

2011

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IRS Nationwide

# Subchapter S Corporations Issues & Answers

Presented by:

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# Issue: Popularity of S-Corps

History of S-Corporations

Are they still the entity of choice?

The right entity for your client?

Answer: There are choices!

- LLC alternative
- 2010 GAO report



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# Issue: Failure to Elect Status

15<sup>th</sup> day of 3<sup>rd</sup> month deadline

- New Corps
- Existing C-Corps

Signed by Officer of Corp

Consent by *all shareholders*

Answer: Rev Proc 2007-62

- For Corporation Late Election
- For Combined Entity & S-Election

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# Issue: Keeping up with Corporate Requirements

Minutes, for an LLC, too?

Loan documentation

Compensation

Distributions

Keeping business and personal separate

Answer: Meeting with client before year end

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# Issue: Shareholder Loans

Loans or capital?

Loans or compensation?

Loans can be re-allocated!

## Answer:

- Separate into Due From and Due To
- Must be documented with note
- Interest and payment plan

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# Issue: Inside/Outside Basis

Inside maintained on Books of Entity  
Outside maintained by Taxpayer

Answer: *Document & Year End Planning*

- “Attach Basis Calculation” is now in 1040 instructions
- Limitations on Deductibility of Losses
- Loan guarantees DO NOT create basis

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# Issue: Shareholder Compensation

Notice in May of 2010 for "crackdown" on  
employment tax avoidance

Salary **MUST BE** *adequate & for service  
provided*

Should actually be paid

Answer: Start Now

- Know the industry
- Look up for “reasonable”
- The benefits of taking salary

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# Issue: Shareholder Benefits & Reporting

Health Insurance & reporting

Retirement

Fringe benefits

## Answer:

- W-2
- Valuable deduction on 1040 in 2010

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# Issue: Expenses Paid Directly by Shareholder

Reimbursement policy

Answer: Not a *total* loss

- Paid in capital/loan
- Form 2106
- Office in home, not Schedule E



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# Issue: Distributions...

Generally NOT taxable to shareholder

Disproportionate distributions

Answer: Follow the Rules!

- If in excess of basis-taxed as capital transaction
- Shareholders not automatically entitled to distributions
- Must be equal in proportion to stock ownership

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# Issue: “BIG” Tax

What is it? IRC § 1374

Determine Liability for “BIG”

Corporations needing to liquidate assets  
for cash

## Answer:

- Get an appraisal
- Keep track of “BIG” assets
- New tax rules!

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# Issue: Self-Rentals

*Non* – passive

## Answer:

- Still goes on Schedule E
- Most software will do it right if you check the right box
- Home office deduction needs special handling

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# Issue: Staying Compliant & Inadvertent Termination

Excessive number of shareholders

Nonresident alien shareholders

Corporation or partnership shareholders

Merger into C-Corp

## Answer:

- Take corrective steps and request waiver

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# Issue: Closing Down

More than just marking a “Final” Return

## Answer:

- Minutes documenting dissolution
- Dissolve at state and federal level
- Form 966-IRS corporate dissolution/liquidation

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# For More Information:

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(NSA)

More information is available including  
additional materials at:

Booth \_\_\_\_\_ in Vendor Hall

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