

Index

A

A REORGANIZATIONS

See also index headings CONSOLIDATIONS;
MERGERS

Acquiring corporations, S status election, **13:8**

Allocations of income and loss items, **13:12**

Appreciated property distributed, **13:14**

Boot received, dividend treatment by shareholders, **13:14**

Built-in gains tax, effect on, **13:11**

Business purpose requirement, **13:6**

Carryover of corporate preference items, **13:16**

Carryover of unused losses, **13:13**

Continuity of business enterprise requirement, **13:6**

Continuity of interest requirement, **13:6**

Corporate income determination and realization, S corporation as shareholder (prior law), **7:14**

Defined, **13:1**

E&P acquired by S corporation, **13:9**

Former Section 1374 tax liability, **13:15**

Forward triangular merger, **13:17**

General business credit carryovers, **13:9**

Net operating loss carryovers, **13:9**

Nondivisive D reorganizations, similarities, **13:37**

Reorganization effect on AAA, **10:23**

Reverse triangular merger, **13:18**

S corporations application, **13:7**

Statutory mergers and consolidations, **13:6**

Statutory requirements, **13:6**

Tax attributes carryover, **13:9**

AAA

Adjustments

increases and decreases to basis,
10:18 to 10:26

AAA—Cont'd

Adjustments—Cont'd

redemption distributions, **10:21**

Unused losses

carryforward, **13:13**

reorganization, **13:13**

AAA BYPASS ELECTION

Distributions by corporations with accumulated E&P

alternatives to cash distributions,
10:41

election to treat distributions as dividends, **10:40**

ACCELERATED PARTIAL REPAYMENTS OF DEBT

Pass-through losses, limitations on shareholder use of, **9:27**

ACCIDENT BENEFITS

Compensation, fringe benefits, **11:22**

ACCOMMODATION PARTIES

Pass-through losses, limitations on shareholder use of, **9:17**

ACCOUNTING

Post-termination transition period, **16:54**

ACCOUNTING METHOD

Accrual method, change of status, **16:30**

Compensation, timing considerations,
11:4

Converted C corporation

related party transactions, **8:18**

S election impact, **8:19**

Corporate income determination and realization, **7:11**

Farming business, **7:11**

Fiscal year, natural business year test,
4:5

5 million dollar receipts limit, **16:30**

Organization of S corporation

accounting method choice, **5:39**

ACCOUNTING METHOD—Cont'd

- Organization of S corporation—Cont'd
 - adoption, **5:40**
 - change, **5:41**
 - taxable year choice, **5:36**
- Reserve method, banks, ineligible corporation, **3:4**
- S corporation advantage vs C corporation, **2:45**
- Selection of, **2:20**
- Tax shelter status, **16:30**

ACCOUNTS RECEIVABLE

- Built-in gains tax
 - cash-method corporation, **8:39**
 - recognition events, **8:35**
- Transfer of property to S corporation, definition of property, **5:23**

ACCRUAL BASIS TAXPAYERS

- Installment method, **14:10**

ACCRUAL METHOD OF ACCOUNTING

- C corporation, **2:20**
- Compensation, timing considerations, **11:4**
- Converted C corporation
 - related party transactions, **8:18**
 - S election impact, **8:19**
- Corporate income determination and realization, **7:11**
- Farm-related deductions, S corporation special treatment, **7:46**
- Organization of S corporation, accounting method choice, **5:39**
- Partnership with C corporation partner, **2:20**
- Related party transactions, **8:18**
- Securities laws, accounting method choice, **5:39**
- Tax shelter, **2:20**

ACCUMULATED ADJUSTMENTS ACCOUNT

- Adjustments during post-termination transition period, **16:54**
- Adjustments for shareholder-level items, **10:20**
- Adjustments required by tax credits, **7:79**

ACCUMULATED ADJUSTMENTS

ACCOUNT—Cont'd

- Appreciated property distributed in redemption of stock, **12:14**
- A reorganization effect, **13:10**
- Asset acquisitions, distributions by acquiring S corporation, **15:35**
- Boot distribution in excess of, **13:14**
- C reorganization, **13:30**
- Cash distribution in redemption of stock, **12:14**
- Collateral effects of tax item pass-through, **7:88**
- Compensation
 - by loss corporation with C history shareholder with stock basis, **11:17**
 - shareholder without stock basis, **11:18**
 - by profitable corporation with C history shareholder with stock basis, **11:15**
 - shareholder without stock basis, **11:16**
 - recharacterization as distributions, **11:19**
- Converted C corporation, earnings and profits, **8:24**
- Declaration of distribution effect, **10:45**
- Depreciated property distributed in redemption of stock, **12:14**
- Distributions
 - cash distributions consequences to S corporation, **10:5**
 - computation of AAA generally, **10:20**
 - corporations, **2:25**
 - distributions effect on AAA, **10:21**
 - information required on schedules of Form 1120-S, **10:56**
 - multiple, in excess of AAA, **10:34**
 - nature of AAA, **10:19**
 - previously taxed income, **10:39**
 - purposes for AAA, **10:18**
 - redemptions effect on AAA, **10:22**
 - S corporation consequences, **10:12**
 - S corporation with accumulated E&P, **10:3**
 - timing of adjustments to AAA, **10:37**
 - transfer or issuance of shares, **10:24**

INDEX

ACCUMULATED ADJUSTMENTS

ACCOUNT—Cont'd

- Distributions by corporations with accumulated E&P
 - generally, **10:30**
 - election to treat distributions as dividends, **10:40**
 - tax-exempt income and related expenses, **10:38**
- Divisive D reorganizations, corporate separations, **13:42**
- Election to bypass
 - generally, **17:4**
 - post-termination transition period, **17:8**
 - shareholder consent, **17:20**
- Election to bypass PTI, **17:5**
- Election to close books, **10:32**
- Election to make deemed distributions
 - generally, **10:41**
 - procedural considerations, **17:6**
- Estates
 - allocation of income or loss, **19:6**
 - carryover of unused losses, **19:7**
 - stock transfer, **19:11**
- Excess passive investment income, planning considerations, **8:81**
- F reorganizations, carryover, **13:50**
- Liquidation effect, **14:11**
- Losses in excess of basis, **10:20**
- Merger of accounts in reorganization, **10:23**
- Merger or consolidation of S corporations, **13:10**
- Multiple distributions exceeding AAA, redemptions, **10:37**
- Nontaxable dividends, **12:7**
- Partial liquidations, effect on
 - generally, **12:29**
 - appreciated property distributed, **12:25**
 - depreciated property distributed, **12:25**
- Post-termination transition period
 - distribution treated as dividend, **17:8**
 - shareholder consent, **17:23**
- Practice tip, transfer or issuance of shares, **10:24**
- Purpose of account, **10:18**
- Redemptions of interest, **2:34**

ACCUMULATED ADJUSTMENTS

ACCOUNT—Cont'd

- Redemptions of stock
 - generally, **12:11**
 - distribution treatment, **12:20**
 - exchange treatment effect, **12:20**
 - Reorganization effect on, **10:23**
 - S status termination carryover effect, **16:40**
 - Sale of stock effect, **12:7**
 - Shareholder agreements
 - cross-purchase agreement, **18:3**
 - distributions after termination of S status, **18:27**
 - election to treat distribution as dividend, **18:26**
 - life insurance
 - cross-purchase agreement, **18:4**
 - redemption agreement, **18:6**
 - redemption agreement, **18:5**
 - Shareholders with different taxable years, **10:44**
 - Spin-off, **13:42**
 - Split-up, **13:42**
 - Stock acquisitions
 - AAA balance, **15:10**
 - pre and post-acquisition distributions, **15:13**
 - redemption effects, **15:17**
 - Subchapter S Revision Act of 1982, **1:29**
 - Tax-free distributions after B reorganization, **13:25**
 - Transfer of shares
 - allocating corporate items, **12:6**
 - election to close books, **10:32**
 - shareholder gain or loss, **12:2**
- ### ACCUMULATED EARNINGS AND PROFITS
- See also index heading EARNINGS AND PROFITS
 - Accumulated adjustments account, purposes for AAA, **10:18**
 - Adjustments
 - corporate transactions, **10:15**
 - distributions, **10:14**
 - investment tax credit recapture, **10:16**
 - lack of other, **10:17**

ACCUMULATED EARNINGS AND PROFITS—Cont'd

- A reorganization, boot distribution in excess of, **13:14**
- Asset acquisitions, assets that generate passive income, **15:22**
- Distributions
 - generally, **10:13**
 - cash distributions consequences, **10:5**
 - corporation without accumulated E&P, **10:28**
 - information required on schedules of Form 1120-S, **10:56**
 - S corporation without accumulated E&P, **10:2**
- Distributions by corporations with accumulated E&P
 - generally, **10:30**
 - alternatives to cash distributions, **10:41**
 - differentiating Subchapter C and S, **10:43**
 - election to treat distributions as dividends, **10:40**
 - elimination of Subchapter S E&P, **10:42**
 - multiple distributions that exceed AAA, **10:34**
 - redemptions, **10:37**
 - Subchapter C and S accumulated E&P, **10:43**
 - tax-exempt income and related expenses, **10:38**
 - timing of distributions, **10:36**
 - transfers of stock, **10:35**
- Distributions by corporations with no accumulated E&P
 - generally, **10:28**
 - differing bases in stock, **10:29**
 - timing of adjustments to basis, **10:30**
 - transfers of shares before end of year, **10:32**
- Excess passive investment income tax, purpose and scope of tax, **8:51**
- Executive compensation, restricted stock plans, **11:29**
- Investment tax credit recapture, **12:20**
- Partial liquidations
 - generally, **12:29**

ACCUMULATED EARNINGS AND PROFITS—Cont'd

- Partial liquidations—Cont'd
 - appreciated property distributed, **12:25**
 - depreciated property distributed, **12:25**
- Redemptions of stock
 - generally, **12:11**
 - exchange treatment, **12:20**
- S corporation distributions
 - current distributions, **2:25**
 - redemption of interests, **2:34**
- S corporation in real estate activities, tax on excess passive income, **20:78**
- Sale of S corporation stock, **12:7**
- Shareholder agreements
 - cross-purchase agreement, **18:3**
 - election to treat distributions as dividends, **18:26**
 - life insurance
 - cross-purchase agreement, **18:4**
 - redemption agreement, **18:6**
 - redemption agreement, **18:5**
 - termination of S corporation status, **18:18**
- Stock acquisitions
 - AAA balance, **15:10**
 - nature of assets acquired, **15:43**
 - redemption effects, **15:17**

ACCUMULATED EARNINGS TAX

- Application, source income of foreign corporations, **20:54**
- C corporations, risk of loss of tax-favored status, **2:29**
- S corporation advantage vs C corporation, **2:44**
- S election consequences, **7:3**
- Shareholder agreements, distributions after termination of S status, **18:27**

ACCUMULATED E&P ACCOUNT

- Collateral effects of tax item pass-through, **7:88**
- Converted C corporation, **8:24**
- Distributions, information required on schedules of Form 1120-S, **10:56**

ACQUIRING CORPORATIONS

- A reorganizations
 - accumulated adjustments account, **13:10**

INDEX

ACQUIRING CORPORATIONS

—Cont'd

- A reorganizations—Cont'd
 - deduction of unused losses, **13:13**
 - earnings and profits carryover, **13:9**
 - general business credit carryovers, **13:9**
 - income and loss items allocation, **13:12**
 - net operating loss carryovers, **13:9**
 - post-reorganization distributions, **13:14**
 - tax-free cash distributions, **13:14**
- Assets received subject to liabilities, **13:1**
- B reorganizations
 - allocation of tax items, **13:23**
 - avoidance of S election termination, **13:20**
 - corporate tax attributes, carryover, **13:22**
 - distribution of undistributed taxable income, **13:25**
 - S status termination, **13:20**
 - short S taxable year, **13:23**
 - unused losses, carryover, **13:24**
- Built-in gain tax liability, **13:11**
- C corporations
 - cash distributions during post-termination transition period, **13:14**
 - five-year waiting period, **13:8**
- C reorganizations
 - allocation of tax items, **13:32**
 - corporate preference items carryover, **13:36**
 - distributions, **13:34**
 - re-election of S status, **13:28**
 - S election termination, **13:27**
- Carryover basis in property received, **13:1**
- Debt of target corporation treated as second class of stock, **13:7**
- Distribution of stock and securities by target S corporation, **13:14**
- Gain or loss recognition on distribution of stock, **13:1**
- Holding period for property received, **13:1**

ACQUIRING CORPORATIONS

—Cont'd

- Re-election of S status after termination, **13:8**

ACQUISITION DEBT

- Converted C corporation, S election impact, **8:14**
- Interest deduction after S status termination, **16:35**

ACQUISITION INDEBTEDNESS

- Asset acquisitions, **15:37**
- Interest deductions, stock acquisitions, **15:5**
- Second class of stock, acquiring corporation S election effect, **15:21**
- Stock acquisitions, acquiring corporation S status effect, **15:41**

ACQUISITIONS

- Debt-financed, **9:90**
- Distributions before and after acquisition, **15:13**
- Oil and gas property, adjustments to basis, **20:18**
- Operating assets, prior law exception to affiliated group limitation, **3:8**
- Prior ownership of entity, prior law exception to affiliated group limitation, **3:8**
- Section 338
 - election, **15:52**
 - election by S corporation, **15:52**
- Stock of target corporation, prior law exception to affiliated group limitation, **3:9**

ACTIVE BUSINESS COMPUTER SOFTWARE ROYALTIES

- Excess passive investment income, **8:68**

ACTIVITY

- Oil and gas property held by S corporation
 - at risk rules, **20:25**
 - passive loss rules, **20:25**

“ACTUAL ECONOMIC OUTLAY” DOCTRINE

- Pass-through losses, limitations on shareholder use of, **9:38, 9:39**

ADDITIONAL STOCK

Pass-through losses, limitations on shareholder use of, **9:36**

ADDRESS

QSST election by current income beneficiary
affirmative refusal to consent, **6:62**
revocation, **6:63**
separate written statement, **6:53**

ADJUSTED BASIS

Accumulated adjustments account
computation of AAA, **10:20**
nature of AAA, **10:19**
timing of adjustments to AAA, **10:25**
Accumulated earnings and profits, adjustments for distributions, **10:14**
Adjustments for partnerships and S corporations, differences, **2:25**
Built-in gains tax
excess recognized built-in gain, **8:39**
net unrealized built-in gain, **8:32**
planning considerations, **8:50**
Discharge of indebtedness
corporate income determination, **7:9**
debt owed to shareholders, **5:17**
Distributions to shareholders
timing of adjustments to basis, **10:30**
transfers of shares before end of year, **10:32**
Encumbered property transfer, recognition of gain or loss, **2:11**
Estates
allocation of income or loss, **19:6**
carryover of unused losses, **19:7**
Excess passive investment income, sales and exchanges of stock or securities
generally, **8:56**
special rules, **8:69**
Liquidation, carryover of unused losses, **14:20**
S corporation as shareholder, prior law, **7:14**
S corporation stock
loss deduction limitation on redemption of stock, **12:12**
loss deduction limitation on sale of stock, **12:4**
redemption, **12:11**

ADJUSTED BASIS—Cont'd

S corporation stock—Cont'd
sale, **12:2**
Section 1244 stock
computation of ordinary loss, **5:35**
property valuation, **5:32**
Shareholder agreements
cross-purchase agreement, **18:3**
distributions of appreciated property, **18:25**
redemption agreement, **18:5**

ADJUSTED HIGHEST SECTION TAX RATE

Section 444 election required payments liability, **4:32**

ADJUSTMENTS

Accumulated adjustments account
collateral effects of tax item pass-through, **7:88**
distributions, **10:14**
redemptions effect on AAA, **10:22**
shareholder-level items, **10:20**
Subchapter C taxes, **10:20**
tax-exempt income and deductions, **10:20**
timing of adjustments to AAA, **10:25**
Basis of S corporation stock
redemptions, **12:11**
sales of stock, **12:2**
Built-in gains tax
excess recognized built-in gain calculation, **8:39**
net unrealized built-in gain, **8:32**
Compensation, reallocation of income among family members, **11:6**
Corporate income, pass through tax credits, **7:79**
Declaration of distribution effect, **10:45**
Deductions, tax preference items, **7:45**
Multiple distributions exceeding AAA, redemptions, **10:37**
Pass-through losses. See index heading
PASS-THROUGH LOSSES, LIMITATIONS ON
SHAREHOLDER USE OF
Post-termination transition period, **16:54**
Required by IRS after inadvertent termination, **16:60**
Shareholder agreements, termination of S status, **18:18**

INDEX

ADJUSTMENTS—Cont'd

- Taxable income
 - built-in gains tax, **8:40**
 - tax preference items, **7:45**

ADMINISTRATION OF ESTATE

- Estates as direct shareholders, **19:2**

ADMINISTRATIVE POWERS

- Estates
 - fiduciary considerations when S status exists, **19:12**
 - personal representatives, **19:16**
- Grantor trusts, permissible and impermissible shareholders, **3:21**
- Irrevocable trusts, estate planning, **19:50**

ADMINISTRATIVE PROCEDURE ACT

- Generally, **7:58**

ADMINISTRATORS

- Consent to S election by shareholders decedents' estates, **6:29**
- testamentary trusts, **6:30**

ADVERTISING

- Excess passive investment income, real property rents (prior law), **8:64**

AFFILIATED GROUP LIMITATION (PRIOR LAW)

- Administrative exception, momentary affiliations, **3:9**
- Affiliated group membership tests, **3:7**
- Asset acquisitions, ineligible shareholders, **15:19**
- Coping with, **3:11**
- Electing S status, election by former member of affiliated group, **6:12**
- Judicial exception, **3:10**
- Momentary affiliations, **3:9**
- Statutory exception (prior law), inactive subsidiary, **3:8**
- Substantial ownership of corporate subsidiary, **3:7**

