

Addendum: Trending Topics and Tax Strategies

Revision 1

The sales price for the S corporation should be \$870,000 versus \$800,000.

Page 247

Sophia, a single taxpayer who is a U.S. citizen, was the sole owner of Sophia's Boutique, an S corporation. In 2022, she sold the business via a stock sale on July 1 to an unrelated individual. The sale price was \$870,000 with selling expenses of \$35,000. Her stock basis was \$325,000 prior to the sale. Her Schedule K-1 (Form 1120-S) reporting the activity while she owned the entity is shown below.

Net Investment Income Tax Liquidation

Net Investment Income Tax

The net investment income tax (NIIT) has been around since Jan. 1, 2013. The tax is 3.8% of certain net investment income (NII) for individuals, estates and trusts that have income above statutory thresholds. It is in addition to any regular tax and alternative minimum tax (AMT). The tax is calculated using Form 8960, *Net Investment Income Tax Individuals, Estates, and Trusts*, and carries to Schedule 2 (Form 1040), Line 12.

To start this section, we will introduce a case study and analyze whether the taxpayer is subject to NIIT, and if so, what is the tax implication. For the purpose of this text, we will focus on the impacts on individual taxpayers.

Case study _____

Sophia, a single taxpayer who is a U.S. citizen, was the sole owner of Sophia's Boutique, an S corporation. In 2022, she sold the business via a stock sale on July 1 to an unrelated individual. The sale price was \$870,000 with selling expenses of \$35,000. Her stock basis was \$325,000 prior to the sale. Her Schedule K-1 (Form 1120-S) reporting the activity while she owned the entity is shown below.

Revision 2

The example was updated to remove the reference regarding whether the activity would be subject to PAL rules.

Page 100

Sophia owns rental property, which she rents to her son Oliver. Oliver has no ownership interest in the property. Oliver uses the property as his main home. He pays Sophia FRV for the property.

Oliver's use of the property is not personal use by Sophia because Oliver is using the property as his main home, is paying FRV and has no ownership interest in the property.

Sophia would report the income and expenses on Schedule E.

Example

Sophia owns rental property, which she rents to her son Oliver. Oliver has no ownership interest in the property. Oliver uses the property as his main home. He pays Sophia FRV for the property.

Oliver's use of the property is not personal use by Sophia because Oliver is using the property as his main home, is paying FRV and has no ownership interest in the property.

Sophia would report the income and expenses on Schedule E.