

Table of Contents

S Corporation Requirements	1
Pros and Cons	3
Common Advantages	3
Unique Advantages	5
Common Disadvantages	7
Unique Disadvantages	8
Eligible Corporations	10
Ineligible Corporations	11
Number of Shareholders	11
Eligible Shareholders	14
One Class of Stock	15
S Election	19
Shareholder Consent	20
Due Date	21
Inadvertent Invalid Election	23
Late S Election	24
Completing Form 2553	27
S Corporation Requirements Review Questions	33
S Corporation Requirements Review Answers	37
Completing Form 1120S	43
Tax Year	43
Business Purpose—Automatic Approval	43
Business Purpose—Request Approval	45
Section 444	47
Accounting Methods	49
Cash Method	50
Accrual Method	53
Heading	54
Income Section	56
Gross Receipts	57
Ordinary Gain (Loss)	58
Other Income	58
Cost of Goods Sold—Form 1125-A	59
Deductions Section	67
Compensation	67

Repairs and Maintenance	70
Bad Debts	79
Rents	79
Taxes and Licenses	80
Interest	81
Depreciation	82
Depletion	89
Advertising	89
Qualified Retirement Plans	89
Employee Fringe Benefits	92
Other Deductions	93
Ordinary Business Income (Loss)	97
Tax and Payments Section	97
Excess Net Passive Income Tax	98
LIFO Recapture Tax	99
Built-in Gains Tax	99
Payments	101
Schedule B—Other Information	102
Schedule K	105
Schedule L—Balance Sheet	105
Assets	106
Liabilities and Shareholders' Equity	108
Schedule M-1—Book vs. Tax	110
Schedule M-2—AAA, OAA, PTI	110
Accumulated Adjustments Account	111
Other Adjustments Account	113
Previously Taxed Income	114
Schedule M-3	115
Completing the Return	116
Electronic Filing	116
Signing the Return	117
Refund	117
Method of Paying Tax Due	117
When to File	118
Where to File	118
Assembling the Return	119

Completing Form 1120S Review Questions	121
Completing Form 1120S Review Answers.	125
Book-To-Tax Items	133
Completing Schedule M-1.	133
Specific Book-To-Tax Items.	136
Taxable Income	136
Nondeductible Book Expenses	138
Nonrecognized Book Income	142
Tax Deductible Expenses	144
Book-To-Tax Items Review Questions	147
Book-To-Tax Items Review Answers	149
Schedules K and K-1	153
Information	154
Tax Year	154
Corporation.	155
Shareholder	155
Pass-through Items	158
Income (Loss)	158
Deductions	166
Credits	175
Foreign Transactions	178
Alternative Minimum Tax Items	182
Items Affecting Shareholder Basis	184
Other Information	186
Schedule K Income/Loss Reconciliation	189
Schedules K and K-1 Review Questions	191
Schedules K and K-1 Review Answers	195
“Qualified Business Income” 20% Deduction For Pass-through Businesses	199
Case Study — S Corp Inc.	201
Appendix	213
Appendix A: Relief for Late S Corporation Elections	213
Appendix B: Business Activity Codes	214
Appendix C: Completed Forms for Case Study	216