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# **Business Expenses And The S Corporation - What You Really Need To Know!**

Presented by:

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# Learning Objectives

- Identify Business Expenses Unique to S-Corporations
- Determine Reporting Requirements of Certain S-Corp Expenses
- Assess the Implications of Fringe Benefits and Officer Compensation



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# S Corporation Expenses



- Intro to S-Corps
  - Popularity
  - Brief History
  - Form 1120S, Schedule K-1
  - Taxes



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Form <b>1120S</b>		<b>U.S. Income Tax Return for an S Corporation</b>		OMB No. 1545-0120	
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. ▶ Information about Form 1120S and its separate instructions is at <a href="http://www.irs.gov/form1120s">www.irs.gov/form1120s</a> .		<b>2013</b>	
For calendar year 2013 or tax year beginning		, 2013, ending		, 20	
A Selection effective date		Name		D Employer identification number	
4/01/2013		CORPS R US		00-0000000	
B Business activity code number (see instructions)		TYPE OR PRINT		E Date incorporated	
236110		1120 TAX STREET City or town, state or province, country, and ZIP or foreign postal code		4/01/2013	
C Check if S corporation <input type="checkbox"/>		A NY TOWN, WA 98022		F Total assets (see instructions)	
				\$ 312,778	
G Is the corporation electing to be an S corporation beginning with this tax year? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No If "Yes," attach Form 2553 if not already filed					
H Check if: (1) <input type="checkbox"/> Final return (2) <input type="checkbox"/> Name change (3) <input type="checkbox"/> Address change (4) <input type="checkbox"/> Amended return (5) <input type="checkbox"/> Selection termination or revocation					
I Enter the number of shareholders who were shareholders during any part of the tax year ▶ 2					
Caution: Include only trade or business income and expenses on lines 1a through 21. See the instructions for more information.					
Income	1a	Gross receipts or sales	1a	500,000	
	b	Returns and allowances	1b		
	c	Balance. Subtract line 1b from line 1a	1c	500,000	
	2	Cost of goods sold (attach Form 1125-A)	2	25,000	
	3	Gross profit. Subtract line 2 from line 1c	3	475,000	
	4	Net gain (loss) from Form 4797, line 17 (attach Form 4797)	4		
Deductions (see instructions for limitations)	5	Other income (loss) (see instructions—attach statement)	5		
	6	Total income (loss). Add lines 3 through 5	6	475,000	
	7	Compensation of officers (see instructions—attach Form 1125-B)	7	205,000	
	8	Salaries and wages (less employment credits)	8	100,000	
	9	Repairs and maintenance	9	5,000	
	10	Bad debts	10		
	11	Rents	11	12,000	
	12	Taxes and licenses	12	15,000	
	13	Interest	13	4,000	
	14	Depreciation not claimed on Form 1125-A or elsewhere on return (attach Form 4562)	14		
	15	Depletion (Do not deduct oil and gas depletion)	15		
	16	Advertising	16	2,500	
	17	Pension, profit-sharing, etc., plans	17		
	18	Employee benefit programs	18	10,000	
	19	Other deductions (attach statement)	19	31,700	
	20	Total deductions. Add lines 7 through 19	20	395,200	
	21	Ordinary business income (loss). Subtract line 20 from line 6	21	89,800	
Tax and Payments	22a	Excess net passive income or LIFO recapture tax (see instructions)	22a		
	b	Tax from Schedule D (Form 1120S)	22b		
	c	Add lines 22a and 22b (see instructions for additional taxes)	22c		
	23a	2013 estimated tax payments and 2012 overpayment credited to 2013	23a		
	b	Tax deposited with Form 7004	23b		
	c	Creditor federal tax paid on fuels (attach Form 4136)	23c		
	d	Add lines 23a through 23c	23d		
	24	Estimated tax penalty (see instructions). Check if Form 2220 is attached <input type="checkbox"/>	24		
	25	Amount owed. If line 23d is smaller than the total of lines 22c and 24, enter amount owed	25	0	
	26	Overpayment. If line 23d is larger than the total of lines 22c and 24, enter amount overpaid	26		
27	Enter amount from line 26 Credited to 2014 estimated tax ▶	27	Retursed ▶		
Sign Here		Under penalty 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	Signature of President		Date
Print/type preparer's name		Preparer's signature		Check <input type="checkbox"/> if self-employed	
Kathy Tax Professional, EA				P0011999999	
Firm's name ▶ Kathy's Tax Professional Shoppe		Firm's EIN ▶		91-1234567	
Firm's address ▶ Tax Town, WA 98022		Phone no.		(600) 555-1212	





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# S Corporation Expenses



- Accounting Methods
  - Cash, Accrual ????
  - §446(a); Rev Ruling 68-35
  - Form 3115
- Overview of Income
  - Trade or Business
  - Other



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# S Corporation Expenses



- Form 1125-A
  - COGS;
  - Section 263A rules and limitations
    - Under \$1 million – No
    - Under \$10 million – non-manufacturers – Rev Proc 2002-28
  - Inventory



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Form **1125-A**

(Rev. December 2012)

Department of the Treasury  
Internal Revenue Service

### Cost of Goods Sold

▶ Attach to Form 1120, 1120-C, 1120-F, 1120-S, 1065, or 1065-B.