AFFILIATED GROUP LIMITATION RULE

- Repeal of former IRC Section 1361(c)(6), **21:1**

AFFILIATED GROUP MEMBERSHIP

- Background, **21:1**

AFTERBORN CHILDREN

- QSST election subsequent to S election, **6:50**

AGENTS

- Consent to S election, identity of shareholders, **6:25**
- Permissible and impermissible shareholders
 - corporations, **3:15**
 - individuals, **3:12**
 - nonshareholders, **3:14**
- Power of attorney, consent to S election by shareholders, **6:40**
- Shareholder agreements, electing S status, **18:8**
- Shareholder number limitation, **3:37**

AGGREGATE BASIS

- Distributions to shareholders, differing bases in stock, **10:29**

AGGREGATE THEORY OF PARTNERSHIPS

- Compensation, fringe benefits, **11:22**

AGGREGATE TREATMENT

- S corporation in oil and gas context, **20:13**

AGGREGATION OF ACTIVITIES

- At risk rules, **2:26, 9:56**

AGREEMENTS

- Separation, shareholder number limitation, **3:37**
- Shareholder
 - revocation of QSST election, **6:63**
- State tax burden of shareholder, **3:51**
- Trusts
 - QSST single income beneficiary, **19:21**
 - Section 678 trusts, **19:18**
 - taxable as associations, **19:43**
- Voting trusts, requirements for holding stock, **3:25**

AIRPLANE CHARTER

- Excess passive investment income, service fee distinguished from rent, **8:67**

ALCOHOL FUELS CREDIT

Adjustments required by tax credits,
7:79

Election, **17:14**

ALIMONY

Personal deductions, S corporation
special treatment, **7:29**

ALLOCATIONS

Accumulated adjustments account,
transfer or issuance of shares,
10:24

Asset acquisitions

acquiring corporation S status
generally, **15:28**

termination, **15:29**

selling corporation S status

maintenance, **15:30**

termination, **15:31**

Basis among classes of stock received in
reorganization, **13:1**

Below-market debt, interest, **5:19**

Corporate gain or losses, income on
repayment of debt, **5:15**

Credits, pass through, **7:78**

Disproportionate allocation of tax items
partnership of S corporations, **2:2**

S corporation disadvantage vs
partnership/ LLC, **2:67**

Earnings and profits, divisive D
reorganizations, **13:41**

Election to close books on transfer of
shares, seller and purchaser, **7:71**

Estates

allocation of income or loss, **19:6**

stock transfer, **19:11**

termination of S election, **19:10**

Family S corporation, tax savings
potential, **19:62**

General rules of Section 1366(a), other
general business credits, **7:82**

Income and loss items

A reorganizations, **13:12**

B reorganizations, **13:23**

C reorganizations, **13:32**

divisive D reorganizations, **13:44**

Income shifting, estate planning, **19:49**

Liquidations, **14:9**

Mineral exploration expenditures, S
corporation special treatment, **7:35**

ALLOCATIONS—Cont'd

Multiple distributions exceeding AAA
redemptions, **10:37**

transfers of stock, **10:35**

Partnership interest, exchange for ser-
vices, **2:13**

Partnership of S corporations,
disproportionate allocation of tax
items, **2:2**

Pass through tax items, among
shareholders, **7:70**

Pass-through losses. See index heading
PASS-THROUGH LOSSES, LIMITATIONS ON
SHAREHOLDER USE OF

Reforestation expenditures, controlled
group, **7:42**

S corporations carrying on oil and gas
activities

depletable basis to shareholders,
20:18

IDC recapture, **20:23**

S corporations used in syndications,
20:5

S election termination during taxable
year, **7:72**

Sale of mining property, mineral explo-
ration expenditures recapture, **7:35**

Section 1366(e) impact, stock owner-
ship, **5:10**

Shareholder agreements

termination of S corporation status,
18:21

termination of shareholder's interest,
18:22

Shareholders with different taxable
years, **10:44**

Special allocations

mineral exploration expenditures,
7:35

organization of S corporation, **5:11**

partnership of S corporations, **2:2**

Stock acquisitions, acquired S
corporation's tax items, **15:12**

Tax items

comparison of business entities, **2:24**

partial liquidations, **12:26**

redemptions of stock, **12:16**

S termination year, **16:22**

year of sale of S corporation stock,
12:6

INDEX

ALTERNATIVE MINIMUM TAX

- Generally, **7:44**
- Converted C corporation, minimum taxes, **8:27**
- Mining development expenses under Section 616, **7:45**
- Pass-through losses, limitations on shareholder use of, **9:14**
- S corporation advantage vs C corporation, **2:44**
- S corporation disadvantage vs C corporation, **2:54**
- Shareholder election, **17:27**
- Shareholder-level elections, **7:45**
- Targeted jobs credit, **7:45**
- Tax preference items, S corporation special treatment, **7:45**

ALTERNATIVE MINIMUM TAXABLE INCOME

- Tax elections at shareholder level, **7:76**
- Tax preference items, S corporation special treatment, **7:45**
- Termination of S status, **16:28**

AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA)

- Built-in gains tax, temporary reduction in recognition period provided by Act (prior law), **8:34**

AMORTIZATION

- Earnings and profits, distributions to S corporation, **10:17**
- Mineral exploration expenditures, foreign properties, **7:35**
- Organizational expenditures, S corporation special treatment, **7:21**
- Organizational expenses election, **17:16**
- Pass-through losses, limitations on shareholder use of, **9:14**
- Pollution control facilities election, **17:16**
- Reforestation expenditures, S corporation special treatment, **7:42**
- Start-up expenses election, **17:16**

AMOUNT OF PASS THROUGH OF TAX ITEMS

- Shareholders, **7:68**

AMOUNT OF RISK

- Pass-through losses. See index heading
PASS-THROUGH LOSSES, LIMITATIONS ON
SHAREHOLDER USE OF

ANCESTOR

- Compensation, reallocation of income among family members, **11:6**

ANNUAL BONUS PLAN

- Executive compensation, nonstock incentive programs, **11:36**

ANNUAL TAX RETURN REQUIREMENT

- Section 444 election, **4:42**

ANNUITIES

- Excess passive investment income
passive investment income defined, **8:58**
special rules, **8:59**

ANTI-ABUSE RULE

- Section 444 election Regulations
prior-election limitation, **4:13**
tiered-structure limitation, **4:14**

APARTMENT HOUSES

- Excess passive investment income, real property rents (prior law), **8:64**

APPEALS

- Consolidated audit and refund
procedures (prior law), deficiency
procedures, **17:47**

APPLICABLE PERCENTAGE

- Section 444 election required payments
liability, **4:33**

APPORTIONMENT

- Interest on acquisition debt, **2:18**
- Multiple distributions that exceed AAA, **10:34**
- S election consequences, **7:3**

APPRAISALS

- Built-in gains tax
excluded assets, **8:36**
net unrealized built-in gain, **8:32**

APPRECIATED ASSETS

- Built-in gains tax
planning considerations, **8:50**

APPRECIATED PROPERTY

- Accumulated earnings and profits, adjustments for distributions, **10:14**
- A reorganization distribution, **13:14**
- Distribution by S corporation in redemption of stock
 - accumulated adjustments account increase, **12:20**
 - accumulated earnings and profits, **12:20**
 - income and loss of S corporation, **12:14**
- Divisive D reorganization distribution, **13:45**
- Double taxation, avoidance of, **2:41**
- Double taxation on distribution of appreciated property, avoidance of, **2:31**
- ESOPs, stock appreciation rights, **11:38**
- Income from corporate distributions, **7:12**
- Partial liquidation distributions, **12:25**
- Partnership of S corporations, tax-free transfer to, **20:31**
- Property distributions, gain recognition rule consequences, **10:8**
- Shareholder agreements, distributions, **18:25**

APPRECIATED SECURITIES

- Capital gains tax, impact of tax under Section 1375, **8:90**
- Excess passive investment income, impact of tax under Section 1374, **8:78**

APPRECIATED STOCK

- A reorganizations
 - acquiring corporations, S Status election, **13:8**
 - allocations of S corporation income and loss, **13:12**
 - appreciated property distributed, **13:14**
 - boot received, dividend treatment by shareholders, **13:14**
 - built-in gains tax, effect on, **13:11**
 - business purpose requirement, **13:6**
 - carryover of corporate preference items, **13:16**
 - carryover of unused losses, **13:13**

APPRECIATED STOCK—Cont'd

- A reorganizations—Cont'd
 - continuity of business enterprise requirement, **13:6**
 - continuity of interest requirement, **13:6**
 - corporate income determination and realization, S corporation as shareholder (prior law), **7:14**
- Built-in gains tax, **8:48**
- Capital gains tax, impact of tax under Section 1375, **8:90**
- Excess passive investment income, impact of tax under Section 1374, **8:78**

ARROWSMITH DOCTRINE

- Capital gain and loss, S corporation special treatment, **7:36**

ARTICLES OF INCORPORATION

- Disproportionate distributions, **10:47**
- Single-class-of-stock requirement
 - generally, **3:48**
 - economic rights, **3:51**

ASSET ACQUISITIONS

- Acquiring corporation corporate level taxes
 - built-in gain, **15:25**
 - passive income generating assets, **15:26**
- Acquiring corporation S election effect
 - general considerations, **15:18**
 - ineligible shareholders, **15:19**
 - numerical shareholder limitation, **15:20**
 - passive income assets, **15:22**
 - reelection of S status, **15:23**
 - second class of stock, **15:21**
- Acquisition indebtedness, **15:37**
- Allocation of tax items of selling S corporation
 - S status maintenance, **15:30**
 - termination of S status, **15:31**
- Distributions
 - acquiring S corporation, **15:35**
 - selling corporation, **15:36**
- Post-termination transition period
 - distributions, **15:32**
 - losses, **15:34**

INDEX

ASSET ACQUISITIONS—Cont'd

- Post-termination transition period—Cont'd
 - termination of S status, **16:49**
- Selling corporation corporate level taxes, Sections 1374 and 1375, **15:27**
- Selling corporation S election effect, acquisition of assets, **15:24**

ASSETS

- Built-in gains tax
 - excess recognized built-in gain, **8:39**
 - excluded assets, **8:36**
 - installment sales, **8:38**
 - net recognized built-in gain, **8:42**
 - net unrealized built-in gain, **8:32**
 - planning considerations, **8:50**
 - recognition events, **8:35**
- Converted C corporation, acquisition debt, **8:14**
- Corporate income determination and realization, S corporation shareholder, prior law, **7:14**
- Depreciated, net unrealized built-in gain, **8:32**
- Excess passive investment income, planning considerations, **8:81**
- Intangible, net unrealized built-in gain, **8:32**
- Investment tax credit recapture
 - definition, **5:26**
 - requirements for avoiding on property transfer, **5:26**
- Valuation, net unrealized built-in gain, **8:32**

ASSIGNEE

- Trusts as S corporation shareholders, QSST single income beneficiary, **19:21**

ASSIGNMENT OF INCOME DOCTRINE

- Excess passive investment income, definition generally, **8:54**
- Shifting income between shareholder and corporation, **7:17**

ASSIGNMENT OF INTEREST DOCTRINE

- Nonrecognition treatment on transfer of property, exception, **5:27**

ASSIGNMENTS

- Split interests, permissible and impermissible shareholders, **3:19**
- Trusts as S corporation shareholders, QSST single income beneficiary, **19:21**

ASSISTANT TREASURER

- Electing S status, execution of election form, **6:4**
- Section 444 election execution, **4:18**

ASSOCIATES

- Trusts as S corporation shareholders, trusts taxable as associations, **19:43**

ASSOCIATIONS

- Corporate characteristics
 - classification of entity, **2:6**
 - risk of loss of tax favored status of entity, **2:29**
- Corporate tax
 - Section 11(a), **2:5**
 - Section 7701(a)(3), **2:4**
- Corporations, permissible and impermissible shareholders, **3:15**
- Domestic corporation requirement, **3:2**
- S corporation advantage vs partnership, **2:51**
- Trusts, permissible and impermissible shareholders, **3:20**
- Trusts as S corporation shareholders, taxable as associations, **19:43**

ASSUMPTION OF SHAREHOLDER'S INDEBTEDNESS

- Pass-through losses, limitations on shareholder use of, **9:38**

ASSUMPTIONS METHOD

- Depletion of oil and gas property, **20:18**

AT RISK RULES

- Applicability to business entities, **2:27**
- Built-in gains tax, taxable income, **8:40**
- Converted C corporation
 - computation of income, **8:16**
 - other Subchapter C attributes, **8:26**
- Discharge of indebtedness, corporate income determination and realization, **7:9**
- Excess passive investment income, taxable income, **8:71**

AT RISK RULES—Cont'd

- Loss carryover on S status termination, **16:42**
- Net operating losses, S corporation special treatment, **7:20**
- Oil and gas properties owned by S corporations, **20:25**
- Pass-through losses. See index heading PASS-THROUGH LOSSES, LIMITATIONS ON SHAREHOLDER USE OF
- Practice tips
 - aggregation of activities, **2:27**
 - C corporation, **2:27**
- Research and development credits generally, **20:99**
- S corporation conducting real estate activities, **20:81**
- Stock acquisitions, effect on S stock purchaser, **15:7**
- Tax preference items, S corporation special treatment, **7:45**

ATTORNEY-IN-FACT

- Shareholder agreements, electing S status, **18:8**

ATTORNEYS

- Power of attorney, consent to S election by shareholders, **6:40**

ATTRIBUTION RULES

- Determining number of shareholders, **3:36, 3:37, 16:13**

AUDITS

- See also index heading CONSOLIDATED AUDIT AND REFUND PROCEDURES
- Cash mergers, termination of S status in forward cash merger, **17:41**
- Determination of tax, **17:36**
- Interest, **17:44**
- Partnership audit rules, **17:45**
- Penalties, **17:44**
- Post-1996 consistency rule, **17:39**
- Post-termination transition period, determinations affecting time period, **16:48**
- Rule of consistency, **17:36**
- Small business carry backs for 2008, **17:40**
- Statute of limitations, **17:42, 17:43, 17:53**

AUDITS—Cont'd

- Unified audit procedures, **17:36**

AUTOMATIC REDEMPTION

- Corporate income and determination, S corporation as shareholder (prior law), **7:14**
- Corporate income determination and realization, S corporation as shareholder (prior law), **7:14**
- Corporate tax attributes carryover, **13:22**
- Reorganization effect on AAA, **10:23**
- S corporation as shareholder (prior law), **7:14**
- S corporation target, S election termination, **13:20**
- S status re-election, five-year waiting period, **13:21**
- Short taxable year, **13:23**
- Stock for stock acquisitions generally, **13:19**
- Unused losses, carryover, **13:24**

B

B REORGANIZATIONS

- Acquiring corporation effect on S status, **18:10**
- Allocation of tax items, **13:23**
- Avoidance of S election termination, **13:20**
- Corporate tax attributes, carryover, **13:22**
- Distribution of undistributed taxable income, **13:25**
- Election for s status, re-election after B reorganization, **13:21**
- Five-year waiting period, **13:21**
- S corporation as shareholder (prior law), **7:14**
- S status termination, **13:20**
- Short S taxable year, **13:23**
- Target corporations
 - allocation of tax items, **13:32**
 - distributions, **13:34**
 - liquidation following reorganization, **13:27**
 - S election termination, **13:27**
- Unused losses, carryover, **13:24**
- Voting stock, **13:19**

INDEX

BACK-TO-BACK LOAN APPROACH

Pass-through losses, limitations on shareholder use of, **9:39**

BACK-UP SECTION 444 ELECTION

Business purpose relationship, **4:11**
Electing S status, designation of permitted taxable year, **6:6**
Filing, **4:45**
Form for election, **4:17**
Ineligible corporations, prior effective Section 444 election, **4:13**
Organization of S corporation, adoption of taxable year, **5:37**
Practice tips, **4:10**

BAD DEBT DEDUCTION

Deduction permitted, **7:53**
Section 1244 analysis of IRS, **7:53**

BALLOON PAYMENT

Built-in gains tax, installment sales, **8:38**

BANKRUPTCY

Consent to S election by shareholders, bankruptcy estates, **6:29**
Corporate income determination and realization, **7:9**
Eligibility to attain S status, bankruptcy of corporation, **3:84**
G reorganization
generally, **13:51**
recognition of income, **17:15**
Permissible and impermissible shareholders, decedent's estate, **3:18**
Shareholder agreements, transfers to creditors, **18:14**
Shareholder number limitation, **3:37**, **3:43**
Termination of S status, bankruptcy of corporation, **3:84**

BANKRUPTCY TRUSTEE

Consent to S election by shareholders, **6:29**

BANKS

Accounting methods, **3:4**
Corporate-level preference items under Section 291, **7:23**, **8:20**

BANKS—Cont'd

Dividends, excess passive investment income, **8:60**
Ineligible corporations, **3:4**
Mutual savings banks, **11:38**
Nominee, retention of title to stock, **3:14**

BASE YEAR

Section 444 election required payments liability
applicable payments, **4:29**
applicable payments for deferral period, **4:30**
corporation's net income, **4:27**
determination, **4:26**
net income determination, **4:31**

BASIS

Accumulated adjustments account computation, **10:20**
distributions effect, **10:21**
redemptions effect, **10:22**
Adjustment to basis of assets of entity generally, **2:37**
effect of shareholder's death, **19:5**
Adjustments
partial liquidations, **12:22**
redemptions of stock, **12:11**
sales of S corporation stock, **12:2**
Adjustments for partnerships and S corporations, differences, **2:26**
Allocation among classes of stock received in reorganization, **13:1**
Carryover, property received by acquiring corporation, **13:1**
Charitable contributions, Section 704(d) limitation, **7:32**
Compensation, recharacterization of distributions as salary, **11:20**
Compensation by loss corporation with C history
shareholder with stock basis, **11:17**
shareholder without stock basis, **11:18**
Compensation by loss corporation without C history
shareholder with stock basis, **11:13**
shareholder without stock basis, **11:14**
Compensation by profitable corporation without C history
shareholder with stock basis, **11:11**, **11:15**

