

Table of Contents

S Corporation Requirements.....	1
Pros and cons of an S election.....	3
Common advantages.....	3
Unique advantages	4
Common disadvantages	5
Unique disadvantages.....	7
Eligible corporations	8
Ineligible corporations	9
Number of shareholders.....	9
Eligible shareholders.....	11
One class of stock	13
S election	16
Shareholder consent.....	16
Due date.....	17
Completing Form 2553	19
Inadvertent invalid election	25
Late S election	25
Completing Form 1120-S	35
Tax year.....	35
Business purpose—automatic approval.....	35
Business purpose—approval requested.....	36
Section 444	39
Accounting methods.....	40
Cash method	41
Accrual method.....	42
Heading.....	44

Income section	46
Gross receipts.....	46
Ordinary gain (loss).....	47
Other income	47
Cost of goods sold—Form 1125-A	48
Deductions section	56
Compensation	57
Repairs and maintenance.....	59
Bad debts.....	65
Rents	66
Taxes and licenses	66
Interest.....	67
Depreciation.....	70
Depletion.....	76
Advertising	76
Qualified retirement plans	76
Employee fringe benefits	78
Other deductions	80
Ordinary business income (loss)	83
Tax and payments section	83
Excess net passive income tax.....	84
LIFO recapture tax	85
Built-in gains tax.....	85
Payments.....	86
Schedule B—Other Information	88
Schedule K	92
Schedule L—Balance Sheet	92
Assets.....	93
Liabilities and shareholders' equity	95

Schedule M-1 — Book vs. Tax	96
Schedule M-2 — AAA, PTI, AE&P, OAA	97
Accumulated adjustments account	98
Previously taxed income	99
Accumulated earning and profits	100
Other adjustments account	100
Schedule M-3	102
Completing the return	102
Refund	102
Amount owed	102
Signing the return	103
When to file	103
Electronic filing	104
Where to file	105
Assembling the return	106
Book-To-Tax Items.....	116
Schedule M-1	116
Specific book-to-tax items	119
Taxable income	119
Nondeductible book expenses	120
Nonrecognized book income	124
Tax deductible expenses	126
Schedules K and K-1	132
Information	133
Tax year	133
Corporation	134
Shareholder	134
Pass-through items	137
Income (loss)	137
Deductions	144

Credits	150
International transactions	153
Alternative minimum tax items	154
Items affecting shareholder basis	155
Other information	158
Schedule K income/loss reconciliation	166
Case Study—S Corp Inc.....	173
Appendix	184
Appendix A: Relief for Late S Corporation Elections.....	185
Appendix B: Business Activity Codes	186
Appendix C: Completed Forms for Case Study	189
Index.....	202