

# Table of Contents

<b>S Corporation Requirements.....</b>	<b>1</b>
Pros and cons of an S election.....	3
Common advantages.....	3
Unique advantages .....	4
Common disadvantages .....	5
Unique disadvantages.....	6
Eligible corporations .....	8
Ineligible corporations .....	9
Number of shareholders.....	9
Eligible shareholders.....	11
One class of stock .....	12
<b>S election .....</b>	<b>15</b>
Shareholder consent .....	16
Due date .....	17
Completing Form 2553 .....	18
Inadvertent invalid election .....	25
Late S election .....	25
<b>Completing Form 1120-S .....</b>	<b>35</b>
Tax year.....	35
Business purpose—automatic approval .....	35
Business purpose—approval requested .....	36
Section 444 .....	38
Accounting methods.....	40
Cash method .....	40
Accrual method.....	42
Heading.....	43
Income section .....	45
Gross receipts.....	45

Ordinary gain (loss).....	46
Other income .....	47
Cost of goods sold—Form 1125-A .....	48
<b>Deductions section .....</b>	<b>55</b>
Compensation .....	56
Repairs and maintenance.....	58
Bad debts .....	64
Rents .....	65
Taxes and licenses .....	65
Interest.....	66
Depreciation.....	69
Depletion.....	75
Advertising .....	75
Qualified retirement plans .....	75
Employee fringe benefits .....	77
Other deductions .....	78
Ordinary business income (loss) .....	82
<b>Tax and payments section .....</b>	<b>82</b>
Excess net passive income tax.....	82
LIFO recapture tax .....	83
Built-in gains tax.....	84
Payments.....	85
<b>Schedule B—Other Information.....</b>	<b>86</b>
<b>Schedule K .....</b>	<b>90</b>
<b>Schedule L—Balance Sheet .....</b>	<b>90</b>
Assets.....	90
Liabilities and shareholders' equity .....	92
<b>Schedule M-1—Book vs. Tax .....</b>	<b>94</b>
<b>Schedule M-2—AAA, PTI, AE&amp;P, OAA .....</b>	<b>94</b>
Accumulated adjustments account .....	95

Previously taxed income .....	96
Accumulated earning and profits .....	97
Other adjustments account .....	97
<b>Schedule M-3 .....</b>	<b>100</b>
<b>Completing the return .....</b>	<b>100</b>
Refund .....	100
Amount owed .....	100
Signing the return.....	101
When to file .....	101
Electronic filing .....	102
Where to file.....	103
Assembling the return .....	103
<b>Book-To-Tax Items.....</b>	<b>113</b>
Schedule M-1 .....	113
Specific book-to-tax items .....	116
Taxable income .....	116
Nondeductible book expenses.....	117
Nonrecognized book income .....	121
Tax deductible expenses .....	123
<b>Schedules K and K-1 .....</b>	<b>131</b>
Information.....	131
Tax year .....	131
Corporation.....	131
Shareholder .....	132
Pass-through items .....	135
Income (loss) .....	135
Deductions.....	141
Credits .....	146
International transactions .....	149
Alternative minimum tax items .....	149

Items affecting shareholder basis .....	151
Other information .....	153
Schedule K income/loss reconciliation .....	161
<b>Case Study—S Corp Inc.....</b>	<b>167</b>
<b>Appendix .....</b>	<b>179</b>
Appendix A: Relief for Late S Corporation Elections.....	180
Appendix B: Business Activity Codes .....	181
Appendix C: Completed Forms for Case Study .....	184
<b>Index.....</b>	<b>197</b>