Small Business Year-End Tax Readiness Guide

A disciplined close and support framework for owner-managed businesses preparing for tax compliance and planning.

What this resource helps you do

Close the books in a controlled sequence, identify tax-sensitive transactions, assemble decision-useful support, and reduce avoidable rework during return preparation.

Designed for

S corporations, partnerships, sole proprietors, and closely held entities. Entity-specific filing, basis, payroll, and state rules still require tailored review.

Use with professional judgment

This resource is an organization and readiness aid. It does not replace tax advice, determine eligibility, or address every federal, state, local, or industry-specific requirement.

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1. The year-end readiness sequence

Step	Action	Control objective
1	Lock the period	Confirm the accounting period, cut-off policy, and final transaction date. Restrict backdated entries after review begins.
2	Reconcile control accounts	Complete bank, credit card, payroll, sales-tax, loan, receivable, payable, inventory, fixed-asset, and equity reconciliations.
3	Resolve unusual activity	Document large, nonrecurring, related-party, owner, financing, legal, and multistate transactions.
4	Prepare tax schedules	Assemble fixed assets, meals, vehicles, contributions, distributions, debt, payroll, contractor, and state-apportionment support.
5	Run management review	Compare current-year results to prior year, budget, and operational expectations; investigate unexplained variances.
6	Deliver a controlled package	Provide the final trial balance/general ledger, financial statements, reconciliations, supporting schedules, and open-item list.

Close discipline

A clean general ledger is necessary but not sufficient. The tax package must also explain ownership, basis, debt, placed-in-service dates, business purpose, and other facts that do not appear in account balances.

2. Core reconciliations

- ☐ Cash: Reconcile every bank and payment account through year end. Resolve old outstanding checks, deposits in transit, transfers, merchant reserves, and uncleared items.
- ☐ Credit cards: Reconcile statements and record year-end liabilities, personal charges, rewards, refunds, and disputed items appropriately.
- ☐ Accounts receivable: Reconcile the aging to the general ledger; identify bad debts, retain collection history, and distinguish cash- versus accrual-method implications.
- ☐ Accounts payable: Reconcile vendor statements and unpaid obligations; review duplicate, disputed, related-party, and capital expenditures.
- ☐ Debt: Reconcile principal, accrued interest, fees, current maturities, refinancings, covenant balances, and owner/related-party loans to lender statements and agreements.
- ☐ Payroll: Reconcile wage, withholding, employer-tax, benefit, and liability accounts to Forms W-2/W-3, 941, 940, and state filings.
- ☐ Equity: Roll forward capital, retained earnings, contributions, distributions/draws, and book income. Identify owner-paid and personal expenses separately.

3. Tax-sensitive transaction review

Area	Support to assemble
Fixed assets	Invoices, settlement statements, financing, trade-in detail, placed-in-service date, location, business-use percentage, and disposal proceeds
Vehicles	Mileage logs, odometer readings, ownership, acquisition/lease documents, business purpose, and actual operating costs when method comparison is needed
Inventory	Count sheets, costing method, obsolescence analysis, shrinkage, consigned goods, and cut-off
Meals and travel	Business purpose, attendees, location, travel dates, receipts, reimbursements, and entertainment segregation
Owner transactions	Contributions, distributions/draws, loans, repayments, guarantees, reimbursements, fringe benefits, and personal expenses
Related parties	Counterparty relationship, written agreements, pricing, payment terms, balances, interest, rent, payroll, and ownership
Legal and settlements	Agreements, invoices, settlement allocation, insurance recoveries, and capitalization analysis
Credits and incentives	Eligibility support, payroll and wage data, project costs, certifications, applications, and prior claims

4. Contractor and payroll reporting

- ☐ Vendor master: Obtain and validate Forms W-9 before payment where possible; review names, taxpayer IDs, entity types, addresses, and payment methods.
- ☐ Information returns: Reconcile reportable payments to the ledger and vendor detail. Review Forms 1099-NEC, 1099-MISC, 1099-K interaction, and filing/delivery deadlines.
- ☐ Worker classification: Escalate facts suggesting an employee relationship; a Form 1099 does not determine classification.
- ☐ Owner compensation: For corporations, identify shareholder/officer services, wages, fringe benefits, health insurance, retirement contributions, and distributions.
- ☐ Payroll cut-off: Reconcile final payrolls, accrued payroll where applicable, third-party sick pay, benefits, bonuses, and outstanding tax notices.

High-risk gap

Payments coded to “contract labor,” “outside services,” repairs, legal, rent, or other expense accounts may all contain information-return candidates. Review payees across the ledger, not only one account.

5. Owner, basis, and financing package

- ☐ Ownership: Confirm owners, percentages, acquisition/disposition dates, transfers, deaths, trusts, and elections.
- ☐ Capital contributions: Identify cash and property contributed, dates, fair values, tax basis, liabilities, and legal documentation.
- ☐ Distributions: Reconcile cash and property distributions by owner and date, including business-paid personal expenses and tax payments treated as distributions.
- ☐ Shareholder/partner loans: Provide executed notes, advances, repayments, interest, maturity, security, and whether funds moved directly between owner and entity.
- ☐ Outside basis: Retain prior-year basis schedules, suspended losses, at-risk and passive activity information, debt basis, and K-1s.
- ☐ Financing and guarantees: Provide new or modified agreements, personal guarantees, covenant waivers, and debt-financed distribution details.

6. Management analytics before delivery

Area	Review questions
Revenue	Compare by month/customer/service; investigate cut-off, refunds, unearned revenue, 1099-K/processor differences, and unrecorded receipts
Gross margin	Explain changes in pricing, labor, materials, subcontractors, inventory, job mix, and capitalization
Payroll	Reconcile headcount, owner compensation, bonuses, benefits, and payroll tax to filings
Fixed assets / repairs	Review large repairs, equipment, software, leasehold improvements, and disposals for capitalization
Meals / travel / vehicles	Assess business purpose, substantiation, personal use, reimbursement, and nondeductible components
Balance sheet	Clear stale balances, suspense, undeposited funds, negative asset/liability balances, and unexplained equity

7. Delivery package

- ☐ Final accrual- or cash-basis financial statements consistent with the agreed tax method.
- ☐ Final trial balance and full-year general ledger after approved adjustments.
- ☐ Bank, credit-card, loan, payroll, AR, AP, inventory, fixed-asset, and equity reconciliations.
- ☐ Owner, related-party, vehicle, contractor, state, and unusual-transaction schedules.
- ☐ Copies of new agreements, closing statements, tax notices, and prior-year returns when needed.
- ☐ Open-item list identifying unavailable forms, unresolved balances, estimates, and responsible owners.

Authoritative guidance

- IRS Publication 334 (2025), Tax Guide for Small Business
  https://www.irs.gov/publications/p334
- IRS Publication 583 (Rev. December 2025), Starting a Business and Keeping Records
  https://www.irs.gov/pub/irs-pdf/p583.pdf
- IRS Publication 15 (2026), Employer’s Tax Guide
  https://www.irs.gov/publications/p15
- IRS — Information return reporting
  https://www.irs.gov/businesses/small-businesses-self-employed/information-return-reporting
- IRS Publication 463 (2025), Travel, Gift, and Car Expenses
  https://www.irs.gov/pub/irs-pdf/p463.pdf
- IRS Publication 946 (2025), How To Depreciate Property
  https://www.irs.gov/publications/p946
- IRS — Guide to business expense resources
  https://www.irs.gov/forms-pubs/guide-to-business-expense-resources

Important: Tax law, forms, thresholds, and deadlines change. Use the guidance applicable to the return year and obtain entity- and state-specific advice before acting.