rental Days	Personal Use Days
<b>A</b>	1725 SLOUGH AVENUE, STE 210 SCRANTON, PA 18503	4	365	0
<b>B</b>				
<b>C</b>				
<b>D</b>				

Rental Real Estate Income		Properties					
		A	B	C	D		
<b>2</b>	Gross rents . . . . .	<b>2</b>	275,000				
<b>Rental Real Estate Expenses</b>							
<b>3</b>	Advertising . . . . .	<b>3</b>					
<b>4</b>	Auto and travel . . . . .	<b>4</b>					
<b>5</b>	Cleaning and maintenance . . . . .	<b>5</b>	50,000				
<b>6</b>	Commissions . . . . .	<b>6</b>					
<b>7</b>	Insurance . . . . .	<b>7</b>	7,500				
<b>8</b>	Legal and other professional fees . . . . .	<b>8</b>	5,250				
<b>9</b>	Interest (see instructions) . . . . .	<b>9</b>	75,000				
<b>10</b>	Repairs . . . . .	<b>10</b>	4,750				
<b>11</b>	Taxes . . . . .	<b>11</b>	25,000				
<b>12</b>	Utilities . . . . .	<b>12</b>					
<b>13</b>	Wages and salaries . . . . .	<b>13</b>					
<b>14</b>	Depreciation (see instructions) . . . . .	<b>14</b>	50,000				
<b>15</b>	Other (list) ▶ . . . . .	<b>15</b>					
<b>16</b>	Total expenses for each property. Add lines 3 through 15 . . . . .	<b>16</b>	217,500				
<b>17</b>	Income or (loss) from each property. Subtract line 16 from line 2 . . . . .	<b>17</b>	57,500				
<b>18a</b>	Total gross rents. Add gross rents from line 2, columns A through H . . . . .	<b>18a</b>					275,000
<b>18b</b>	Total expenses. Add total expenses from line 16, columns A through H . . . . .	<b>18b</b>					( 217,500 )
<b>19</b>	Net gain (loss) from Form 4797, Part II, line 17, from the disposition of property from rental real estate activities . . . . .	<b>19</b>					
<b>20a</b>	Net income (loss) from rental real estate activities from partnerships, estates, and trusts in which this partnership or S corporation is a partner or beneficiary (from Schedule K-1) . . . . .	<b>20a</b>					
<b>b</b>	Identify below the partnerships, estates, or trusts from which net income (loss) is shown on line 20a. Attach a schedule if more space is needed.						
	(1) Name	(2) Employer identification number					
	_____	_____					
	_____	_____					
<b>21</b>	Net rental real estate income (loss). Combine lines 18a through 20a. Enter the result here and on: • Form 1065 or 1120S: Schedule K, line 2	<b>21</b>					57,500

<b>1</b>	Show the type and address of each property. For each rental real estate property listed, report the number of days rented at fair rental value and days with personal use. See instructions.			
	Physical address of each property—street, city, state, ZIP code	Type—Enter code 1–8; see below for list	Fair Rental Days	Personal Use Days
<b>E</b>	.....	.....	.....	.....
<b>F</b>	.....	.....	.....	.....
<b>G</b>	.....	.....	.....	.....
<b>H</b>	.....	.....	.....	.....

		Properties			
		E	F	G	H
<b>Rental Real Estate Income</b>					
<b>2</b> Gross rents . . . . .	<b>2</b>				
<b>Rental Real Estate Expenses</b>					
<b>3</b> Advertising . . . . .	<b>3</b>				
<b>4</b> Auto and travel . . . . .	<b>4</b>				
<b>5</b> Cleaning and maintenance . . . . .	<b>5</b>				
<b>6</b> Commissions . . . . .	<b>6</b>				
<b>7</b> Insurance . . . . .	<b>7</b>				
<b>8</b> Legal and other professional fees . . . . .	<b>8</b>				
<b>9</b> Interest (see instructions) . . . . .	<b>9</b>				
<b>10</b> Repairs . . . . .	<b>10</b>				
<b>11</b> Taxes . . . . .	<b>11</b>				
<b>12</b> Utilities . . . . .	<b>12</b>				
<b>13</b> Wages and salaries . . . . .	<b>13</b>				
<b>14</b> Depreciation (see instructions) . . . . .	<b>14</b>				
<b>15</b> Other (list) ▶ .....	<b>15</b>				
.....					
.....					
<b>16</b> Total expenses for each property. Add lines 3 through 15 . . . . .	<b>16</b>				
<b>17</b> Income or (loss) from each property. Subtract line 16 from line 2 . . . . .	<b>17</b>				

