Presentation of Income and Deductions

- Two Categories
  - Separately stated items
  - Non-separately stated items

Separately Stated Items

- Any income item the tax consequences of which depend on the tax situation of the shareholder
- Any deduction the tax consequences of which depend on the tax situation of the shareholder
Non-separately Stated Items

- Everything the tax consequences of which do not depend on the tax situation of the shareholder

Distributions of Appreciated Property

- Gain recognized to the extent of the FMV over basis
  - This is the same rule as for C corps.
  - This is different than for partnerships

Transactions Relating to S Corporation’s Own Stock

- No income or loss on transactions with its own stock
  - Same rule as a C corporation
Reorganization Transactions
- An S corporation is treated the same as a C corporation in tax-free reorganization transactions
  - A partnership cannot be a party to a reorganization

Compensation Paid in Stock
- Same treatment as C corporation
  - Section 83 applies

Investment Interest
- Investment interest
- Investment income
- Investment expenses –
  - All pass through to the shareholders as separate items
Charitable Contributions

- Pass Through to the Shareholders
  - Limit based on the shareholder limits

Net Operating Loss Deductions

- An S corp. may not deduct an NOL carryover
- Exception –
  - An S corp. subject to the tax on built-in gains may use an NOL from a C corp. year to reduce the amount subject to the built-in gains tax

Section 179 Election

- The sec. 179 dollar limits apply at both the corporate and shareholder levels
Hobby Losses

- Sec. 183 specifically applies to S corporations

Dividends Received Deduction

- Not allowable to an S corporation

Organization Expenditures

- Same treatment as a C corporation
Corporate Taxes

- An S corporation pays no –
  - Federal income tax
  - Accumulated earnings tax
  - Personal holding company tax

Tax on Excess Passive Investment Income

- Tax if each of the following conditions are met –
  - S corp. has E & P at the end of the year
  - Passive investment income exceeds 25% of gross receipts
  - S corp. has net passive income
  - S corp. has taxable income for the year

Tax on Excess Passive Investment Income

- Computation of the tax
  - Excess net passive income taxed at highest corporate rate
The numerator of which is the passive investment income in excess of 25% of gross receipts, and – The denominator of which is the total passive investment income, then – Multiply this fraction by the net passive income

Passive investment income – Dividends – Interest – Rents – Royalties – Annuities – Gain from the sale of stock or securities

Applies to S corporations that were formerly C corporations

Applies to corporations that were never C corporations
Gains Subject to Built-In Gains Tax

- Applies where FMV exceeded basis when the S election took effect
  - Need to know the FMV of each asset

Gains Subject to Built-In Gains Tax

- Applies to all recognized gains reduced by losses for 10 years after the S corporation election is made
  - Amount taken into consideration can not exceed FMV minus basis at date of S corporation election

Computation of the Built-In Gains Tax

- Calculate the corporation’s net recognized built-in gain for the year
- Reduce the net recognized built-in gain by any NOL or capital loss carryovers from any prior C corporation tax years
Computation of the Built-In Gains Tax

- Compute a tentative tax by multiplying the amount determined above by the highest corporate tax rate.
- Reduce the tax determined by the amount of the general business credit and minimum tax credit carryovers from prior C corp. years.

Built-In Gains Tax

- Dispositions include
  - Sales and exchanges
  - Collection of account receivable by a cash method taxpayer
  - Collection of an installment obligation

LIFO Inventory Recapture

- When a C corp. using Lifo converts to an S corp. -
  - Fifo Value over Lifo value must be recaptured
  - Tax calculated on such excess must be paid in four annual installments with the corporation’s tax return.