BASIS—Cont'd

Compensation by profitable corporation without C history—Cont'd
 shareholder without stock basis, **11:12**
 Compensation paid in property, S corporation special treatment, **7:26**
 Death of shareholder, effect on basis of stock, **19:5**
 Debt
 capitalization of S corporation, **5:14**
 income on repayment of loan, **5:15**
 practice tip, **5:14**
 Depreciable assets, election to reduce, **7:9**
 Discharge of indebtedness, corporate income determination and realization, **7:9**
 Distributions by corporations with accumulated E&P
 generally, **10:30**
 alternatives to cash distributions, **10:41**
 distributions of PTI, **10:39**
 election to treat distributions as dividends, **10:40**
 Distributions to shareholders, corporation without accumulated E&P, **10:28**
 ESOPs, Taxation of S corporation income
 shares, **20:69**
 Estates, S corporation in existence at shareholder death, **19:4**
 Fair market value exceeds, converted C corporation, **8:32**
 Inclusion of entity liabilities, S corporation disadvantage vs partnership, **2:66**
 Increases
 post-termination transition period, **16:52**
 Interest in entity, **2:26**
 Investment tax credit recapture, requirements for avoiding on property transfer, **5:26**
 Limited liability companies, **2:26**
 Mineral property, mineral exploration expenditures, **7:35**
 Net operating losses, S corporation special treatment, **7:20**

BASIS—Cont'd

Noncash compensation, general effects, **11:3**
 Oil and gas property, adjustments to basis, **20:18**
 Prior to Subchapter S Revision Act of 1982
 debt, **1:16**
 stock, **1:16**
 Property distributions, depreciated property, **10:9**
 Property received in reorganization, **13:1**
 S corporation stock, appreciated property distributed in redemption, **12:14**
 Sale of interest in entity, **2:33**
 Section 179, expensed property, **7:39**
 Section 1244 stock, computation of ordinary loss, **5:35**
 Section 1366(d)(1) limitation
 discharge of indebtedness, **7:9**
 election to close books on transfer of shares, **7:71**
 Shareholder agreements, cross-purchase agreement, **18:3**
 Stepped-up, Section 338 election by S corporation (prior law), **7:14**
 Stock
 adjustments required by tax credits, **7:79**
 collateral effects of pass through, **7:88**
 corporate-level consequences of noncash distributions, **10:4**
 distributions by asset acquiring S corporation, **15:35**
 distributions effect on AAA, **10:21**
 distributions overview
 accumulated earnings and profits, **10:2**
 earnings and profits, **10:3**
 estate stock transfer, **19:11**
 mineral exploration expenditures, **7:35**
 multiple distributions that exceed AAA, **10:34**
 pass through to estate or trust, **7:74**
 retained earnings, **2:21**
 share-by-share maintenance, **10:29**
 timing of adjustments to AAA, **10:25**

INDEX

BASIS—Cont'd

Stock—Cont'd

transfers of property to S corporation,
5:28

transfers of shares before end of year,
10:32

Suspended losses, effect on distribution,
10:28

Transfers of property to S corporation
general rule of nonrecognition, **5:22**
property received by corporation,
5:31

BASIS LIMITATION

Loss carryover on S status termination
generally, **16:41**

effect of shareholder's death, **19:5**

Pass-through losses. See index heading
PASS-THROUGH LOSSES, LIMITATIONS ON
SHAREHOLDER USE OF

Stock acquisitions, effect on S stock
purchaser, **15:6**

BASIS OF PROPERTY RECEIVED

Liquidity, shareholders, **14:18**

BASIS OF TANGIBLE PERSONAL PROPERTY

Trade or business, election to deduct,
17:16

BASIS STEP-UP

Estates, S corporation in existence at
shareholder death, **19:4**

Stock acquisitions, effect on S stock
purchaser, **15:14**

BELOW-MARKET DEBT

Capitalization of S corporation, **5:19**

BELOW-MARKET LOANS

Compensation arrangements, **11:40**

Deemed distributions, **10:47**

Executive compensation, **11:40**

IRS power to reallocate tax items, **7:73**

Shareholders and corporation,
circumvent class of stock require-
ment, **3:51**

Single-class-of-stock requirement
generally, **1:20**
effect on, **3:55**

BENEFICIAL ENJOYMENT OF TRUST

Grantor trusts, permissible and
impermissible shareholders, **3:21**

BENEFICIAL OWNERS OF PROPERTY

Gifts, IRS power to reallocate tax items,
7:73

BENEFICIAL OWNERS OF STOCK

Actual shareholder, **3:12**

Consent to S election, identity of
shareholders, **6:25**

Corporations, **3:15**

Partnerships, **3:16**

Pass through of tax items to sharehold-
ers, **7:64**

Power of attorney, consent to S election
by shareholders, **6:40**

BENEFICIARIES

Afterborn, QSST election subsequent to
S election, **6:50**

Consent to S election by shareholders
decedents' estates, **6:29**

grantor trusts, **6:30**

Section 678 trusts, **6:30**

Electing small business trusts, **19:27**

ESBT

distributee trust, **3:26**

nonresident aliens, **3:26**

ESBTs, **19:27**

Estates

direct shareholders, **19:2**

fiduciary considerations when S status
exists, **19:12**

stock transfer, **19:11**

Pass through of tax items to estate or
trust, **7:74**

Permissible and impermissible
shareholders

decedent's estate, **3:18**

estate of minor, incompetent, or
person under disability, **3:18**

nonresident aliens, **3:26**

qualified Subchapter S trusts, **3:24**

Section 678 trusts, **3:22**

Potential current

non-contingent remainder beneficiary,
3:26

BENEFICIARIES—Cont'd

- Potential current—Cont'd
 - rules, **3:26**
 - S corporation shareholder, **3:26**
- Proposed regulations, negligible trust interest, **3:26**
- Qualified Subchapter S trusts
 - income beneficiary under a disability, **3:24**
 - income beneficiary's power to direct distribution, **3:24**
 - lifetime trust termination, **3:24**
 - successor income beneficiary, **3:24**
 - termination of income interest, **3:24**
- Trusts as S corporation shareholders
 - death of QSST beneficiary, **19:24**
 - Section 678 trusts, **19:18**
 - voting trusts, **19:39**

BILLS OF EXCHANGE

- Excess passive investment income
 - sales and exchanges of stock or securities, **8:56**
 - special rules, **8:69**

BOARD OF DIRECTORS

- Domestic corporation requirement, operation without board of directors, **3:2**

BOARDING HOUSES

- Excess passive investment income, real property rents (prior law), **8:64**

BONDS

- Excess passive investment income, sales and exchanges of stock or securities
 - generally, **8:56**
 - special rules, **8:69**

BONUS PLANS

- Converted C corporation, limited number of permissible shareholders, **8:3**
- Converted C corporation, year-end bonus, **8:18**
- Executive compensation, nonstock incentive programs, **11:36**

BOOK VALUE

- Executive compensation, restricted stock plans, **11:29**

BOOKS AND RECORDS

- Converted C corporation, computation of income, **8:16**

BOOT

- A reorganization
 - capital gain treatment, **13:14**
 - distribution in excess of accumulated adjustments account, **13:14**
 - distribution in excess of stock basis, **13:14**
 - dividend treatment, **13:14**
- Built-in gains tax, planning considerations, **8:50**
- Capital gains treatment, **13:1**
- Divisive D reorganizations, **13:45**
- Holding period, **13:1**
- Liabilities assumed by acquiring corporation, **13:1**
- Limited liability companies, **2:12**
- Ordinary income treatment, **13:1**
- Recognition of gain or loss, corporate and partnership boot rules, **2:12**
- Shareholder's receipt in reorganization, **13:1**
- Transfers of property to S corporation
 - basis in stock, **5:28**
 - in exchange for stock and securities, **5:24**

BUILDING AND LOAN ASSOCIATIONS

- Ineligible corporations, **3:4**

BUILT-IN GAINS

- Amount of pass through of tax items, **7:68**
- Asset acquisitions, corporate-level taxes, **15:25**
- C reorganization carryover, **13:31**
- Capital gains tax, purpose and scope of tax, **8:82**
- Carryover basis transactions, net unrealized built-in gain, **8:32**
- Computation of tax, **8:40**
- Controlled S corporations, divisive D reorganizations, **13:43**
- Converted C corporation, deferred COD income (prior law), **8:15**
- Corporations subject to tax, **8:31**
- Credits offsetting tax, **8:46**

INDEX

BUILT-IN GAINS—Cont'd

- Excess passive investment income,
 impact of tax under Section 1374,
 8:78
- Excess recognized built-in gain, **8:39**
- Excluded assets, **8:36**
- Installment sales
 - generally, **8:38**
 - computation of tax, **8:42**
- Inventory valuation, **8:32**
- Like-kind exchanges, **8:37**
- Merger or consolidation, acquiring S
 corporation's liability, **13:11**
- Net recognized built-in gain
 - ceiling on net recognized built-in
 gain, **8:43**
 - computation of tax, **8:42**
 - deductions offsetting net recognized
 gain, **8:44**
- Net unrealized built-in gain, **8:32**
- Partnership interests
 - de minimis exceptions, **8:39**
 - recognition events, **8:35**
- Pass through of tax items, **2:23**
- Planning considerations, **8:50**
- Purpose and scope of tax, **8:30**
- Rate of tax, **8:45**
- Recognition events, **8:35**
- Recognition period, **8:33**
- Recognition period (prior law), **8:34**
- Section 1375, impact of tax, **8:48**
- Shareholder pass-through effect, **8:47**
- Subchapter S Revision Act of 1982,
 corporate-level tax, **1:26**
- Taxable income, **8:40**
- Transitional rules, **8:49**

BUNCHING OF INCOME

- Timing of pass-through items, **7:67**

BURDEN OF PROOF

- Compensation, reallocation of income
 among family, **11:6**

BUSINESS CONSULTING SERVICES

- Excess passive investment income, real
 property rents (prior law), **8:64**

BUSINESS CREDIT

CARRYFORWARD

- Built-in gains tax, credits offsetting tax,
 8:46

BUSINESS CREDITS

- Generally, **7:80**
- Investment tax credits, **7:81**
- Limitation on use, **7:83**
- Other business tax credits, **7:82**

BUSINESS ENTITIES

- Choice of entity, **1:1**

BUSINESS PURPOSE

- A reorganizations, **13:6**
- Affiliated group limitation (prior law)
 - corporate division nonrecognition
 requirement, **3:11**
 - downstream merger, **3:11**
 - judicial exception (prior law), **3:10**
 - upstream merger, **3:11**
- Converted C corporation
 - last taxable year, **8:7**
 - permitted taxable year, **8:5**
- Electing S corporation status, designa-
 tion of permitted taxable year, **6:6**
- F reorganizations, **13:50**
- Fiscal year
 - generally, **4:4**
 - facts and circumstances test
 - generally, **4:9**
 - procedure, **4:10**
 - natural business year test
 - generally, **4:5**
 - procedure, **4:6**
 - ownership tax year test
 - generally, **4:7**
 - procedure, **4:8**
 - Section 444 relationship, **4:11**
- Organization of S corporation, taxable
 year choice, **5:36**
- Section 444 election
 - back-up Section 444 election, **4:45**
 - lack of business purpose, **4:12**
- Selection of taxable year, **2:19**
- Taxable year
 - C corporation's last year, **8:7**
 - permitted year, **4:1**
- Trusts as S corporation shareholders,
 trusts taxable as associations, **19:43**

BUSINESS TRUST

- Domestic corporation requirement, **3:2**

BUY-SELL AGREEMENTS

- Generally, **18:1, 18:2**
- Cross-purchase agreement, **18:3, 18:4**
- Excess passive investment income, annuities, **8:59**
- Executive compensation, nonstatutory stock option plans, **11:32**
- Life insurance, effect under cross-purchase agreement, **18:4**
- Life insurance effect on redemption agreement, **18:6**
- Redemption agreement, **18:5, 18:6**
- Single-class-of-stock requirement, **18:15**
- Termination of employment, provision in shareholders agreements relating to, **18:7**
- Valuation of stock, Section 2703, **19:53**

BYLAWS

- Converted C corporation, single-class-of-stock requirement, **8:4**
- Distributions to shareholders, disproportionate, **10:47**

BYPASS ELECTION

- Accounting method
 - accrual method, **2:20**
 - S corporation advantage, **2:45**
- Accumulated cash, additional tax, **2:23**
- Accumulated earnings and profits distributions, **2:25**
 - lack of other adjustments, **10:17**
- Allocation of tax items, **2:24**
- At risk rules, **2:27**
- Basis in stock computation, **2:26**
- Built-in gains tax
 - change in accounting method, **8:35**
 - computation of tax, **8:42 to 8:48**
 - excess recognized built-in gain, **8:39**
 - excluded assets, **8:36**
 - installment sales, **8:38**
 - like-kind exchanges, **8:37**
 - net unrealized built-in gain, **8:32**
 - partnership interests, **8:39**
 - planning considerations, **8:50**
 - purpose and scope, **8:30**
 - recognition period, **8:33**
 - taxable income, **8:40**
 - transition rules, **8:49**

BYPASS ELECTION—Cont'd

- Cash distributions, S corporation advantage, **2:43**
- Charitable contribution limitation, S corporation special treatment, **7:32**
- Choice of entity overview, **2:1**
- Classification of entity, **2:5**
- Compensation, fringe benefits, **11:22**
- Compensation of shareholders, **2:30**
- Converted C corporation
 - accounting method, **8:19**
 - acquisition debt, **8:14**
 - computation of income, **8:16**
 - estimated tax payments, **8:27**
 - fringe benefits, **8:12**
 - last taxable year, **8:7**
 - local law considerations, **8:6**
 - minimum taxes, **8:27**
 - permitted taxable year, **8:5**
 - qualified employee benefit plan problems, **8:11**
 - Subchapter C attributes, **8:23**
- Corporate income determination, overview, **7:6**
- Corporate tax, Section 11(a), **2:5**
- Corporate-level preference items under Section 291, S corporation special treatment, **7:23**
- Discharge of indebtedness, corporate income determination and realization, **7:9**
- Disproportionate distributions of cash
 - generally, **2:25**
 - complete liquidation, **10:11**
 - differing bases in stock, **10:29**
 - nonliquidating distributions of property, **10:6**
 - S corporation with accumulated E&P overview, **10:3**
- Distributions by corporations with accumulated E&P, election to treat distributions as dividends, **10:40**
- Dividend treatment for distributions
 - generally, **10:40**
 - consent of shareholders, **17:23**
- Earnings and profits, distributions to S corporation, **10:17**
- Eligibility
 - comparison of business entities, **2:4**
 - converted C corporation, **3:82**

INDEX

BYPASS ELECTION—Cont'd

- Eligibility—Cont'd
 - S corporation disadvantage vs C corporation, **2:49**
- Estates
 - conversion of corporation to S status, **19:13**
 - termination of S election, **19:10**
- Excess passive investment income
 - planning considerations, **8:81**
 - purpose and scope of tax, **8:51**
- Farm-related deductions, S corporation special treatment, **7:46**
- Fiscal year
 - S corporation disadvantage vs C corporation, **2:49**
- Fringe benefits, S corporation disadvantage vs C corporation, **2:51**
- Hobby losses, S corporation special treatment, **7:30**
- Home-related deductions, S corporation special treatment, **7:27**
- Limited liability, participation in management, **2:23**
- Liquidations, gain or loss on distribution of property, **2:35**
- Passive loss rules, closely held corporations, **2:28**
- Personal holding company income, additional tax, **2:23**
- Property distributions, gain recognition rule consequences, **10:8**
- Redemption transaction, **2:34**
- Risk of loss of tax-favored status, **2:29**
- S election consequences, immediate tax consequences, **7:4**
- Sale of stock, general consequences, **2:33**
- Shareholder agreements, distributions after termination of S status, **18:27**
- Shareholders with different taxable years, **10:44**
- Stock
 - interest on acquisition debt, **2:18**
 - retained earnings affect on basis, **2:21**
- Stock acquisitions
 - conversion of an acquired C corporation, **15:3**
 - differences from partnerships and C corporations, **15:2**

BYPASS ELECTION—Cont'd

- Stock for stock recapitalization, S election qualification, **13:49**
- Stock issued for property, corporate income determination and realization, **7:13**
- Tax benefit rule, effect after S election, **7:8**
- Tax rates, S corporation advantage, **2:40**
- Tax returns, administration of entity, **2:32**
- Taxable year, selection, **2:19**
- Taxation of, **1:1**

C

C CORPORATIONS

- A, B, and C reorganizations, allocation of tax items, **18:26**
- Incentive stock option plans, **11:33**
- Subsidiaries of S corporations, **21:2**

C REORGANIZATIONS

- Accumulated adjustments account, effect on, **13:30**
- Allocation of S corporation tax items, **13:32**
- Built-in gains carryover, **13:31**
- Capital gains tax, **13:35**
- Corporate income determination and realization, S corporation as shareholder (prior law), **7:14**
- Corporate preference items, carryover, **13:36**
- Corporate tax attributes, carryover, **13:29**
- Nondivisive D reorganization, similarities, **13:37**
- Re-election of S status, **13:28**
- Reorganization effect on AAA, **10:23**
- Requirements, **13:26**
- S election termination, **13:27**
- Stock for stock acquisitions, **13:26 et seq.**