**Allowable Codes for Type of Property**

- 1—Single Family Residence
- 2—Multi-Family Residence
- 3—Vacation or Short-Term Rental
- 4—Commercial
- 5—Land
- 6—Royalties
- 7—Self-Rental
- 8—Other (include description with the code on Form 8825 or on a separate statement)



Schedule K-1 (Form 1065)

2022

Department of the Treasury Internal Revenue Service

For calendar year 2022, or tax year

beginning / / 2022 ending / /

Partner's Share of Income, Deductions, Credits, etc. See separate instructions.

Part I Information About the Partnership

A Partnership's employer identification number 76-5432100
B Partnership's name, address, city, state, and ZIP code VANCE & SCOTT PROPERTIES, LLC 1725 SLOUGH AVENUE, STE 210 SCRANTON, PA 18503
C IRS center where partnership filed return: KANSAS CITY, MO
D Check if this is a publicly traded partnership (PTP)

Part II Information About the Partner

E Partner's SSN or TIN (Do not use TIN of a disregarded entity. See instructions.) 987-65-4321
F Name, address, city, state, and ZIP code for partner entered in E. See instructions. BOB VANCE 3764 ELVIS PRESLEY BLVD MEMPHIS TN 38116
G General partner or LLC member-manager Limited partner or other LLC member
H1 Domestic partner Foreign partner
H2 If the partner is a disregarded entity (DE), enter the partner's: TIN Name
I1 What type of entity is this partner? INDIVIDUAL
I2 If this partner is a retirement plan (IRA/SEP/Keogh/etc.), check here
J Partner's share of profit, loss, and capital (see instructions): Beginning Ending
Profit 65.00000% 75.00000%
Loss 65.00000% 75.00000%
Capital 65.00000% 75.00000%
Check if decrease is due to sale or exchange of partnership interest
K Partner's share of liabilities: Beginning Ending
Nonrecourse \$ \$
Qualified nonrecourse financing \$ 232,500. \$ 331,406.
Recourse \$ \$
Check this box if item K includes liability amounts from lower-tier partnerships

L Partner's Capital Account Analysis
Beginning capital account \$ 25,000.
Capital contributed during the year \$ 15,000.
Current year net income (loss) \$ 43,125.
Other increase (decrease) (attach explanation) \$
Withdrawals and distributions \$ (85,000.)
Ending capital account \$ -1,875.

M Did the partner contribute property with a built-in gain (loss)?
Yes No
If "Yes," attach statement. See instructions.

N Partner's Share of Net Unrecognized Section 704(c) Gain or (Loss)
Beginning \$
Ending \$

Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items

Table with 4 columns: Line number, Description, Code, and Amount. Rows include: 1 Ordinary business income (loss) 14 Self-employment earnings (loss) A 7,500.; 2 Net rental real estate income (loss) 43,125.; 3 Other net rental income (loss) 15 Credits; 4a Guaranteed payments for services 7,500.; 4b Guaranteed payments for capital 16 Schedule K-3 is attached if checked; 4c Total guaranteed payments 17 Alternative minimum tax (AMT) items 7,500.; 5 Interest income; 6a Ordinary dividends; 6b Qualified dividends 18 Tax-exempt income and nondeductible expenses; 6c Dividend equivalents; 7 Royalties; 8 Net short-term capital gain (loss); 9a Net long-term capital gain (loss) A 85,000.; 9b Collectibles (28%) gain (loss); 9c Unrecaptured section 1250 gain 20 Other information N \* STMT 56,250.; 10 Net section 1231 gain (loss) Z \* STMT; 11 Other income (loss); 12 Section 179 deduction 21 Foreign taxes paid or accrued; 13 Other deductions M 7,500.

