
TABLE OF CONTENTS

Chapter 1: Tax Considerations in Electing S Corporation Status	1
¶101 Introduction	1
¶102 Advantages of Having an S Corporation	2
¶103 State Issues	12
State Tax Deductions for Pass-Through Entities (Pass-through Entity Taxation (PTET) Regimes)	13
Chapter 1: Test Your Knowledge	15
Chapter 1: Solutions and Suggested Responses	17
Chapter 2: Requirements to Be an S Corporation	19
¶201 Basic Requirements	19
¶202 Counting the Shareholders	20
¶203 Eligible Shareholder Entities	24
¶204 Ineligible Shareholder Entities	28
¶205 Owning C Corporations and Being a Member of a Controlled Group	31
¶206 Eligible Corporations	33
¶207 Ineligible Corporations	34
¶208 One-Class-of-Stock Requirement	34
¶209 Compliance with State Laws Regarding S Corporations	47
¶210 S Corporate Shareholders Owe a Fiduciary Duty to the Corporation and Each Other	47
Chapter 2: Test Your Knowledge	49
Chapter 2: Solutions and Suggested Responses	51
Chapter 3: Trusts That Qualify as S Corporation Shareholders	53
¶301 Six Types of Eligible Trusts	53
¶302 Grantor Trusts	54
¶303 Trusts Owned by a Beneficiary (Code Sec. 678 Trusts)	55
¶304 Testamentary Trusts	56
¶305 Voting Trusts	57
¶306 Electing Small Business Trusts (ESBTs)	58
¶307 Qualified Subchapter S Trusts (QSSTs)	64
Chapter 3: Test Your Knowledge	75
Chapter 3: Solutions and Suggested Responses	77
Chapter 4: Filing of an S Corporation Election and Tax Return	79
¶401 Filing Form 2553	79
¶402 Shareholders Must Consent to an S Election	87
¶403 Who Must Sign a Shareholders' Consent Statement	88
¶404 Considerations Before Converting a C Corporation to an S Corporation	91
¶405 Filing an S Corporate Return	95
Chapter 4: Test Your Knowledge	97
Chapter 4: Solutions and Suggested Responses	101

Chapter 5: Accounting Methods and Tax Years of S Corporations	105
¶501 Accounting Method Choices	105
¶502 Calendar- or Fiscal-Year Reporting	108
Chapter 5: Test Your Knowledge	115
Chapter 5: Solutions and Suggested Responses	117
Chapter 6: Income and Loss	119
¶601 Income Taxation of an S Corporation	119
¶602 Separately Stated Items	121
¶603 Nonseparately Stated Items	122
¶604 Elections Regarding Gross Income	124
¶605 Capital Gains and Losses	125
¶606 Dealer Transactions	126
¶607 Related-Person Transactions	127
¶608 Property Distributions to Shareholders	128
¶609 Earnings and Profits	129
¶610 Cancellation of Indebtedness	130
¶611 Recharacterization of Capital Transactions	137
¶612 Effect That Bankruptcy or Insolvency Can Have on an S Corporation	137
¶613 Code Sec. 199—Domestic Manufacturing Deduction	138
¶614 Net Operating Losses	138
¶615 Patient Protection and Affordable Care Act of 2010	138
Chapter 6: Test Your Knowledge	141
Chapter 6: Solutions and Suggested Responses	143
Chapter 7: Deductible Expenses	145
¶701 Types of Deductible Expenses	145
¶702 Interest Expense Paid on Investment Debts	146
¶703 Charitable Contributions	147
¶704 Taxes	156
¶705 Trade or Business Expenses	157
¶706 Fringe Benefits	158
¶707 Retirement Plans	159
¶708 Organizational Expenses and Start-up Expenses	166
¶709 Election to Expense Recovery Property (Code Sec. 179)	167
¶710 At-Risk Loss Limitations	171
¶711 Hobby Losses	173
¶712 Losses and Expenses Incurred in Transactions with Shareholders	174
¶713 Vacation Homes, Personal Residences, Boats, and Recreational Vehicles	177
¶714 Corporate Interest	179
¶715 Legal Expenses and Accounting Fees	186
¶716 Reasonable Compensation	186
¶717 Meal and Entertainment Expenses	189
¶718 Nonbusiness Bad Debts	190
¶719 Oil and Gas Depletion	190

¶720 Golden Parachute Payments	190
¶721 Health Savings Accounts (HSAs)	190
¶722 Code Sec. 199—Deduction Relating to U.S. Production Activities	194
¶723 Deferred Compensation Plans	194
¶724 Tax Treatment of Tangible Property—Deduction or Capitalization	202
¶725 Code Sec. 199A—Deduction for Qualified Business Income	228
¶726 Excess Business Losses of Noncorporate Taxpayers	259
Chapter 7: Test Your Knowledge	261
Chapter 7: Solutions and Suggested Responses	267
Appendix 1: Form 2553 - Election by a Small Business Corporation	273
Appendix 2: Consent to Election to Be Treated as an S Corporation	279
Glossary	283
Index	285
Final Exam Copy	287