



**DISSOLUTION CHECKLIST**

✓	<b>Description of Suggested Activity</b>
	<p>1. Set an agreed upon, date of dissolution (by all shareholders) for the entity. Generally it is a good idea to choose the last day of the normal business year, but allowing several months for winding down activity makes sense. Costly mistakes can occur if an entity is holding a lot of high dollar assets. Usually it pays to discuss the choice of the date of dissolution with your CPA and possibly attorney before making a final decision. Your attorney may advise to cease activity and file a final tax return, but dissolve at a later date 2-3 years in the future.</p>
	<p>2. Obtain an adoption by the directors of a resolution recommending to the shareholders that the corporation be liquidated completely under Section 331(a)(1); Generally this will require the preparation of a plan of liquidation. The plan of liquidation should include a description of how the assets of the company will be disposed of, how much will be distributed to shareholders and the time frame over which the liquidation will take place.</p>
	<p>3. Obtain an adoption by the shareholders of a resolution approving the directors' recommendation to liquidate the corporation completely under Section 331(a)(1), and adoption of a resolution authorizing the directors and officers to take all necessary steps (including an appraisal of assets to be distributed) to carry out the plan.</p>
	<p>4. During the interim period between the decision to dissolve and the actual date of dissolution, begin winding down business activity as much as possible:</p> <p>Collect receivables, pay bills, and prepay some bills such as legal, accounting, and possible shareholder fees for assisting in closure. Ask attorneys and accountants to estimate professional fees through the cessation of business and after the date of dissolution to perform subsequent required services related to preparing all final paperwork, tax filings and legal documents. Attorney and accountants fees should be prepaid before cessation of business.</p> <p>Other necessary steps may include transferring title for all assets that are not sold and will be distributed to shareholders, most commonly automobiles and real estate. Transfer of these assets will generally require that the owner of record as recorded by the state/county be changed to reflect the change of ownership. Close all bank and credit card accounts, with the exception of the main operating bank account, which can be closed after the approved date of dissolution. Generally, 90 days before the dissolution date, publish a notice, in a newspaper of local circulation, of the liquidation to put creditors on notice to present their claims.</p>
	<p>5. Sometime before the dissolution date (generally 7-30 days), file dissolution papers with the Secretary of State in the state of incorporation. This government office will have the necessary form or forms. Consider calling them for an overview of their process because every state is a little different. In states with an income tax, the process can be more complicated.</p>
	<p>6. Send your accountant and attorney a copy of the approved dissolution documents received from the state, along with a copy of a corporate resolution approving the dissolution. Within thirty days of approval of the plan of dissolution, your accountant should prepare and file IRS Form 966, attaching a copy of the Certificate of Dissolution from the Secretary of State.</p>
	<p>7. Decide how the remaining assets and liabilities of the corporation are going to be distributed to shareholders (generally these items should be distributed pro-rata according to ownership). This part can get messy, particularly if assets do not lend themselves to division. It is probably a good idea to distribute as much as possible before the date of dissolution, but leave enough money in the company bank account to pay for winding down expenses.</p>



✓	<b>Description of Suggested Activity (cont.)</b>
	8. After the dissolution date, update accounting records through the date of dissolution. Prepare and file the final tax return, reporting the last day of the year on the tax return, as the date of dissolution.
	9. After the date of dissolution, prepare calendar year end documents that may be required: W2's, 1099's. Commonly 1099-DIV must be prepared report the liquidating distribution to shareholders. Generally, these documents must be prepared between January 1 <sup>st</sup> and February 28 <sup>th</sup> , due to availability of forms from the IRS.
	10. After the date of dissolution, distribute any remaining assets/liabilities pro-rata to shareholders. Distribution of corporate assets in redemption and cancellation of the outstanding capital stock, and furnish each shareholder a statement of the fair market values of assets distributed to them. At this point, the sole remaining bank account can be closed.  <u>NOTE:</u> Any normal business activity performed after the dissolution date is not considered business activity of the dissolving entity and must be reported on the individual tax return of the shareholders. Subsequent income and related expenses are reported on Schedule C, and expenses of the dissolving corporation, which are paid after the dissolution date is reported on Schedule A as an unreimbursed business expense of the shareholders.

It is generally a good idea to work closely with your CPA, and possibly attorney, throughout the winding down period to make sure there are no costly missteps. This is very important in corporations with a large amount of assets (as opposed to partnerships), and not nearly as important (tax wise) if the entity has experienced consistent losses, and is holding primarily debt.