22 More than one activity for at-risk purposes\*
23 More than one activity for passive activity purposes\*
\*See attached statement for additional information.

For IRS Use Only

Schedule K-1 (Form 1065)

2022

Department of the Treasury Internal Revenue Service

For calendar year 2022, or tax year

beginning / / 2022 ending / /

Partner's Share of Income, Deductions, Credits, etc. See separate instructions.

Part I Information About the Partnership

A Partnership's employer identification number 76-5432100
B Partnership's name, address, city, state, and ZIP code VANCE & SCOTT PROPERTIES, LLC 1725 SLOUGH AVENUE, STE 210 SCRANTON, PA 18503
C IRS center where partnership filed return: KANSAS CITY, MO
D Check if this is a publicly traded partnership (PTP)

Part II Information About the Partner

E Partner's SSN or TIN (Do not use TIN of a disregarded entity. See instructions.) 654-32-1789
F Name, address, city, state, and ZIP code for partner entered in E. See instructions. MICHAEL SCOTT 9876 FUNNY GUY LANE NASHVILLE TN 37900
G General partner or LLC member-manager Limited partner or other LLC member
H1 Domestic partner Foreign partner
H2 If the partner is a disregarded entity (DE), enter the partner's: TIN Name
I1 What type of entity is this partner? INDIVIDUAL
I2 If this partner is a retirement plan (IRA/SEP/Keogh/etc.), check here
J Partner's share of profit, loss, and capital (see instructions):
Beginning Ending
Profit 35.00000% 25.00000%
Loss 35.00000% 25.00000%
Capital 35.00000% 25.00000%
Check if decrease is due to sale or exchange of partnership interest
K Partner's share of liabilities:
Beginning Ending
Nonrecourse \$ \$
Qualified nonrecourse financing \$ 77,500. \$ 110,469.
Recourse \$ \$
Check this box if item K includes liability amounts from lower-tier partnerships

L Partner's Capital Account Analysis

Table with 2 columns: Description, Beginning, Ending. Rows include: Beginning capital account (\$40,000), Capital contributed during the year (\$46,125), Current year net income (loss) (\$14,375), Other increase (decrease) (attach explanation) (\$), Withdrawals and distributions (\$25,000), Ending capital account (\$75,500).

M Did the partner contribute property with a built-in gain (loss)?

Yes No (checked) If "Yes," attach statement. See instructions.

N Partner's Share of Net Unrecognized Section 704(c) Gain or (Loss)

Table with 2 columns: Description, Amount. Rows include: Beginning, Ending.

Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items

Table with 4 columns: Line number, Description, Code, Amount. Rows include: 1 Ordinary business income (loss) 14 Self-employment earnings (loss) A 2,500.; 2 Net rental real estate income (loss) 14,375.; 3 Other net rental income (loss) 15 Credits; 4a Guaranteed payments for services 2,500.; 4b Guaranteed payments for capital 16 Schedule K-3 is attached if checked; 4c Total guaranteed payments 2,500.; 5 Interest income; 6a Ordinary dividends; 6b Qualified dividends 18 Tax-exempt income and nondeductible expenses; 6c Dividend equivalents; 7 Royalties; 8 Net short-term capital gain (loss); 9a Net long-term capital gain (loss) A 25,000.; 9b Collectibles (28%) gain (loss); 9c Unrecaptured section 1250 gain N \* STMT 18,750.; 10 Net section 1231 gain (loss) Z \* STMT; 11 Other income (loss); 12 Section 179 deduction 21 Foreign taxes paid or accrued; 13 Other deductions M 2,500.

22 More than one activity for at-risk purposes\* 23 More than one activity for passive activity purposes\*

\*See attached statement for additional information.

For IRS Use Only