C SHORT TAXABLE YEAR

- Allocation of tax items
 - A reorganizations, **13:12**
 - B reorganizations, **13:23**
- year of S status termination generally, **16:22**

C SHORT TAXABLE YEAR—Cont'd

- Allocation of tax items—Cont'd
 - year of S status termination—Cont'd
 - pass through to shareholders, **7:72**
- Corporation books
 - election to close, **17:7**
 - shareholder consent to close, **17:22**
- Election to close books, **16:23**
- Estates, termination of S election, **19:10**
- S election termination on sale of stock, **12:6**
- Shareholder agreements, allocation on termination of S status, **18:21**
- Tax returns, **16:26**

CALENDAR YEAR

- Choice of taxable year, **5:36**
- Converted C corporation
 - last taxable year, **8:7**
 - permitted taxable year, **8:5**
- Corporate income determination and realization, **7:11**
- Distributions, filing necessary forms, **10:55**
- Electing S corporation status
 - designation of permitted taxable year, **6:6**
 - last taxable year, **8:7**
- Organization of S corporation
 - adoption of taxable year, **5:37**
 - taxable year choice, **5:36**
- Permitted year, **4:1**
- Practice tip, fiscal year selection, **4:10**
- Procedure for selection as taxable year, **4:3**
- Section 444 election
 - due date of required payments, **4:36**
 - required payments liability, **4:21**
- Taxable year
 - general rule, **4:2**
 - permitted year, **4:1**
 - selection, **2:19**

CALL OPTIONS

- Single-class-of-stock requirement, **3:59**

CANCELLATION OF DEBT

- Converted C corporation, deferred COD income (prior law), **8:15**
- Liquidations, deferred COD income (prior law), **14:16**

CANCELLATION OF DEBT—Cont'd

- Termination of s status, deferred COD income (prior law), **16:36**
- Workouts, **7:10**

CAPITAL

- Oil and gas drilling and development, election to charge, **17:10**
- Return of, debt repayment, **5:15**

CAPITAL ASSETS

- Excess passive investment income
 - planning considerations, **8:81**
 - sales, **8:55**
- Gain character determination, S corporation special treatment, **7:37**

CAPITAL CONTRIBUTIONS

- Affiliated group limitation (prior law), gross income limitation, **3:8**

CAPITAL EXPENDITURES

- Compensation paid in property, S corporation special treatment, **7:26**

CAPITAL GAIN NET INCOME

- Excess passive investment income, sales, **8:55**

CAPITAL GAIN TAX

- Boot received in A reorganization, **13:14**
- C reorganizations, **13:35**
- Divisive D reorganizations, **13:48**

CAPITAL GAINS

- Affiliated group limitation (prior law), transfer of stock to shareholders of parent, **3:11**
- Character of pass-through tax items, **7:68**
- Compensation, recharacterization of distributions as salary, **11:20**
- Contribution of property, conversion of ordinary income, **2:16**
- Credits offsetting tax, **8:88**
- Excess passive investment income, planning considerations, **8:81**
- Gain character determination, S corporation special treatment, **7:37**
- Indebtedness, evidence, **5:16**
- Liquidations, **2:35**
- Partnership of S corporations, shareholder transfer of stock, **20:32**

INDEX

CAPITAL GAINS—Cont'd

- Pass-through losses, limitations on shareholder use of, **9:27**
- Pass-through nature of Subchapter S, prior to Subchapter S Revision Act of 1982, **1:9**
- Property distributions, gain recognition rule consequences, **10:8**
- Redemption of stock, **12:11**
- Reorganizations, tax-free transfers of interest in entity, **2:36**
- S corporation special treatment, **7:36, 7:60**
- S election consequences, **7:3**
- Sale of interest in entity, general consequences, **2:33**
- Sale of mining property, mineral exploration expenditures recapture, **7:35**
- Sale of S corporation stock, **12:2**
- Section 1231 gain and loss, S corporation special treatment, **7:38**
- Separately and nonseparately stated items, **7:65**
- Shareholder agreements
 - cross-purchase agreement, **18:3**
 - redemption agreement, **18:5**
- Shareholder pass-through effect, **8:89**
- Stock acquisitions, sale of S corporation stock, **15:15**
- Tax on excess capital gains
 - amount of tax, **8:87**
 - corporations subject to tax, **8:83**
 - credits offsetting tax, **8:88**
 - duration of exposure, **8:84**
 - excess net capital gain, **8:85**
 - excess taxable income, **8:86**
 - purpose and scope of tax, **8:82**
 - Section 1375 tax impact, **8:90**
 - shareholder pass-through effect, **8:89**
- Trusts as S corporation shareholders
 - QSST distribution of income, **19:20**
 - special problems, **19:44**

CAPITAL LOSS CARRYOVERS

- Built-in gains tax
 - deductions offsetting net recognized built-in gain, **8:44**
 - planning considerations, **8:50**
- Converted C corporation, **8:25**

CAPITAL LOSS CARRYOVERS

—Cont'd

- Discharge of indebtedness, corporate income determination and realization, **7:9**

CAPITAL LOSSES

- Bad debt deduction treatment, **7:53**
- Carryover in merger or consolidation, **13:9**
- Corporate losses, S corporation advantage vs C corporation, **2:42**
- Redemption of stock, **12:11**
- S corporation special treatment, **7:36**
- Sale of S corporation stock, **12:2**
- Section 1244 stock, sale or exchange of stock, **5:32**
- Separately and nonseparately stated items, **7:65**
- Shareholder agreements
 - cross-purchase agreement, **18:3**
 - redemption agreement, **18:5**
- Worthless stock, disadvantages of debt, **5:21**

CAPITAL STRUCTURE

- Debt as second class of stock
 - generally, **3:75**
 - Section 385 regulations, **3:76**
 - TARP program, debt issued under, **3:77**
- Economic rights distinctions, **3:50**
- Mixed-fund investments in S corporation electing qualified opportunity fund status, **3:79**
- Single-class-of-stock requirement, **3:48**
- Voting rights distinctions, **3:49**

CAPITALIZATION

- Debt
 - advantages, **5:20**
 - basis, **5:14**
 - below-market, **5:19**
 - deductibility of interest, **5:18**
 - disadvantages, **5:21**
 - discharge of indebtedness, **5:17**
 - evidence of indebtedness, **5:16**
 - income on repayment of debt, **5:15**
 - overview, **5:1**
 - second class of stock, **5:13**
- Deductibility of interest, **5:18**

CAPITALIZATION—Cont'd

- Discharge of indebtedness, **5:17**
- Earnings and profits, distributions to S corporation, **10:17**
- Interest, paid or incurred during construction, **7:33**
- Interest and carrying charges, election, **17:16**
- Mineral exploration expenditures, S corporation special treatment, **7:35**

CARRIED INTEREST RULES

- Corporation compared to s corporations, **7:58**

CARRYBACKS

- General business credit limitation, **7:83**
- Net operating losses, S corporation special treatment, **7:20**
- Small business carry backs for 2008, **17:40**

CARRYOVER BASIS

- Acquiring corporation, **13:1**

CARRYOVER BASIS ASSETS

- Built-in gains tax
 - excluded assets, **8:36**
 - net unrealized built-in gain, **8:32**
 - recognition period, **8:33**
- Capital gains tax, duration of exposure, **8:84**

CARRYOVER OF LOSSES

- QSUBs, **13:52**

CARRYOVER OF UNUSED LOSSES

- Liquidation, shareholders, **14:20**

CARRYOVERS

- Built-in gains tax
 - net recognized built-in gain generally, **8:42**
 - offsetting deductions, **8:44**
 - planning considerations, **8:50**
- Converted C corporation
 - capital loss, **8:25**
 - earnings and profits, **8:24**
 - Subchapter C attributes, **8:23**
- Corporate losses, S corporation advantage vs C corporations, **2:42**
- Net operating losses, S corporation special treatment, **7:20**

CARRYOVERS—Cont'd

- Pass through of tax items to shareholders, special problems, **7:74**
- Pass-through losses. See index heading PASS-THROUGH LOSSES, LIMITATIONS ON SHAREHOLDER USE OF
- S corporation losses
 - partial liquidations, **12:23**
 - redemption of stock, **12:12**
 - sale of stock, **12:4**
- Subsidiaries of S corporations, carry over of Subchapter S attributes, **21:17**

CARVED OUT OIL PAYMENTS

- Transfer of property to S corporation, definition of property, **5:23**

CASH

- See index heading MONEY OR CASH

CASH COMPENSATION

- Executive, performance unit plans, **11:37**
- General effects, **11:2**

CASH DISTRIBUTIONS

- Consequences to S corporation, **10:5**
- Distributions by corporations with accumulated E&P
 - alternatives to cash distributions, **10:41**
 - distributions of PTI, **10:39**
- Distributions to shareholders, distributions to which Section 1368 applies, **10:27**
- Estates
 - administrative powers of personal representatives, **19:16**
 - allocation of income or loss, **19:6**
 - carryover of unused losses, **19:7**
- S corporation advantage vs C corporation, **2:43**
- Shareholder agreements, distributions amount and timing, **18:23**
- Trusts as S corporation shareholders, special problems, **19:44**

CASH DIVIDENDS

- Shareholder agreements, distributions after termination of S status, **18:26**

INDEX

CASH EQUIVALENT

Post-termination transition period distribution requirement, **16:50**

CASH METHOD OF ACCOUNTING

Compensation, timing considerations, **11:4**

Converted C corporation
recognized built-in gains, **8:39**
related party transactions, **8:18**

Organization of S corporation, accounting method choice, **5:39**

S corporation advantage vs C corporation, **2:45**

CASUALTY INSURANCE COMPANIES

Ineligible corporations, **3:3**

CERTIFIED MAIL

QSST election, transmittal and proof of filing, **6:56**

CHANGE IN ACCOUNTING METHOD

Built-in gains tax
inventory method, **8:36**
recognition events, **8:35**
recognized built-in gain, **8:39**

CHARACTER OF BUSINESS INTEREST ITEMS

Pass-through losses, limitations on shareholder use of, **9:83**

CHARACTER OF PASS-THROUGH TAX ITEMS

Shareholders, **7:69**

CHARITABLE CONTRIBUTIONS

Accumulated adjustments account, computation of AAA, **10:20**

Deductions for contributions, **7:32, 20:64**

Deductions for contributions, Generally, **20:64 to 20:66**

Pass-through losses, limitations on shareholder use of, **9:34**

S corporation special treatment, **7:32, 7:56**

Separately and nonseparately stated items, **7:65**

CHARITABLE LEAD TRUSTS

Trusts as S corporation shareholders, ineligible shareholder, **19:40**

CHARITABLE ORGANIZATIONS

S corporation shareholders, **3:31**

CHARITABLE REMAINDER TRUSTS

Beneficiaries, S corporations as, **16:57**
Trusts as S corporation shareholders, **3:20, 19:40**

CHECK

Section 444 election required payments liability, medium of payments, **4:37**

CHECKLISTS

Executive compensation, **11:45**

CHIEF ACCOUNTING OFFICER

Electing S corporation status, execution of election form, **6:4**

Section 444 election execution, **4:18**

CHOICE OF ENTITY

Overview, **2:1**

Double taxation of entity earnings, **2:3**

S corporation advantages vs C corporation

generally, **2:40 to 2:45**

accounting methods, **2:45**

accumulated earnings, **2:44**

alternative minimum tax, **2:44**

avoidance of double taxation, **2:41**

corporate losses, **2:42**

financial statements, **2:46**

income tax rates, **2:40**

interest on debt used to acquire shares, **2:47**

personal holding company, **2:44**

S corporation advantages vs partnerships/ LLCs

generally, **2:57 to 2:64**

certainty of tax classification, **2:57**

constructive termination rules, **2:62**

deemed distributions, **2:61**

limited liability, **2:58**

management, **2:58**

passive loss rules, **2:59**

reorganization treatment, **2:60**

Section 751 treatment absence, **2:63**

CHOICE OF ENTITY—Cont'd

- S corporation advantages vs partnerships/ LLCs—Cont'd
 - self-employment tax, distributions not subject to, **2:64**
- S corporation disadvantages vs C corporation
 - generally, **2:48 to 2:56**
 - alternative minimum tax, **2:54**
 - eligibility, **2:49**
 - fiscal year, **2:50**
 - fringe benefits, **2:51**
 - qualified plan rules (prior law), **2:52**
 - Section 461(l), applicability of, **2:56**
 - Section 1202, inability of shareholders to use, **2:55**
 - single class of stock, **2:48**
 - tax rates, **2:53**
- S corporation disadvantages vs partnerships /LLCs
 - generally, **2:65 to 2:72**
 - corporate level taxes, **2:68**
 - disproportionate tax allocations and distributions, **2:67**
 - inclusion of liabilities in basis, **2:66**
 - property distributions taxation, **2:70**
 - shareholder number limitation, **2:68**
 - state taxes, **2:65**
 - tax-free transfer of property to S corporation, **2:65**

CIRCULATION EXPENDITURES

- Election to deduct, **17:16**
- Pass-through losses, limitations on shareholder use of, **9:14**
- Tax elections at shareholder level, **7:76**
- Tax preference items, S corporation special treatment, **7:45**

CIRCUMVENTION TEST

- Single-class-of-stock requirement, **3:51**

CLAIM OF RIGHT DOCTRINE

- S corporation special treatment, **7:49**

CLASSES OF STOCK

- Debt as a second class
 - generally, **3:75**
 - Section 385 regulations, **3:76**
 - TARP program, debt issued under, **3:77**
- Deferred compensation plans, **18:15**

CLASSES OF STOCK—Cont'd

- Economic rights of stock, **3:51**
- Requirements for election, **3:48**

CLASSIFICATION OF ENTITY

- C corporation, **2:5**
- Joint relief for late S corporation election and late classification election, **6:11**
- Limited liability companies, **2:4**
- Partnership, **2:6**
- Partnership of S corporations, **2:7**
- S corporation, **2:8**
- S corporation advantage vs partnership, **2:57**

CLEANING

- Excess passive investment income, real property rents (prior law), **8:64**

CLINICAL DRUG TESTING CREDIT

- Adjustments required by tax credits, **7:79**
- Pass through and allocation, **7:85**

CLOSELY HELD CORPORATIONS

- Built-in gains tax, purpose and scope of tax, **8:30**
- C corporations
 - at risk rules applicability, **2:27**
 - computation of converted C income, **8:16**
 - passive loss rules, **2:28**
 - pass-through losses. See index heading PASS-THROUGH LOSSES, LIMITATIONS ON SHAREHOLDER USE OF
- Domestic corporation, **3:2**
- Executive compensation
 - phantom stock plans, **11:39**
 - restricted stock plans, **11:29**

CLOSING AGREEMENTS

- S status termination, post-termination transition period, **16:48**

CLOSING BOOKS OF S CORPORATION

- A reorganizations, **13:12**
- B reorganizations, **13:23**
- Election
 - generally, **17:7**
 - transfer of shares
 - generally, **7:71**

INDEX

CLOSING BOOKS OF S

CORPORATION—Cont'd

- Election—Cont'd
 - transfer of shares—Cont'd
 - example form, **7:93**
- Form for election, **16:67**
- Pro rata daily allocation exception, **16:23**
- Qualifying disposition, example form, **7:93**
- Shareholder consent, **17:22**
- Split-off transaction, **13:44**
- Termination of shareholder, election, **7:71**
- Transfer of substantial stock
 - generally, **10:32**
 - procedural considerations, **17:7**

CLOSING OF THE BOOKS METHOD OF ALLOCATION

- Asset acquisitions, selling corporation S status maintenance, **15:30**
- Distributions before and after acquisition, **15:13**
- Distributions by corporation with no accumulated E&P, transfers of shares before end of year, **10:32**
- Estates
 - allocation of income or loss, **19:6**
 - carryover of unused losses, **19:7**
- Multiple distributions exceeding AAA, transfers of stock, **10:35**
- Pass through and allocation of tax credits, **7:78**
- Shareholder agreements
 - allocation on termination of S status, **18:21**
 - allocation on termination of shareholder's interest, **18:22**
 - life insurance effect on redemption agreement, **18:6**

COLLAPSIBLE CORPORATION

- Shareholder agreements
 - redemption agreement, **18:5**
- Stock acquisitions, sale of S corporation stock, **15:15**

CO-MAKERS

- Pass-through losses, limitations on shareholder use of, **9:17, 9:39**

COMMERCIAL CONTRACTUAL ARRANGEMENT

- Single-class-of-stock requirement, binding agreements, **3:51**

COMMODITIES

- Dealer, excess passive investment income, **8:69**

COMMON DEBT WORKOUTS

- Discharge of indebtedness, **7:10**

COMMON STOCK

- Converted C corporation, single-class-of-stock requirement, **8:4**
- Deferred compensation plans
 - generally, **3:51**
 - restricted stock, effect, **3:62**
 - voting rights, **3:49**
- Deferred compensation plans, Generally, **3:62 to 3:65**
- Economic rights
 - generally, **11:30**
 - phantom stock plans, **11:39**
- Phantom stock plans, **11:39**
- Single class requirement
 - generally, **3:48**
 - single-class-of-stock requirement, **18:15**
- Voting rights, **3:49, 5:5**

COMMUNITY PROPERTY

- Husband and wife
 - consent to S election by shareholders, **6:27**
 - number of permissible shareholders, **3:37**
- Nonresident alien, United States citizen spouse, **3:13**
- Permissible and impermissible shareholders, individuals, **3:12**

COMPENSATION

- Cash, general effects, **11:2**
- Deferred plans, single-class-of-stock requirement, **18:15**
- Disbursement method discretion limitations
 - recharacterization of distributions as salary, **11:20**
 - recharacterization of salary as distributions, **11:19**

COMPENSATION—Cont'd

Disbursement method discretion limitations—Cont'd
 recharacterization under PAL rules, **11:21**