▶ Information about Form 1125-A and its instructions is at [www.irs.gov/form1125a](http://www.irs.gov/form1125a).

OMB No. 1545-2225

Name

CORPS R US

Employer identification number

00-0000000

1	Inventory at beginning of year.....	1	
2	Purchases.....	2	65,000.
3	Cost of labor.....	3	
4	Additional section 263A costs (attach schedule).....	4	
5	Other costs (attach schedule).....	5	
6	<b>Total.</b> Add lines 1 through 5.....	6	65,000.
7	Inventory at end of year.....	7	40,000.
8	<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).....	8	25,000.

9a Check all methods used for valuing closing inventory:

- (i)  Cost
- (ii)  Lower of cost or market
- (iii)  Other (Specify method used and attach explanation)..... ▶

b Check if there was a writedown of subnormal goods..... ▶

c Check if the LIFO inventory method was adopted this tax year for any goods (if checked, attach Form 970)..... ▶

d If the LIFO inventory method was used for this tax year, enter amount of closing inventory computed under LIFO..... **9d** |

e If property is produced or acquired for resale, do the rules of section 263A apply to the entity (see instructions)?.....  Yes  No

f Was there any change in determining quantities, cost, or valuations between opening and closing inventory? If 'Yes,' attach explanation.....  Yes  No

**BAA** For Paperwork Reduction Act Notice, see instructions.

Form **1125-A** (Rev. 12-2012)



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# S Corporation Expenses



- Line 7: Compensation of Officers
  - The new Form 1125E
  - Determining what is reasonable
  - Supporting what is reasonable
  - Noncash compensation
  - Compensation mistakes
- Line 8: Salaries and Wages





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Form **1125-E**

(Rev. December 2013)

Department of the Treasury  
Internal Revenue Service

### Compensation of Officers

► Attach to Form 1120, 1120-C, 1120-F, 1120-REIT, 1120-RIC, or 1120S.  
► Information about Form 1125-E and its separate instructions is at [www.irs.gov/form1125e](http://www.irs.gov/form1125e).

OMB No. 1545-2225

Name

CORPS R US

Employer identification number

00-0000000

**Note.** Complete Form 1125-E only if total receipts are \$500,000 or more. See instructions for definition of total receipts.

1	(a) Name of officer	(b) Social security number	(c) Percent of time devoted to business	Percent of stock owned		(f) Amount of compensation
				(d) Common	(e) Preferred	
	DRAHMA QUEENE	012-34-5678	100 %	25.00 %	%	105,000.
	MAJOR PAINE		100 %	75.00 %	%	100,000.
			%	%	%	
			%	%	%	
			%	%	%	
			%	%	%	



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# S Corporation Expenses



- Line 9: Repairs & Maintenance
  - Capitalization rules
- Line 10: Bad Debt
  - Cash basis
  - Nonbusiness bad debt
- Line 11: Rents
  - Real or personal property
  - Self Rental Rules!



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# S Corporation Expenses

- Line 12: Tax and Licenses
  - Taxes not included elsewhere
  - Sales tax capitalized
- Line 13: Interest
  - Prepaid interest §461(g)



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# S Corporation Expenses



- Line 14: Depreciation
  - Section 179 – not so fast!
- Line 15: Depletion
  - Property by property basis at the shareholder level
- Line 16: Advertising



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# S Corporation Expenses

- Line 17: Pension, Profit Sharing Plans
  - Employer contributions
- Line 18: Employee Benefit Programs
  - Less than 2% Shareholders
  - Group term life insurance
  - Meals and lodging for the employers convenience



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# S Corporation Expenses



- Fringe benefits / employee benefits
  - More than 2% shareholders
  - Rules of attribution §318
  - Officer life insurance
  - Health insurance premiums
    - HRA – DOL Tech Release 2013-03;
    - DOL HRA FAQs;
    - IRS Notice 2013-54



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# S Corporation Expenses



- Line 19: Other Deductions
  - Pub 535
  - Startup and organizational
  - Meals and entertainment
  - Gifts / Awards
  - Director fees



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# S Corporation Expenses



## Other Stuff to Remember about S Corps

- Non – deductible expenses
  - Fines and Penalties
  - Golf / Athletic Club dues
  - Political & Lobbying expenses





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# S Corporation Expenses

## Other Stuff to Remember about S Corps

- Pass through deductions
  - Health insurance premiums
  - Charitable contributions
  - §179
  - Investment interest expense (NIIT)



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# S Corporation Expenses



## Other Stuff to Remember about S Corps

- Home Office
  - Yes, you can!
  - Rent paid or 2106
- Expenses paid directly by shareholders
  - Reimbursement policy
  - Capital contribution



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# So, what you really need to know...



- Develop a process
- Ask the right questions
- Document the answers
- Determine an appropriate outcome



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# For More Information

## National Society of Accountants

More information is available including  
additional materials at:

Booth in Vendor Hall

Or Table in Lobby

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