

Table of Contents

S Corporation Requirements	1
Pros and Cons.....	3
Common Advantages	3
Unique Advantages	5
Common Disadvantages	6
Unique Disadvantages	8
Eligible Corporations	10
Ineligible Corporations.....	10
Number of Shareholders	11
Eligible Shareholders.....	13
One Class of Stock.....	15
S Election	19
Shareholder Consent.....	19
Due Date	20
Inadvertent Invalid Election	23
Late S Election	23
Completing Form 2553	30
S Corporation Requirements Review Questions.....	37
S Corporation Requirements Review Answers	40
Completing Form 1120S	45
Tax Year.....	45
Business Purpose — Automatic Approval.....	46
Business Purpose — Request Approval	47
Section 444.....	49
Accounting Method.....	51
Cash Method	51
Accrual Method.....	54
Heading	55
Income.....	57
Gross Receipts	57
Ordinary Gain (Loss).....	58
Other Income.....	59
Cost of Goods Sold – Form 1125-A	60
Deductions	67
Compensation	67
Repairs and Maintenance.....	70
Bad Debts.....	70
Rents	71
Taxes and Licenses.....	71
Interest.....	72
Depreciation	72

Depletion	79
Advertising.....	79
Qualified Retirement Plans.....	80
Employee Fringe Benefits	81
Other Deductions.....	83
Ordinary Business Income (Loss)	86
Tax and Payments	86
Excess Net Passive Income Tax	87
LIFO Recapture Tax	87
Built-in Gains Tax	88
Payments.....	89
Schedule B — Other Information	91
Schedule L — Balance Sheet	95
Assets.....	95
Liabilities and Shareholders' Equity.....	97
Schedule M-1 — Book vs. Tax.....	99
Schedule M-2 — AAA, OAA, PTI	99
Accumulated Adjustments Account.....	100
Other Adjustments Account.....	102
Previously Taxed Income	104
Schedule M-3	104
Completing the Return	105
Electronic Filing	105
Signing the Return.....	105
Refund	106
Method of Paying Tax Due	106
When to File	106
Where to File	107
Assembling the Return	108
Completing Form 1120S Review Questions	109
Completing Form 1120S Review Answers.....	113
Book-To-Tax Items	119
Completing Schedule M-1	120
Specific Book-To-Tax Items	123
Taxable Income	123
Nondeductible Book Expenses.....	125
Nonrecognized Book Income	128
Tax Deductible Expenses.....	131
Book-to-Tax Items Review Questions	134
Book-to-Tax Items Review Answers	136
Schedules K and K-1.....	139
Information	140
Tax year.....	141
Corporation.....	141

Shareholder	141
Pass-through Items	144
Income (Loss).....	144
Deductions.....	151
Credits	161
Foreign Transactions.....	165
Alternative Minimum Tax (AMT) Items	168
Items Affecting Shareholder Basis	170
Other Information.....	172
Schedule K Income/Loss Reconciliation	175
Schedules K and K-1 Review Questions.....	177
Schedules K and K-1 Review Answers	180
Case Study — S Corp Inc.	183
Appendix	195
Index	211