Disbursement method general discretion, **11:10**

Distributions treated as wages, **7:90**

Employee stock ownership plans (ESOPs), who is the shareholder, **11:25**

Employment taxes, **11:7, 11:8**

Entity owners, **2:30**

Estates, conversion of corporation to S status, **19:13**

Excess passive investment income, definition generally, **8:54**

Excessive, single-class-of-stock requirement, **3:53**

Executives. See index heading EXECUTIVE COMPENSATION

Family S corporation, reallocation of tax items, **19:63**

Fringe benefits. See index heading FRINGE BENEFITS

Golden parachutes, **7:61, 11:43**

Impact of section 415 on S corporation ESOPs, **20:74**

Individual retirement accounts, **11:26**

Keogh plans, **11:24, 11:30, 19:62**

Limitation, shareholder's W-2 wage limitation, **7:40 (repealed)**

Loss corporation with C history
 shareholder with stock basis, **11:17**
 shareholder without stock basis, **11:18**

Loss corporation with prior stock basis
 shareholder with stock basis, **11:17**
 shareholder without stock basis, **11:18**

Loss corporation without prior C history
 shareholder with stock basis, **11:13**
 shareholder without stock basis, **11:14**

Noncash
 general effects, **11:3**
 timing considerations, **11:4**

Overview, **11:1**

Payment of salary to entity owners, **2:30**

Practice tips
 fringe benefits, **11:22**
 individual retirement accounts, **11:26**
 Keogh plans, **11:24**

COMPENSATION—Cont'd

Practice tips—Cont'd
 shareholder without stock basis, **11:12**

Profitable corporation with prior C history
 shareholder with stock basis, **11:15**
 shareholder without stock basis, **11:16**

Profitable corporation without C history
 shareholder with stock basis, **11:11**
 shareholder without stock basis, **11:12, 11:16**

Property, S corporation special treatment, **7:26**

Qualified employee benefit plans, Keogh plans, **11:24**

Reallocation of income, family members, **11:6**

Reasonableness, **11:5**

Recharacterization of salary as distributions, **11:19**

Recharacterization under PAL rules, **11:21**

S corporation as startup business, **20:85**

Self-employment taxes, **11:9**

Services, significant, passive investment income concepts, **8:63**

Stock distributions comparison, **11:10 et seq.**

Timing considerations, **11:4**

Unreasonable, single-class-of-stock requirement, **3:53**

Venture capital S corporations, **20:92**

Wage withholding
 generally, **11:7, 19:39**
 ownership of qualified subchapter S subsidiary or other disregarded entity, **11:8**
 requirements, **17:29, 17:30**
 shareholders, **7:90**

COMPENSATION RELATED LOAN

Executive compensation, below-market loans, **11:40**

COMPENSATION TO SHAREHOLDERS

Distributions treated as, **7:90**

COMPLETED CONTRACT METHOD OF ACCOUNTING

Built-in gains tax
 recognition events, **8:35**

INDEX

COMPLETED CONTRACT METHOD OF ACCOUNTING—Cont'd

- Built-in gains tax—Cont'd
 - recognized built-in gain, **8:39**
- Earnings and profits, distributions to S corporation, **10:17**

COMPLEX TRUSTS

- Trusts as S corporation shareholders,
 - QSST distribution of income, **19:20**

COMPUTATIONS

- Accumulated adjustments account, **10:20**
- Built-in gains tax, **8:42 et seq.**
- Capital gains tax, **8:87 et seq.**
- Converted C corporation income
 - generally, **8:16**
 - accounting method, **8:19**
 - earnings and profits, **8:24**
 - loss carryforwards, **8:25**
 - percentage depletion (prior law), **8:17**
 - related party transactions, **8:18**
 - Section 111, **8:22**
 - Section 183, **8:21**
 - Section 291, **8:22**
 - Subchapter C attributes
 - generally, **8:23**
 - other attributes, **8:26**
- Excess passive investment income tax, **8:73 et seq.**
- Pass-through losses, limitations on shareholder use of, **9:20**
- Section 444 election required payments liability
 - adjusted highest Section 1 tax rate, **4:32**
 - amount of applicable payments for base year, **4:29**
 - applicable percentage, **4:33**
 - corporation's base year, **4:26**
 - corporation's net income for base year, **4:27**
 - deferral ratio, **4:28**
 - net base year income, **4:31**
 - net required payment balance, **4:34**
 - required payment, **4:35**
 - ten-step procedure, **4:25**
- Section 1244, ordinary loss, **5:35**

CONDUCT OF BUSINESS

- Affiliated group limitation (prior law),
 - inactive subsidiary statutory exception, **3:8**

CONSENT

- Calendar year, IRS, **4:3**
- Dividends, excess passive investment income, **8:60**
- Electing S corporation status
 - due date of election, **6:7**
 - revocation of election, **6:23**
- Election to close books on termination of stock interest
 - forms, **7:92**
 - transfer of stock, **7:71**
- Family attribution rules, shareholder number limitation, **3:37**
- Organization of S corporation
 - adoption of accounting method, **5:40**
 - change in accounting method, **5:41**
- QSST election
 - affirmative refusal to consent, **6:62**
 - revocation of election, **3:24, 6:63**
 - shareholder agreements, **18:12**
- Shareholder agreements
 - allocation on termination of interest, **18:22**
 - closing of corporation books, **18:21**
 - electing S corporation status, **18:8**
 - election to treat distributions as dividends, **18:26**
 - reelecting S corporation status, **18:19**
 - revoking S corporation status, **18:17**
- Shareholder consent to S election
 - consent to S election by estate, **19:14**
 - converted C corporation, **8:7**
 - due date, **6:43**
 - effect of consent, **6:48**
 - errors and omissions, **6:47**
 - estates, **6:29**
 - estates as direct shareholders, **19:2**
 - expedited procedure for seeking relief for late consents, **6:45**
 - extension to file consent, **6:44**
 - form for consent, **6:42**
 - identity of shareholders, **6:25 et seq.**
 - incorporators, **6:37**
 - Incorporators, **6:38**
 - joint owners, **6:26**

CONSENT—Cont'd

- Shareholder consent to S election
 - Cont'd
 - minors, **6:28**
 - multiple capacities, **6:41**
 - nonvoting shares, **6:33**
 - personal powers, **19:16**
 - power of attorney, **6:40**
 - restricted stock, **6:36**
 - revocation of consent, **6:49**
 - separate statement of shareholder consent, **6:79**
 - single member limited liability companies, **6:31**
 - split interests, **6:34**
 - spouses, **6:27**
 - stock options, **6:36**
 - stock warrants, **6:37**
 - subscribers, **6:39**
 - tax-exempt entities, **6:32**
 - time shareholders determined, **6:24**
 - transmittal and proof of filing, **6:46**
 - trusts, **6:30**
- Trusts as S corporation shareholders, QSST successive income beneficiaries, **19:23**

CONSENT TO ELECTION TO CLOSE BOOKS

- Form, **16:67**
- Shareholders in year of S termination, **16:23**

CONSENTS TO RESCISSION OF REVOCATION OF S STATUS

- Filing requirements, **16:11**
- Form, **16:11**

CONSENTS TO REVOCATION OF S STATUS

- Execution, **16:8**
- Filing with IRS, **16:9**
- Form, **16:66**
- Information required, **16:7**
- Shareholders filing with IRS, **16:2**
- Stock ownership requirements, **16:8**

CONSISTENCY RULE

- Shareholder treatment of items, **18:10**

CONSOLIDATED AUDIT AND REFUND PROCEDURES (PRIOR LAW)

- Generally, **17:46**
- Appeals, **17:47**
- Applicability
 - generally, **17:46**
 - small S corporation, **17:51**
 - Subchapter S items, **17:49**
- Consistency requirement, **17:50**
- Credit for overpayment, filing, **17:48**
- Deficiency procedures, **17:47**
- Income tax deficiency procedures, **17:47**
- Judicial review, **17:47**
- Negligence penalty, **17:50**
- Notice, **17:46**
- Refund procedures, **17:48**
- Repeal after 1996, **18:10**
- Request for administrative adjustment, **17:48**
- Settlement agreements, **17:47**
- Small S corporation exception, **17:51**
- Subchapter S items, **17:49**
- Tax matters person, **17:52**

CONSOLIDATED RETURNS

- Affiliated group limitation (prior law), **3:7**
- Electing S corporation status, election by former affiliate group, **6:12**
- Subsidiaries of S corporations, QSUB election, **21:7**

CONSOLIDATIONS

- Carryover of tax attributes to S corporation, **13:9**
- Defined, **13:6**
- Reconsolidation of consolidated group, **16:45**
- Re-election of S status
 - generally, **13:8**
 - S election termination, **13:7**

CONSTRUCTION PERIOD CHARGES

- Earnings and profits, distributions to S corporation, **10:17**

CONSTRUCTIVE DIVIDENDS

- Excess passive investment income, definition generally, **8:54**

INDEX

CONSTRUCTIVE RECEIPT

Compensation, timing considerations, **11:4**

CONSTRUCTIVE TERMINATION RULES

Partnership, S corporation advantage, **2:62**

CONTINUITY OF BUSINESS ENTERPRISE

A reorganizations, **13:6**
F reorganizations, **13:50**

CONTINUITY OF INTEREST

A reorganizations, **13:6**
F reorganizations, **13:50**
Loss of interest, 2000 AAA distribution, **13:3**
Redemptions and distributions, target corporation, **13:2**

CONTRACTION OF CORPORATION'S BUSINESS

Partial liquidations, **12:21**

CONTRACTS

Futures
market-to-market rules, **7:48**
unrealized appreciation, **7:17**

CONTRIBUTIONS TO CAPITAL

Accumulated adjustments account, computation, **10:20**
Compensation
individual retirement accounts, **11:26**
Keogh plans, **11:24**
Keogh plans, **11:24**
Pass-through losses, limitations on shareholder use of, **9:5, 9:8, 9:12, 9:37**

CONTROL OF BUSINESS ENTITY

Estate planning options, **19:52**
Participation in management, **2:22**

CONTROL PREMIUM

Related party rules, Section 267 limitation on deductions and losses, **7:25**

CONTROL REQUIREMENTS

Section 351
exchange of property for stock and securities, **5:25**

CONTROL REQUIREMENTS

—Cont'd

Section 351—Cont'd
general rule of nonrecognition, **5:22**
nonrecognition of gain or loss, **2:9**

CONTROLLED CORPORATIONS

Divisive D reorganization
built-in gains tax liability, **13:43**
distributions, dividend characterization, **13:41**
S status election, **13:40**

CONTROLLED FOREIGN CORPORATIONS

S corporation, U.S. shareholder, **20:54**

CONTROLLED GROUP OF CORPORATIONS

Built-in gains tax, transitional rules, **8:49**
Reforestation expenditures, S corporation special treatment, **7:42**
Section 179, expensed property, **7:39**
Section 1563, affiliated group limitation (prior law), **3:7**

CONTROLLED S CORPORATION

Earnings and profits allocation, excess net passive income tax liability, **13:41**

CONVENTIONAL EMPLOYEE

Compensation, fringe benefits, **11:22**

CONVERSION OF PROPERTY

Involuntary, election to defer recognition of realized gain, **17:13**

CONVERSION OPTION

Executive compensation, phantom stock plans, **11:39**

CONVERSIONS OF CORPORATE STATUS

Pass-through losses, limitations on shareholder use of, **9:7, 9:71**

CONVERTED C CORPORATION

Accounting method, **8:19**
Accumulated adjustments account, purposes, **10:18**
Acquisition debt, **8:14**
Built in gains tax, temporary reduction in recognition period provided by

CONVERTED C CORPORATION

—Cont'd

- American Recovery and Reinvestment Act (prior law), **8:34**
- Built-in gains tax
 - corporations subject to tax, **8:31**
 - net unrealized built-in gain, **8:32**
 - purpose and scope of tax, **8:30**
- Capital gains tax
 - corporations subject to tax, **8:83**
 - duration of exposure, **8:84**
- Computation of income, **8:16**
- Deferred COD income (prior law), **8:15**
- Earnings and profits, **8:24**
- Eligibility and election
 - local law considerations, **8:6**
 - overview, **8:1**
 - permitted taxable year, **8:5**
 - shareholder number limitation, **8:3**
 - single-class-of-stock requirement, **8:2**
 - timing of S election, **8:7**
- Estimated tax payments, **8:28**
- Excess passive investment income,
 - Subchapter C earnings and profits, **8:52**
- Foreign loss recapture, **8:9**
- Fringe benefits, **8:12**
- Installment obligations, **8:13**
- Investment tax credit recapture, **8:10**
- LIFO recapture, **8:8**
- Loss carryforwards, **8:25**
- Minimum taxes, **8:27**
- Oil and gas property, Section 1254 gain, **20:20**
- Percentage depletion (prior law), **8:17**
- Qualified employee benefit problems, **8:11**
- Qualified small business stock implications, **8:29**
- Related party transactions, **8:18**
- S election impact
 - accounting method, **8:19**
 - acquisition debt, **8:14**
 - computation of income, **8:16**
 - deferred COD income (prior law), **8:15**
 - earnings and profits, **8:24**
 - estimated tax payments, **8:28**
 - foreign loss recapture, **8:9**

CONVERTED C CORPORATION

—Cont'd

- S election impact—Cont'd
 - fringe benefits, **8:12**
 - installment obligations, **8:13**
 - investment tax credit recapture, **8:10**
 - LIFO recapture, **8:8**
 - loss carryforwards, **8:25**
 - minimum taxes, **8:27**
 - percentage depletion (prior law), **8:17**
 - qualified employee benefit problems, **8:11**
 - related party transactions, **8:18**
 - Section 111, **8:22**
 - Section 183, **8:21**
 - Section 291, **8:20**
 - Subchapter C attributes
 - generally, **8:24**
 - other attributes, **8:26**
 - Stock acquisitions, **15:3**

CONVERTIBLE DEBENTURE PLANS

- Executive compensation, **11:34**

CONVERTIBLE DEBT

- Research and development activities, **20:101**
- Single-class-of-stock regulations, **3:75**
- Special allocations or preferential distributions, **20:46**
- Venture capital S corporations, **20:89**

COOPERATIVE BANKS

- Ineligible corporations, **3:4**

COPYRIGHT ROYALTIES

- Excess passive investment income, **8:68**

COPYRIGHTS

- Excess passive investment income royalties, **8:68**

CORN PRODUCTS DOCTRINE

- Capital gain and loss, S corporation special treatment, **7:36**

CORPORATE CHARACTERISTICS

- Centralized management, domestic corporation requirement, **3:2**
- Classification of entity, **2:6**
- Continuity of life, domestic corporation requirement, **3:2**
- Definition of, **7:58**

INDEX

CORPORATE CHARACTERISTICS

—Cont'd

- Risk of loss of tax favored status of entity, **2:29**
- Trusts as S corporation shareholders, trusts taxable as associations, **19:43**

CORPORATE CHARTER

- Affiliated group limitation (prior law), statutory exception, **3:8**

CORPORATE CREDITORS

- Voting trusts, **3:25**

CORPORATE DISBURSEMENTS

- Compensation, recharacterization under PAL rules, **11:21**
- Compensation by loss corporation with C history
 - shareholder with stock basis, **11:17**
 - shareholder without stock basis, **11:18**
- Compensation by loss corporation without C history
 - shareholder with stock basis, **11:13**
 - shareholder without stock basis, **11:14**
- Compensation by profitable corporation with C history
 - shareholder with stock basis, **11:15**
 - shareholder without stock basis, **11:16**

CORPORATE DIVISION

- Accumulated earnings and profits, adjustments for corporate transactions, **10:15**
- Affiliated group limitation (prior law), avoiding limitation, **3:11**
- Excess passive investment income, Subchapter C earnings and profits, **8:52**
- Property distributions, gain recognition rule applicability, **10:7**

CORPORATE INCOME

- Determination and realization
 - appreciated property distribution, **7:12**
 - discharge of indebtedness income, **7:9**
 - income arising from corporate transactions, **7:12**
 - issuance of stock for property, **7:13**
 - method of accounting, **7:11**
 - nonrecognition provisions, **7:7**
 - other items of income, **7:17**

CORPORATE INCOME—Cont'd

- Determination and realization—Cont'd
 - overview, **7:6**
 - S corporation as shareholder (prior law), **7:14**
 - stock transactions of another corporation, **7:15**
 - taxable year, **7:11**

CORPORATE LAW

- State, incorporation, **5:3**

CORPORATE LIQUIDATIONS

- Qualified stock purchase, date of acquisition, **21:2**

CORPORATE NAME

- Affiliated group limitation (prior law), statutory exception, **3:8**

CORPORATE PREFERENCE ITEMS

- A reorganization carryover, **13:16**
- C reorganization carryover, **13:36**

CORPORATE REPORT OF NONTAXABLE DIVIDENDS

- Distributions, information required on schedules of Form 1120-S, **10:56**

CORPORATE SHAREHOLDERS

- Momentary affiliations (prior law), **3:9**

CORPORATE TAX ATTRIBUTES

- Carryover
 - A reorganizations, **13:9**
 - B reorganizations, **13:22**
 - C reorganizations, **13:29**
- Liquidation effect, **14:11**

CORPORATE TAX ITEMS

- S election consequences, determination and realization, **7:5**

CORPORATE-LEVEL ACCOUNT

- Accumulated adjustments account
 - distributions effect, **10:21**
 - nature of AAA, **10:19**
- Distributions by corporations with accumulated E&P, distributions of PTI, **10:39**

CORPORATE-LEVEL DEBT

- Pass-through losses. See index heading
PASS-THROUGH LOSSES, LIMITATIONS ON
SHAREHOLDER USE OF

