TERM INATIONS OF S CORPORATION STATUS

Accounting 551T - Lecture 11
Schlesinger: Chapters 12 and 13
Robert A. Scharlach

- Revocation of S Corp. Election
  - Statement Must be Filed
  - Revocation Made by 15th Day of the Third Month Can Be Effective for the Entire Year
  - Revocation Filed After the 15th Day of the Third month Takes Effect on the First Day of the Next Taxable Year Unless an Earlier Effective Date is Stated in the Statement

- Termination Due to Failure to Remain Eligible
  - S Status Will End if the Corporation Ceases to be a Small Business Corporation
Reorganizations and Divisions

- Corporate Reorgs do not Affect S Corp. Status Unless Something in the Transaction Causes a Termination

Bankruptcy

- Bankruptcy Does Not Terminate S Corporation Status

Effective Date of Termination

- Ceasing to be a Small Business
- Corporation Causes Termination on
- the Date of the Terminating Event
Failing the Passive Investment Income Test

- Passive Investment Income Test Applies Annually
- S Corp. Status Terminated if Test Failed Three Years in a Row

Effects of Termination

- Treatment of Midyear Termination
- Election to Close the Books

Effects of Termination

- Method of Pro Rata Allocation if Books Are Not Closed
- Method of Allocation if Books Are Closed
Computation of Taxes for C Short Years

S Corporation Must Compute its Tax for the C Short Year on an Annualized Basis

Waiver of Termination

- Service May Ignore Accidental Terminations
- Automatic Waivers
- Procedure for Waiver Application

Comparisons to Other Business Entities

- Why Use an S Corporation?
- Why Use a Partnership?
- Why Use a C Corporation?
- Why Use an LLC?
Medical Reimbursement Plan

- Corporation
- S Corporation
- Partnership