CORPORATE-LEVEL DEDUCTIONS

Bad debt deduction treatment, **7:53**

CORPORATE-LEVEL PREFERENCE ITEMS

Section 291, S corporation special treatment, **7:23**

CORPORATE-LEVEL TAXES

Accumulated earnings and profits, **10:13**

Asset acquisitions

built-in gain, **15:25**

passive income generating assets, **15:26**

selling S corporation, **15:27**

Built-in gains tax

amount of pass through of tax items, **7:68**

ceiling on net recognized built-in gain, **8:43**

corporations subject to tax, **8:31**

deductions offsetting net recognized gain, **8:44**

excess recognized built-in gain, **8:39**

excluded assets, **8:36**

impact of tax under Section 1375, **8:48**

installment sales, **8:38**

like kind exchanges, **8:37**

net recognized built-in gain, **8:42**

net unrealized built-in gain, **8:32**

pass through of tax items, **2:23**

planning considerations, **8:50**

purpose and scope of tax, **8:30**

rate of tax, **8:45**

recognition events, **8:35**

recognition period, **8:33**

shareholder pass-through effect, **8:47**

Subchapter S Revision Act of 1982, **1:26**

taxable income, **8:40**

transitional rules, **8:49**

Distributions by corporations with accumulated E&P, election to treat as dividends, **10:40**

Excess capital gains tax

amount of tax, **8:87**

corporations subject to tax, **8:83**

credits offsetting tax, **8:88**

duration of exposure, **8:84**

CORPORATE-LEVEL TAXES

—Cont'd

Excess capital gains tax—Cont'd

excess net capital gain, **8:85**

excess taxable income, **8:86**

purpose and scope of tax, **8:82**

Section 1375 tax impact, **8:90**

shareholder pass-through effect, **8:89**

Excess passive investment income tax

annuities, **8:59**

credits offsetting tax, **8:76**

dividends, **8:60**

excess net passive income, **8:73**

excess passive investment income, **8:53**

gross receipts defined generally, **8:54**

income and partnership interests, **8:70**

interest, **8:61**

net passive income, **8:72**

passive investment income defined, **8:58**

personal property rents (prior law), **8:65**

planning considerations, **8:81**

provider of property services (prior law), **8:66**

purpose and scope of tax, **8:51**

real property rents (prior law), **8:64**

rents generally, **8:63**

royalties, **8:68**

sales and exchanges of stock or securities

generally, **8:56**

special rules, **8:69**

sales of certain capital assets, **8:55**

Section 1374 tax impact, **8:78**

service fee distinguished, **8:67**

shareholder pass-through effect, **8:77**

special rules, **8:57**

Subchapter C earnings and profits, **8:52**

tax rate, **8:75**

taxable income, **8:71**

taxable income limitation, **8:74**

termination of S election, **8:80**

waiver of tax, **8:79**

S corporation net capital gains, prior law, **13:15**

INDEX

CORPORATE-LEVEL TAXES

—Cont'd

- S corporation previously C corporation, S corporation disadvantage vs partnership, **2:68**
- State taxes, S corporation disadvantage vs partnership, **2:72**
- Stock acquisitions
 - built-in gain, **15:46**
 - excess net passive income, **15:47**

CORPORATIONS

- Built-in gains tax
 - corporations subject to tax, **8:31**
 - recognition period, **8:33**
 - recognition period (prior law), **8:34**
- Built-in gains tax transitional rules, **8:49**
- Capital gains tax, corporations subject to the tax, **8:83**
- Definition, domestic corporation requirement, **3:2**
- Eligibility to attain status as S corporation (prior law)
 - affiliated group limitation, **3:7**
 - coping with affiliated group limitation, **3:11**
 - exception to affiliated group limitation, **3:8**
 - ineligible corporations, **3:3**
 - judicial exception to affiliated group, **3:10**
 - statutory exception to affiliated group, **3:9**
- Excess passive investment income, provider of significant services (prior law), **8:66**
- Existing
 - QSST election using Form 2553, **6:52**
 - Section 444 fiscal year election, **4:16**
- Nonrecognition on issuance of stock, S corporation, **5:30**
- Permissible and impermissible shareholders, beneficial owner of stock, **3:15**
- Tainted corporation, corporations subject to built-in gains tax, **8:31**

CORPORATION-SHAREHOLDER LOAN

- Executive compensation, below-market loans, **11:40**

CORPUS DISTRIBUTION LIMITATION

- Qualified Subchapter S trusts, **3:24**

COST DEPLETION

- Mineral exploration expenditures, S corporation special treatment, **7:35**

COST OF GOODS SOLD

- Excess passive investment income, gross receipts defined generally, **8:54**

COST OF PROPERTY

- Pass-through losses, limitations on shareholder use of, **9:3**

COURT HOLDING DECISION

- Shifting income between shareholder and corporation, **7:17**

CREDIT CARRYOVERS

- Discharge of indebtedness, corporate income determination and realization, **7:9**

CREDITORS

- Advantages of debt, insolvency, **5:20**
- Compensation, recharacterization of salary as distributions, **11:19**
- Compensation by profitable corporation without C history, shareholder without stock basis, **11:12**
- Consent to S election by shareholders, bankruptcy estates, **6:29**
- Income on repayment of debt, **5:15**
- Property distributions, gain recognition rule applicability, **10:7**
- Shareholder agreements, transfers to creditors, **18:14**

CREDITS

- Alcohol fuels, election, **17:14**
- Allocation in year of reorganization
 - A reorganizations, **13:12**
 - B reorganizations, **13:23**
 - C reorganizations, **13:32**
 - divisive D reorganizations, **13:44**
- Allocation in year of sale of stock, **12:6**
- Built-in gains tax, credits offsetting tax, **8:46**
- Capital gains tax, credits offsetting tax, **8:88**

CREDITS—Cont'd

- Claim of right doctrine, repayment of cash or property, **7:49**
- Clinical drug testing, **7:85**
- Collateral adjustments, required by certain pass-through credits, **7:79**
- Estates
 - allocation of income or loss, **19:6**
 - carryover of unused losses, **19:7**
- Excess passive investment income tax, computation of tax, **8:75**
- First time home buyer's credit and S corporations, **7:55**
- Foreign taxes
 - pass through and allocation, **7:86**
 - S corporation special treatment, **7:31**
 - tax elections at shareholder level, **7:76**
- Fuel production from nonconventional source, **7:84**
- Gasoline and fuels, **7:87**
- General business credits
 - generally, **7:80**
 - investment tax credits, **7:81**
 - limitation on use, **7:83**
 - other business tax credits, **7:82**
- Home ownership, first time home buyer's credit and S corporations, **7:55**
- Income shifting, estate planning, **19:49**
- Overview of pass through and allocation, **7:77**
- Pass through and allocation, **7:78**
- Research and development expenditures, **20:99**
- S election consequences
 - status as pass-through entity, **7:3**
 - Subchapter C years, **7:4**
- Section 444 election required payments liability, base year, **4:27**
- Separately and nonseparately stated items, **7:65**
- Shareholder agreements
 - allocation on termination of interest, **18:22**
 - distributions amount and timing, **18:23**
 - life insurance effect on redemption agreement, **18:6**
- Targeted jobs credit, **7:45, 17:14**

CREDITS—Cont'd

- Timing of pass-through items, **7:67**

CROSS BORDER TRANSFERS

- Intangible property, license or sell property, **20:50**
- Tax-free transfers, domestic transfers, **20:50**

CROSS-PURCHASE AGREEMENT

- Shareholder agreements
 - buy-sell procedures generally, **18:2**
 - income tax consequences, **18:3**
 - life insurance effect, **18:4**
 - redemption agreement, **18:5**

CROSS-PURCHASE ARRANGEMENT

- Excess passive investment income, annuities, **8:59**

CRUMMEY POWERS

- Withdrawal of income, contributions, **19:18**

CURRENT DISTRIBUTION REQUIREMENT

- Qualified Subchapter S trusts, **3:24**

CURRENT INCOME BENEFICIARY

- Shareholder agreements, shares held by QSST, **18:12**
- Trusts as S corporation shareholders
 - QSST corpus distribution limitation, **19:22**
 - QSST single income beneficiary, **19:21**
 - QSST termination of income interest, **19:23**
 - QSSTs, **19:19**
 - special problems, **19:44**

CUSTODIANS

- Consent to S election
 - identity of shareholders, **6:25**
 - minors, **6:28**
- Corporations
 - generally, **3:15**
 - individuals, **3:12**
 - not regarded as shareholder, **3:14**
- Family S corporation, tax savings potential, **19:62**

INDEX

CUSTODIANS—Cont'd

- Permissible and impermissible shareholders, **3:14**
- Shareholder number limitation, **18:9**

D

DAMAGES

- Shareholder agreements, preserving S corporation status, **3:37**

DATE OF PAYMENT

- Declaration of distribution effect, **10:45**

DATE OF QSST ELECTION

- Due
 - former grantor or Section 678 trust, **6:55**
 - stock held prior to and after S election, **6:55**
- Effective, **6:54**
- Separate written statement, **6:53**

DATE OF S ELECTION

- Effective
 - due date of election, **6:7**
 - election by corporation, **6:5**

DE MINIMIS EXCEPTION

- Section 444 election, member of tiered structure, **4:14**

DEALER IN COMMODITIES

- Excess passive investment income, sales and exchanges of stock or securities, **8:69**

DEALER IN OPTIONS

- Excess passive investment income, sales and exchanges of stock or securities, **8:69**

DEALER IN STOCK AND SECURITIES

- Excess passive investment income, sales and exchanges of stock or securities, **8:69**

DEATH

- Distributions to shareholders, transfers of shares before end of year, **10:32**
- Estates
 - allocation of income or loss, **19:6**
 - carryover of unused losses, **19:7**

DEATH—Cont'd

- Estates—Cont'd
 - fiduciary considerations, **19:12**
 - S corporation in existence at shareholder death, **19:4**
 - S election effect, **19:9**
 - stock transfer, **19:11**
 - termination of S election, **19:10**
- Officer-shareholder's death, redemption of stock, **11:28**
- Shareholder agreements, buy-sell procedures generally, **18:2**
- Trusts as S corporation shareholders, death of QSST beneficiary, **19:24**

DEATH BENEFITS

- Compensation, fringe benefits, **11:22**

DEBENTURES

- Excess passive investment income, sales and exchanges of stock or securities
 - generally, **8:56**
 - special rules, **8:69**
- Executive compensation, convertible debenture plans, **11:34**

DEBT

- Acquisitions, financed, **9:90**
- Advantages, capitalization of S corporation, **5:20**
- Bad debt deduction
 - permissible deduction, **7:50**
- Basis
 - organization of S corporation, **5:14**
 - pass-through losses, limitations on shareholder use of, **9:19, 9:39**
 - prior to Subchapter S Revision Act of 1982, **1:16**
 - Subchapter S Revision Act of 1982, **1:32**
- Below-market, capitalization of S corporation, **5:19**
- Categories of S corporation debt, debt as second class of stock
 - generally, **3:75**
 - Section 385 regulations, **3:76**
 - TARP program, debt issued under, **3:77**
- Classes of stock
 - generally, **3:75**

DEBT—Cont'd

- Classes of stock—Cont'd
 - Section 385 regulations, **3:76**
 - TARP program, debt issued under, **3:77**
- Converted C corporation
 - acquisition debt, **8:14**
- Deductibility of interest
 - capitalization of S corporation, **5:18**
 - shareholder loans to C corporation, **2:15**
- Disadvantages, capitalization of S corporation, **5:21**
- Discharge of indebtedness
 - capitalization of S corporation, **5:17**
 - income recognition, **7:9**
 - workouts, **7:10**
- Distributions, financed, **9:91**
- Equity characterization, S status
 - termination, **16:13**
- Evidence of indebtedness
 - capitalization of S corporation, **5:16**
- Exchanged for stock in recapitalization, **13:49**
- Income on repayment of debt,
 - capitalization of S corporation, **5:15**
- Income shifting, estate planning, **19:49**
- Mixed-fund investments in S corporation
 - electing qualified opportunity fund status, **3:79**
- Nonrecourse debt, reduction or discharge, **7:10**
- Original issue discount rules, S corporation as shareholder, **7:17**
- Property definition, corporate debt not evidenced by security, **5:23**
- Recharacterization as equity, termination of S election, **2:15**
- S corporation's repayment of shareholder debt
 - treated as debt, **10:53**
 - treated as equity, **10:54**
- Second class of stock
 - capitalization S corporation, **5:13**
 - corporate debt as equity, **3:75**
 - safe harbors, **3:78**
 - Section 385 regulations, **3:76**
 - TARP program, debt issued under, **3:77**

DEBT—Cont'd

- Section 385 regulations, debt as a
 - second class of stock, **3:76**
- Shareholder agreements, single-class-of-stock requirement, **18:15**
- Shareholder contribution to capital,
 - stock basis increase, **16:52**
- Single-class-of-stock regulations
 - generally, **3:75**
 - Section 385 regulations, **3:76**
 - TARP program, debt issued under, **3:77**
- Stock acquisitions, basis limitation, **15:6**
- Stock redemption financed by interest
 - on debt, **12:14**
- Straight debt, safe harbor, **3:78**
- Target corporations in reorganization,
 - second class of stock treatment effect, **13:7**
- TARP
 - debt issued under, **3:77**
 - warrants, treatment of TARP warrants, **3:60**
- Third parties, debt as second class of stock, **3:75**
- Workouts, discharge of indebtedness, **7:10**

DECEDENTS

- Income in respect of, **7:51**

DECEDENTS' ESTATES

- Consent to S election by shareholders, **6:29**
- Deemed S corporation shareholders, **19:3**
- Eligible shareholders
 - grantor trusts, **3:21**
 - Section 678 trusts, **3:22**
- Pass through of tax items to shareholders, special problems, **7:74**
- Permissible and impermissible
 - shareholders, prolonged delay in administration, **3:18**
- Redemption of stock to pay death taxes, exchange treatment, **12:10**
- Shareholder number limitation, **3:37, 3:43**

DECLARATION OF DISTRIBUTION

- Effect, **10:45**

INDEX

DECLARATION OF DIVIDEND

Declaration of distribution, **10:45**

DECREASES

Pass-through losses. See index heading
PASS-THROUGH LOSSES, LIMITATIONS ON
SHAREHOLDER USE OF

DECREE OF SEPARATE MAINTENANCE

Shareholder number limitation, **3:37**

DEDUCTIBILITY OF INTEREST

Advantages of debt, **5:20**

DEDUCTIONS

Accumulated adjustments account,
computation, **10:20**
Acquisition debt interest, S status
termination, **16:35**
Allocation in year of reorganization
A reorganizations, **13:12**
B reorganizations, **13:23**
C reorganizations, **13:32**
Allocation in year of sale of stock, **12:6**
Alternative minimum tax, shareholder
election, **17:27**
Amount of pass through of tax items,
7:68
Bad debt, **7:53**
Built-in gains tax, taxable income, **8:40**
Charitable contribution, accrual basis
corporation, **7:32**
Circulation expenses, election to deduct,
17:16
Claim of right doctrine, repayment of
cash or property, **7:49**
Compensation
fringe benefits, **11:22**
timing considerations, **11:4**
Converted C corporation
related party transactions, **8:18**
Section 183, **8:21**
Distributions to shareholders, corpora-
tion without accumulated E&P,
10:28
Dividends received, transfer of stock to
shareholders, **3:11**
Domestic manufacturing deduction,
7:40 (repealed)
Election
alternative minimum tax, **17:27**

DEDUCTIONS—Cont'd

Election—Cont'd
basis of tangible personal property,
17:16
circulation expenses, **17:16**
fertilizer expenses, **17:16**
foreign taxes, shareholders, **17:26**
mine or other natural deposit develop-
ment, **17:16**
mining expenses, shareholders, **17:25**
oil and gas drilling and development,
17:10
research and development, **17:11**
soil conservation expenses, **17:16**
water conservation expenses, **17:16**
Estates
allocation of income or loss, **19:6**
carryover of unused losses, **19:7**
Excess passive investment income
gross receipts defined generally, **8:54**
planning considerations, **8:81**
Farm-related, S corporation special
treatment, **7:46**
Fertilizer expenses, election to deduct,
17:16
Foreign dividend deduction, **20:56**
Foreign taxes
S corporation special treatment, **7:31**
shareholder election, **17:26**
Fringe benefits, S corporation disadvan-
tage vs C corporations, **2:51**
Gas drilling and development, election
to deduct, **17:10**
Income shifting, estate planning, **19:49**
Interest
deductibility when debt used to
acquire stock, **5:18**
S corporation special treatment, **7:33**
shareholder loans to C corporation,
2:15
tax deficiencies, with respect to, **7:33**
Limitations, shareholder level
determinations, **7:32**
Mining expenditures
election to deduct, **17:16**
election to deduct at shareholder
level, **17:25**
Multiple distributions exceeding AAA,
timing of distributions, **10:36**
Noncash compensation, **11:3**

DEDUCTIONS—Cont'd

- Oil drilling and development, election to deduct, **17:10**
- Partnership losses, exceeding basis, **2:26**
- Pass-through losses, limitations on shareholder use of, **9:44**
- Profit activities, presumption, election to postpone determination, **17:16**
- Receipt of interest in entity for services, **2:13**
- Research and experimental expenditures, **20:100**
- S election consequences
 - corporate tax items, **7:5**
 - status as pass-through entity, **7:3**
- Section 267 limitation, S corporation special treatment, **7:25**
- Separately and nonseparately stated items, **7:65**
- Shareholder agreements
 - allocation on termination of interest, **18:22**
 - distributions amount and timing, **18:23**
 - life insurance effect on redemption agreement, **18:6**
- Soil conservation expenses, election to deduct, **17:16**
- State and local taxes, **7:66**
- State and local taxes, S corporation special treatment, **7:41**
- Timing of pass-through items, **7:67**
- Trade or business, basis of tangible personal property, **17:16**
- Unused losses in year of reorganization
 - A reorganizations, **13:13**
 - B reorganizations, **13:24**
 - C reorganizations, **13:33**
- Water conservation expenses, election to deduct, **17:16**

DEEMED DISTRIBUTIONS

- Loans to shareholders, **10:47**
- Proposed Regulations
 - generally, **10:41**
 - procedural considerations, **17:6**
- S corporation advantage vs partnership, **2:61**
- Unreasonable compensation, **10:47**

DEEMED OWNER TRUSTS

- S status termination
 - generally, **16:13**
 - effective date, **16:18**

DEEMED OWNERS

- Death
 - QSST election due date, **6:55**
 - QSST election effective date, **6:54**
- ESOPs, broad-based employee participation requirement, **20:70**
- Estates, deemed shareholders, **19:3**
- Executive compensation, rabbi trusts, **11:41**
- Grantor trusts
 - consent to S election by shareholders, **6:30**
 - multiple capacities, **6:41**
 - pass through of tax items to shareholders, **7:74**
 - permissible and impermissible shareholders, **3:21**
- Irrevocable trusts, estate planning, **19:50**
- QSST election by current income beneficiary
 - due date, **6:55**
 - effective date, **6:54**
 - necessity of election, **6:50**
- Section 678 trusts, permissible and impermissible shareholders, **3:22**
- Trusts as S corporation shareholders
 - death of QSST beneficiary, **19:24**
 - grantor trusts, **19:17**
 - QSST election for each S corporation, **19:25**
 - QSSTs, **19:19**
 - Section 678 trusts, **19:18**
 - special problems, **19:44**

DEEMED OWNERSHIP

- Executive compensation, restricted stock plans, **11:29**

DEFERRAL ENTITIES

- Section 444 election, member of tiered structure, **4:14**

DEFERRAL ENTITY INTEREST

- De minimis exception, S corporation stock, **4:14**

INDEX

DEFERRAL PERIOD

- Computation of Section 444 election required payments liability, excess applicable payments, **4:30**
- Fiscal year
 - existing corporations, **4:16**
 - newly organized corporations, **4:15**

DEFERRAL RATIO

- Section 444 election required payments liability, computation, **4:28**

DEFERRED COMPENSATION

- Nonqualified deferred compensation, **11:44**
- Single-class-of-stock requirement, **18:15**

DEFERRED ESTATE TAX PAYMENTS

- Personal interest, S corporation special treatment, **7:33**

DEFINITIONS

- Adjusted highest Section 1 tax rate, Section 444 election required payments liability, **4:32**
- Annuities, excess passive investment income, **8:59**
- Applicable payments for base year, Section 444 election required payments liability, **4:29**
- Applicable percentage, Section 444 election required payments liability, **4:33**
- Assets, avoiding ITC recapture, **5:26**
- Base year, Section 444 election required payments liability, **4:26**
- Built-in gains, purpose and scope of tax, **8:30**
- Capital assets, excess passive investment income, **8:55**
- Consolidations, **13:6**
- Control
 - exchange of property for stock and securities, **5:25**
 - transfers of property to a corporation, **2:10**
- Deferral period
 - existing corporations, **4:16**
 - newly organized corporations, **4:15**
- Deferral ratio, Section 444 election required payments liability, **4:28**

DEFINITIONS—Cont'd

- Determination of S status termination, **16:48**
- Dividends, excess passive investment income, **8:60**
- Domestic corporation, **3:2**
- Employee fringe benefits, compensation, **11:22**
- Excess applicable payments for deferral period, Section 444 election required payments liability, **4:30**
- Excess net capital gain, capital gains tax, **8:85**
- Excess net passive income, computation of excess passive investment income tax, **8:73**
- Excess parachute payment, **11:43**
- Family
 - reallocation of income among family members, **11:6**
 - shareholder number limitation, qualifying families, **3:37**
- Gross receipts, excess passive investment income, **8:54**
- Inadvertent, **16:57**
- Income, QSST distribution of income, **19:20**
- Insurance company, **3:3**
- Interest, excess passive investment income, **8:61**
- LIFO recapture amount, S election impact, **8:8**
- Mergers, **13:6**
- Net base year income, Section 444 election required payments liability, **4:31**
- Net passive income, excess passive investment income, **8:72**
- Net recognized built-in gain, computation of built-in gains tax, **8:42**
- Net required payment balance, Section 444 election required payments liability, **4:34**
- Nonresident alien, permissible and nonpermissible shareholders, **3:13**
- Parachute payment, **11:43**
- Passive investment income, defined generally, **8:58**
- Pass-through losses. See index heading PASS-THROUGH LOSSES, LIMITATIONS ON SHAREHOLDER USE OF

DEFINITIONS—Cont'd

- Personal interest, S corporation special treatment, **7:33**
- Post-termination transition period, **16:48**
- Property
 - gain recognition rule of Section 311(b), **10:7**
 - transfer to S corporation, **5:23**
- Recognition period, built-in gains tax, **8:33**
- Rents, excess passive investment income, **8:63**
- Required payment, Section 444 election required payments liability, **4:35**
- Royalties, excess passive investment income, **8:68**
- S corporation's net income for base year, Section 444 election required payments liability, **4:27**
- Section 444 election required payments liability, **4:26**
- Section 1244 stock
 - generally, **5:33**
 - excess passive investment income, **8:56**
 - transfers of property in exchange for, **5:24**
- Small S corporation, audit and refund procedures (prior law), **17:51**
- Stock
 - excess passive investment income, **8:56**
 - transfers of property in exchange for, **5:24**
- Subchapter S item (prior law), **17:49**
- Synthetic equity, **11:38, 20:70**
- Tax benefit rule, **7:8**
- Tax matters person (prior law), **17:52**
- Two-percent shareholder, fringe benefits, **11:22**

DEPLETABLE BASIS

- Allocation to S corporation shareholders, **20:18**

DEPLETION

- Assumptions method, **20:18**
- Converted C corporations, **20:20**
- Mineral exploration expenditures, S corporation special treatment, **7:35**

DEPLETION—Cont'd

- Oil and gas
 - S corporation special treatment, **7:34**
 - separately and nonseparately stated items, **7:65**
- Oil and gas property, adjustments to basis, **20:18**
- Recapture rules, **20:23**
- Terminated S corporations, **20:21**
- Written data method, **20:18**

DEPLETION AND DEPRECIATION

- Pass-through losses. See index heading
PASS-THROUGH LOSSES, LIMITATIONS ON
SHAREHOLDER USE OF

DEPRECIABLE PROPERTY

- Election to reduce, discharge of indebtedness, **7:9**
- Excess passive investment income, sales of capital assets, **8:55**
- Property distributions, gain recognition rule consequences, **10:8**

DEPRECIATED ASSETS

- Built-in gains tax
 - excluded assets, **8:36**
 - net unrealized built-in gain, **8:32**
 - planning considerations, **8:50**

DEPRECIATED PROPERTY

- Distributions
 - nonliquidating, **10:9**
 - partial liquidation, **12:25**
 - redemption of stock, **12:14**

DEPRECIATION

- Deductions, taxable sale of property to corporation, **5:29**
- Earnings and profits, distributions to S corporation, **10:17**
- Tax elections at shareholder level, **7:76**

DESCENDANTS

- Compensation, reallocation of income among family members, **11:6**

DETERMINATION

- S status termination, post-termination transition period, **16:48**

INDEX

DEVELOPMENT AND EXPLORATION EXPENDITURES

Earnings and profits, distributions to S corporation, **10:17**

DEVELOPMENT COSTS

Election to deduct
generally, **17:11**
mine or other natural deposit, **17:16**
oil and gas, **17:10**
Gas, election to deduct expenses, **17:10**
Mine or other natural deposit, election to deduct expenses, **17:16**
Oil, election to deduct expenses, **17:10**

DIFFERING BASIS IN SHARES

Pass-through losses, limitations on shareholder use of, **9:30**

DISABILITIES

Permissible and impermissible shareholders
estate, **3:18**
individuals, **3:12**
Qualified Subchapter S trusts, current income beneficiary, **3:24**
Shareholder agreements, buy-sell procedures generally, **18:2**
Shareholder number limitation, estate, **3:37, 3:43**

DISALLOWED LOSSES

Partial liquidation, **12:23**
Redemption of stock, **12:12**

DISBURSEMENT METHOD

General discretion
generally, **11:10**
recharacterization under PAL rules, **11:21**
recharacterize distribution as salary, **11:20**
recharacterize salary as distribution, **11:19**

DISCHARGE OF INDEBTEDNESS

Built-in gains tax, recognition events, **8:35**
Debt owed to shareholder, **5:17**
Income, **7:9**

DISCHARGE OF INDEBTEDNESS

—Cont'd

Practice tips
corporate income determination and realization, **7:9**
recognition of income avoidance, **17:15**
Workouts, **7:10**

DISCLAIMERS

Estate use, **19:58**

DISCLOSURE OF SUBCHAPTER S ITEMS

Long form, **20:105**
Short form, **20:104**

DISCRETION

Disbursement method
general discretion, **11:10**
recharacterization under PAL rules, **11:21**
recharacterize distribution as salary, **11:20**
recharacterize salary as distribution, **11:19**

DISPOSITIONS

Assets
excess passive investment income, **8:81**
excess recognized built-in gain, **8:39**
excluded assets for built-in gains tax, **8:36**
installment sales and built-in gains tax, **8:38**
net recognized built-in gain, **8:42**
Election to close books, transfers of stock, **7:71**
Foreign loss recapture, converted C corporation, **8:9**
Installment obligations, converted C corporation, **8:13**
Interests in entity
adjustment to basis of assets, **2:37**
estate planning considerations, **2:38**
liquidations, **2:35**
pass-through losses, limitations on shareholder use of, **9:45 to 9:47**
redemptions, **2:34**
sale, **2:33**
tax-free transfers, **2:36**

DISPOSITIONS—Cont'd

Partnership interests, passive investment income, **8:70**

Pass-through losses. See index heading
PASS-THROUGH LOSSES, LIMITATIONS ON
SHAREHOLDER USE OF

Qualifying distributions of stock, election to close books

generally, **7:71**

example form, **7:93**

Section 1244 stock, computation of ordinary loss, **5:35**

Stock

election to close books, **7:71**

incentive stock options plans, **11:33**

passive investment income, **8:69**

pass-through losses, limitations on shareholder use of, **9:80**

potential current beneficiary, 6-day period, **3:26**

DISPOSITIONS OF PROPERTY

Installment method, sale of income, **7:15**

DISPROPORTIONATE DISTRIBUTIONS

Cash, partnership of S corporations, **2:2**

Distributions to shareholders, second class of stock concerns, **10:47**

Partnerships of S corporations

generally, **20:26**

alternatives to, **20:46**

Phantom stock, **20:46**

Proposed regulation, **10:47**

S corporations used in syndications, **20:5**

Straight debt, **20:46**

DISPROPORTIONATELY HELD DEBT

Debt as second class of stock, **3:75**

DISSOLUTION

Re-election of S status following administrative dissolution, **3:83**

Reporting requirements, **14:24**

State law mandate, S status effect, **3:83**

DISSOLUTION OF MARRIAGE

S status termination, **16:13**

DISSOLUTION OF MARRIAGE

—Cont'd

Shareholder agreements, S corporation shareholder, **18:16**

Shareholder number limitation, **3:37**

DISTRIBUTABLE NET INCOME

Estates

allocation of income or loss, **19:6**

carryover of unused losses, **19:7**

DISTRIBUTE TRUST

Permissible S corporation, potential current beneficiary, **3:26**

Potential current beneficiaries, distribution of S corporation stock, **3:26**

DISTRIBUTION DEDUCTION

Estates, allocation of income or loss, **19:6**

DISTRIBUTION OF CORPORATION'S NOTE

Distributions by corporations with E&P, alternatives to cash distributions, **10:41**

DISTRIBUTION OF NONCASH PROPERTY

Taxation of, **10:46**

DISTRIBUTIONS

Accounting for ownership changes, **3:57**

Accumulated adjustments account

distributions effect, **10:21**

election to bypass

generally, **17:4**

post-termination transition period, **17:8**

Administrative matters

filing necessary forms, **10:55**

information required on Schedules of Form 1120-S, **10:56**

Appreciated property

income from corporate transactions, **7:12**

Appreciated property to redeem stock, **12:14**

Assets acquisitions

acquiring S corporation, **15:35**

post-termination transition period, **15:32**

selling corporation, **15:36**

INDEX

DISTRIBUTIONS—Cont'd

- B reorganizations, **13:25**
- Bypass PTI election, **10:40**
- C reorganizations, **13:34**
- Cash, S corporation advantage, **2:43**
- Cash redemptions, **12:14**
- Circumvent class of stock requirement, **3:51**
- Commercial contractual arrangements, **3:51**
- Compensation
 - disbursement method general discretion, **11:10**
 - employment taxes and wage withholding, **11:7**
 - recharacterize distributions as salary, **11:20**
 - recharacterize salary as distributions, **11:19**
 - wage withholding, **7:90**
- Compensation by loss corporation with C history
 - shareholder with stock basis, **11:17**
 - shareholder without stock basis, **11:18**
- Compensation by loss corporation without C history, shareholder with stock basis, **11:13**
- Compensation by profitable corporation without C history
 - shareholder with stock basis, **11:11, 11:15**
 - shareholder without stock basis, **11:12**
- Constructive distributions, **10:48**
- Corporate separations, **13:45**
- Corporations with accumulated E&P
 - generally, **10:30**
 - alternatives to cash distributions, **10:41**
 - election to treat distributions as dividends, **10:40**
 - elimination of Subchapter S E&P, **10:42**
 - multiple distributions that exceed AAA, **10:34**
 - Subchapter C and S accumulated E&P, **10:43**
 - tax-exempt income and related expenses, **10:38**
 - timing of distributions, **10:36**
 - transfers of stock, **10:35**

DISTRIBUTIONS—Cont'd

- Corporations with no accumulated E&P
 - generally, **10:28**
 - differing bases in stock, **10:29**
 - timing of adjustments to basis, **10:30**
 - transfers of shares before end of year, **10:32**
- Current
 - partnership, **2:25**
 - S corporation, **2:25**
- Debt-financed, **9:91**
- Declaration of distribution effect, **10:45**
- Deemed distribution election, **10:41**
- Deemed distributions, **10:48**
- Depreciated property in redemption of stock, income and loss of S corporation effect, **12:14**
- Disproportionate, proposed regulations, **10:47**
- Disproportionate distributions of earnings
 - partnership of S corporation, **2:67**
 - S corporation disadvantage vs partnership, **2:67**
 - second class of stock and other concerns, **10:47**
- Dividends. See index heading **DIVIDENDS**
- Estate planning, postmortem, **19:55**
- Estates
 - administrative powers of personal representatives, **19:16**
 - allocation of income or loss, **19:6**
 - carryover of unused losses, **19:7**
 - fiduciary considerations on S conversion, **19:15**
- Exceeding AAA, **10:34**
- Excess passive investment income
 - planning considerations, **8:81**
 - purpose and scope of tax, **8:51**
- Executive compensation
 - below-market loans, **11:40**
 - phantom stock plans, **11:39**
- Former S corporations, nondividend treatment, **13:10**
- In kind, excess passive investment income planning considerations, **8:81**
- Income shifting, estate planning, **19:49**
- Investment tax credit recapture, converted C corporation, **8:10**

DISTRIBUTIONS—Cont'd

- Irrevocable trusts, estate planning, **19:50**
- Liquidating
 - appreciated property, **7:12**
 - property distributions subject to gain recognition rule, **10:7**
- Liquidations
 - generally, **14:2**
 - generally, **14:2**
 - deemed sale of assets, **10:11**
 - documentation, **14:17**
 - installment obligations, **14:10**
 - pro rata distributions, **14:3**
 - Section 332, **14:12**
 - shareholder gain or loss, **14:17**
 - tax avoidance purposes, **14:3**
- Liquidations of entity, **2:35**
- Loans treated as, **10:47**
- Multiple, exceeding AAA, **10:34**
- Noncash property distribution, taxation to shareholders, **10:46**
- Nonliquidating
 - generally, **10:6 to 10:9.50**
 - appreciated property, **7:12**
 - basis (prior law), **7:14**
- Not essentially equivalent to a dividend, **12:21**
- Overview
 - generally, **10:1**
 - corporate-level consequences,
 - noncash distributions, **10:4**
 - shareholder-level consequences
 - S corporation with accumulated E&P, **10:3**
 - S corporation without accumulated E&P, **10:2**
- Partial liquidation
 - property distributions subject to gain recognition, **10:7**
 - treatment, **12:21**
- Partnership of S corporations
 - generally, **20:38**
 - disproportionate distribution of cash, **2:2**
- Pass through of tax items to estate or trust, **7:74**
- Post-termination transition period, dividend treatment election, **10:52, 16:51**

DISTRIBUTIONS—Cont'd

- Practice tips
 - depreciated property, **10:9**
 - shareholders differing bases in stock, **10:29**
- Prior to Subchapter S Revision Act of 1982
 - cash, **1:12**
 - deemed dividends, **1:12**
 - earnings and profits, **1:15**
 - previously taxed income, **1:14**
 - undistributed taxable income, **1:13**
- Property, S corporation disadvantage over partnership, **2:70**
- Qualified Subchapter S Trusts, requirements for status, **3:24**
- Recharacterization, single-class-of-stock requirement, **3:51**
- Redemption of stock, property distributions subject to gain recognition rule, **10:7**
- Redemptions of stock treated as
 - generally, **12:11**
 - accumulated adjustments account, **12:20**
 - effect on AAA, **10:22**
- Repayment of shareholder debt
 - treated as debt, **10:53**
 - treated as equity, **10:54**
- S corporation consequences
 - accumulated adjustments account, **10:12**
 - accumulated earnings and profits generally, **10:13**
 - adjustment for distributions, **10:14**
 - adjustments for corporate transactions, **10:15**
 - adjustments for ITC recapture, **10:16**
 - adjustments to earnings and profits, **10:17**
 - cash distributions, **10:5**
 - complete liquidation distributions, **10:11**
 - depreciated property distributions, **10:9**
 - gain recognition rule consequences, **10:8**
 - property distributions subject to gain recognition rule, **10:7**
 - Section 336(e), **10:10**

INDEX

DISTRIBUTIONS—Cont'd

- S corporations used in syndications, **20:5**
- Section 336
 - complete liquidation, **10:11**
 - elections under Section 336(e), **15:53**
 - nonliquidating distributions of property, **10:10**
- Shareholder agreements
 - after termination of S corporation status, **18:26**
 - amount and timing, **18:23**
 - appreciated property, **18:25**
 - election to treat as taxable dividends, **18:26**
 - impact of restricted stock, **3:61**
 - redemption agreement, **18:5**
 - single-class-of-stock requirement, **18:24**
- Single-class-of-stock requirement
 - generally, **3:51**
 - accounting for ownership changes, **3:57**
 - timing differences, **3:52**
- Single-class-of-stock requirement, Generally, **3:52 to 3:74**
- Stock acquisitions
 - pre and post-acquisition, **15:13**
 - redemption effects, **15:17**
 - sale of stock effect on seller, **15:16**
- Stock disregarded as outstanding for Subchapter S purposes
 - generally, **10:49**
 - general restricted stock, **10:51**
 - restricted bank director stock, **10:50**
- Subchapter C earnings and profits,
 - excess passive investment income planning considerations, **8:81**
- Subchapter S distribution rules, distributions to which Section 1368 applies, **10:27**
- Subchapter S Revision Act of 1982
 - corporations with accumulated E&P, **1:29**
 - corporations with no accumulated E&P, **1:30**
- Suspended losses carried forward, taxation of distributions when, **10:31**
- Taxable dividend treatment, **12:11**

DISTRIBUTIONS—Cont'd

- Taxable years of shareholder and corporation, shareholders with taxable years different from S corporation, **10:44**
 - Termination of S status, **16:50**
 - Timing differences
 - generally, **3:51, 3:52**
 - disproportionate distributions, **10:47**
 - Trusts as S corporation shareholders
 - charitable lead trusts, **19:40**
 - charitable remainder trusts, **19:40**
 - grantor's obligation to beneficiaries, **3:24**
 - QSST corpus distribution limitation, **19:22**
 - QSST distribution of income, **19:20**
 - special problems, **19:44**
 - sprinkling trusts, **19:40**
 - Trusts as S shareholders, grantor's obligation to beneficiaries, **3:24**
 - Withholding requirements, **17:31**
- ### DISTRIBUTIONS IN PARTIAL LIQUIDATION
- Property distributions, gain recognition rule applicability, **10:7**
- ### DISTRIBUTIONS IN REDEMPTION OF STOCK
- Property distributions, gain recognition rule applicability, **10:7**
- ### DISTRICT DIRECTOR
- Excess passive investment income, waiver of tax, **8:79**
- ### DISTRICT OF COLUMBIA
- Incorporation, domestic incorporation requirement, **5:2**
- ### DIVERSIFICATION
- ESOP diversification requirements, **11:25**
 - S status termination, **16:15**
- ### DIVIDEND DECLARATION DATE
- Declaration of distribution effect, **10:45**
- ### DIVIDENDS
- Accumulated adjustments account distributions effect, **10:21**
 - purposes, **10:18**

DIVIDENDS—Cont'd

- Accumulated adjustments account
 - Cont'd
 - redemptions effect, **10:22**
- Accumulated earnings and profits
 - generally, **10:13**
 - adjustments for distributions, **10:14**
- Affiliated group limitation (prior law),
 - transfer of stock to shareholders of parent corporation, **3:11**
- Boot received in A reorganization, **13:14**
- Constructive, excess passive investment income, **8:54**
- Converted C corporation
 - earnings and profits, **8:24**
 - single-class-of-stock requirement, **1:12**
- Distributions
 - acquiring S corporation, distributions from, **13:9**
 - amount and timing, **18:23**
 - cash distributions consequences to S corporation, **10:5**
 - corporations with accumulated E&P
 - generally, **10:30**
 - election to treat distributions as dividends, **10:40**
 - overview, **10:3**
 - deemed dividend election, **10:59**
 - election to treat distributions as dividends, **18:26**
 - estates, allocation of income or loss, **19:6**
 - information required on Schedules of Form 1120-S, **10:56**
 - life insurance effect on redemption agreement, **18:6**
 - not considered as dividends, **12:21**
 - post-termination transition period distributions, **10:52**
 - property distributions subject to gain recognition rule, **10:7**
 - shareholder agreements
 - distributions after termination of S status, **18:26**
 - distributions amount and timing, **18:23**
 - election to treat distributions as dividends, **18:26**

DIVIDENDS—Cont'd

- Distributions—Cont'd
 - shareholder agreements—Cont'd
 - life insurance effect on redemption agreement, **18:6**
 - single-class-of-stock requirement effect, **18:24**
 - shareholders with different taxable years from S corporation, **10:44**
 - termination of S status, distributions after, **18:26**
- Divisive D reorganizations, controlled S corporation, **13:41**
- Election for S status, dividends qualifying for long term capital gain rates, **7:60**
- Excess passive investment income
 - defined generally, **8:58**
 - planning considerations, **8:81**
 - special rules, **8:60**
- Executive compensation
 - junior stock plans, **11:30**
 - nonstock incentive programs, **11:35**
 - phantom stock plans, **11:39**
- Foreign taxes, S corporation special treatment, **7:31**
- Inadvertent terminations, **16:60**
- Multiple distributions exceeding AAA
 - timing of distributions, **10:36**
 - transfers of stock, **10:35**
- Nontaxable, accumulated adjustments account, **12:7**
- Passive investment income, parent corporation recognition, **8:60**
- Pass-through losses. See index heading PASS-THROUGH LOSSES, LIMITATIONS ON SHAREHOLDER USE OF
- Post-termination transition period
 - distributions dividends treatment generally, **16:51**
 - form for election, **16:68**
- Redemption treated as distribution, accumulated earnings and profits, **12:20**
- Rights, organization of S corporation, **5:6**
- Sale of stock, S corporation as shareholder (prior law), **7:14**
- Tax
 - distribution in redemption of stock, **12:11**

INDEX

DIVIDENDS—Cont'd

Tax—Cont'd
varying tax rates, **2:21**

DIVIDENDS RECEIVED DEDUCTION

Section 243, S corporation special treatment, **7:22**

DIVISION OF ENTITY

Corporations, Section 355, **2:35**
Partnership, distribution and recontribution, **2:35**

DIVISIVE D REORGANIZATIONS

Administrative exception to affiliated group limitation (prior law), **13:10**
Allocation of S corporation tax items, **13:44**

Appreciated property distributed, **13:45**
Boot distributions, **13:45**
Built-in gains tax, **13:43**
Controlled corporation, former Section 1374, **13:48**

Corporate separations, **13:38 et seq.**
Distributions before reorganization, **13:45**

Earnings and profits allocation, **13:41**
Exception to affiliated group limitation, **13:10**

G reorganizations, **13:51**
ITC recapture, **13:46**
Post-reorganization distributions, **13:45**
Reorganization effect on AAA, **10:23**
S corporations, **13:38**
Split-offs, boot received by shareholders, **13:45**

Split-ups, boot received by shareholders, **13:45**

Tax-free cash distributions, **13:45**
Transferor C corporation, S election by, **13:40**

Transferor S corporation
accumulated adjustments account, **13:42**

S election, **13:39**

DIVORCE

Pass-through losses, limitations on shareholder use of, **9:36**
Shareholder agreements, S corporation shareholder, **18:16**

DIVORCE—Cont'd

Shareholder number limitation, interlocutory decree of divorce, **3:37**

DOMESTIC INTERNATIONAL SALES CORPORATION (DISC)

Ineligible corporations, **3:3**

DOMESTIC MANUFACTURING DEDUCTION

Election for s status, special treatment, **7:40 (repealed)**

DOMESTIC TAXES

State and local, S corporation special treatment, **7:41**

DONEE SPOUSE

Trusts as S corporation shareholders, marital trusts, **19:41**

DONORS

IRS power to reallocate tax items, **7:73**

DOUBLE BENEFIT FROM S CORPORATION LOSSES

Pass-through losses, limitations on shareholder use of, **9:2**

DOUBLE TAXATION

Choice of entity, **2:3**
Distribution of appreciated property, avoidance of, **2:31**
Distributions, overview, **10:1**
Foreign tax credit, credit against income tax, **20:54**
S corporation advantage vs C corporation, **2:41**
U.S. citizens resident in foreign countries who own S corporations, **20:53**
Venture capital activities, **20:88**

DOWNSTREAM MERGER

Affiliated group limitation (prior law), avoiding limitation, **3:11**

DRILLING COSTS

Pass-through losses, limitations on shareholder use of, **9:14**

DUE DATE OF S ELECTION

Consent by shareholders, **6:43**
Election by corporation, **6:7**

DUE DILIGENCE

Excess passive investment income
planning considerations, **8:81**
waiver of tax, **8:79**

DWELLING UNIT

Home-related deductions, S corporation
special treatment, **10:17**

E

E & P ADJUSTMENTS

Estimates during C period, subsequent
adjustments, **7:27**

EARNED INCOME

Compensation, Keogh plans, **11:24**

EARNINGS AND PROFITS

Accumulated, adjustments for distribu-
tions, **10:14**
Accumulated adjustments account
purpose, **10:18**
Allocation in divisive D reorganizations
generally, **13:41**
AAA of two S corporations, **10:23**
Built-in gains tax, planning
considerations, **8:50**
Carryover to acquiring S corporation in
merger or consolidation, **13:9**
Compensation by profitable corporation
with C history, shareholder without
stock basis, **11:16**
Declaration of distribution effect, **10:45**
Distributions
avoidance of S status termination,
16:15
S corporation without accumulated
E&P, **10:2**
Distributions by corporations with
accumulated E&P
alternatives to cash distributions,
10:41
election to treat as dividends, **10:40**

EARNINGS PER SHARE

Executive compensation, performance
unit plans, **11:37**

ECONOMIC PREFERENCES

Advantages of debt, **5:20**

**ECONOMIC RECOVERY TAX ACT
OF 1981**

Trusts as S corporation shareholders,
Section 678 trusts, **19:18**

ECONOMIC RIGHTS

Converted C corporation, single-class-
of-stock requirement, **18:15, 18:24**
Stock, organization of S corporation, **5:6**

ECONOMIC RIGHTS DIFFERENCES

Single-class-of-stock rules, **3:51**

EFFECTIVE DATE

Notice of S status revocation, **16:3**
QSST election
former grantor or Section 678 trust,
6:54
separate written statement, **6:53**
stock held prior to and after S elec-
tion, **6:54**

EGTRRA

Property, basis step-up provisions, **19:5**

**ELECTING SMALL BUSINESS
TRUSTS (ESBTs)**

Generally, **3:26, 19:27 et seq.**
Acquisition by purchase, **19:29**
Beneficiaries
generally, **19:27**
current potential beneficiaries, **19:28**
distribution of income, **19:27**
permitted
generally, **3:26, 19:28**
estate planning, **19:27**
Benefits to shareholders, **19:27**
Capital losses vs. capital gains, ordinary
income, **19:27**
Consent to S election, **6:32**
Conversion, QSST to ESBT, **3:24**
Conversion from QSST, **6:64**
Conversion to and from QSST,
procedures from IRS, **6:75**
Converting to QSST, consent by Ser-
vice, **19:27**
Death of shareholder, effect on basis in
stock and assets, **19:5**
Distributee trust
beneficiary, **19:27**
rules to determine beneficiaries, **3:26**

INDEX

ELECTING SMALL BUSINESS TRUSTS (ESBTs)—Cont'd

Election

decendent trusts, time for election, **6:68**

effect of ESBT election, **19:30**

effective date, **6:73**

form of election, final regulations, **6:66**

grantor trust, **3:26**

intervivos gift, **19:27**

proposed regulations, separate election statement, **6:66**

protective election, permissible S corporation shareholder, **6:74**

time to file election, requirements, **6:66**

trust taxable year, **6:73**

trustees, authority to bind trust, **6:68**

Election of S corporation, qualified shareholders, **19:27**

Election of trustee

due date, **6:68**

effective date, **6:67**

election format, **6:81**

execution of election form, **6:69**

extension to file election, **6:71**

form of election, **6:66**

necessity of election, **6:65**

proof of filing, **6:70**

revocation of election, **6:72**

Election to qualify, **19:27**

Eligible beneficiary, nonresident alien, **3:26**

Estate planning, **19:27**

Estimated tax payments, **19:36**

Generation skipping tax, **19:38**

Income taxation of ESBTs, **19:35**

Number of shareholders, rules, **3:45**

Owner's consent, S corporation income, **6:29**

Permissible and impermissible shareholders, **3:23**

Permissible beneficiaries, **3:26, 19:28**

Preserving S corporation status, **18:13**

Proposed regulations, modify procedures for conversion, **3:26**

QSSTs

differences, **19:31**

revocation of QSST election, **6:63**

ELECTING SMALL BUSINESS TRUSTS (ESBTs)—Cont'd

Qualifications of trusts, **3:26**

Reformation of existing trusts, **3:26**

Revocation of ESBT status, **19:34**

Section 444 Rules, **19:37**

Section 678 and grantor trusts, **19:32**

Section 678 trust, election to become ESBT, **3:22**

Shareholders, trusts, ESBT election, **3:23, 19:27**

Taxation of ESBT, taxation of trusts, **19:27**

Termination of ESBT status, **19:34**

Voting trust, beneficiary interest, **19:39**

ELECTION FOR S STATUS

Accumulated adjustments account, purposes, **10:18**

Administrative Procedure Act, **7:58**

Administrator consents, **6:29**

Alternative minimum tax, **7:44**

Asset acquisitions

general considerations, **15:18**

ineligible shareholders, **15:19**

numerical shareholder limitation, **15:20**

passive income assets, **15:22**

reelection of S status, **15:23**

second class of stock, **15:21**

selling corporation acquisition of assets, **15:24**

Bad debt deduction treatment, **7:53**

Built-in gains tax, purpose and scope of tax, **8:30**

Capital gain and loss, S corporation special treatment, **7:36, 7:60**

Capitalization of reorganization expenses, **7:59, 13:5**

Carried interest rules, **7:58**

Character of gain at corporate level, **7:37**

Charitable contributions, **7:32, 7:56**

Claim of right doctrine, **7:49**

Collateral effects of pass through of tax items, **7:88**

Compensation paid in property, S corporation special treatment, **7:26**

Consent by shareholders

due date of consent, **6:43**

ELECTION FOR S STATUS—Cont'd

Consent by shareholders—Cont'd
 effect of consent, **6:48**
 errors and omissions, **6:47**
 estates, **6:29**
 extension to file consent, **6:42**
 form of consent, **6:42**
 identity of shareholders, **6:25 et seq.**
 incorporators, **6:37**
 joint owners, **6:26**
 minors, **6:28**
 multiple capacities, **6:41**
 nonvoting shares, **6:33**
 powers of attorney, **6:40**
 restricted stock, **6:30**
 revocation of consent, **6:49**
 single member limited liability companies, **6:31**
 split interests, **6:34**
 spouses, **6:27**
 stock options, **6:36**
 stock warrants, **6:37**
 subscribers, **6:39**
 tax-exempt entities, **6:32**
 time shareholders determined, **6:24**
 transmittal and proof of filing, **6:46**
 trusts, **6:30**

Consequences of
 corporate tax items determination and realization, **7:5**
 immediate tax consequences, **7:4**
 status as pass-through entity, **7:3**

Controlled corporation, divisive D reorganization, **13:40**

Converted C corporation
 eligibility requirements, **8:7**
 foreign loss recapture, **8:9**
 percentage depletion (prior law), **8:17**
 Subchapter S eligibility requirements, **8:2**

Corporate income realization and determination
 appreciated property distribution, **7:12**
 discharge of indebtedness income, **7:9**
 income arising from corporate transactions, **7:12**
 issuance of stock for property, **7:13**
 method of accounting, **7:11**

ELECTION FOR S STATUS—Cont'd

Corporate income realization and determination—Cont'd
 nonrecognition provisions, **7:7**
 other items of income, **7:17**
 overview, **7:6**
 S corporation as shareholder (prior law), **7:14**
 stock transactions of another corporation, **7:15**
 taxable year, **7:11**

Corporate level election, **17:2**

Corporate level preference items under Section 267, **7:23**

Deductions limited by Section 267, S corporation special treatment, **7:25**

Dividends qualifying for long term capital gain rates, **7:60**

Dividends received deduction, **7:22**

Domestic manufacturing deduction, **7:40 (repealed)**

Domestic taxes, S corporation special treatment, **7:41**

Electing small business trust (ESBT)
 due date, **6:68**
 effective date, **6:67**
 election format, **6:81**
 execution of election form, **6:69**
 extension to file election, **6:71**
 form of election, **6:66**
 necessity of election, **6:65**
 proof of filing, **6:70**
 revocation of election, **6:72**

Election by association, **6:15**

Election by corporation
 designation of permitted taxable year, **6:6**
 due date of election, **6:7**
 effect of election, **6:22**
 effective date of election, **6:5**
 eligible corporation, **6:2**
 execution of election form, **6:4**
 extension to file election, **6:8**
 form for election, **6:3**
 revocation of election, **6:23**

Election by corporation, generally, **6:2 to 6:23**

Election by QSST current income beneficiary
 affirmative refusal to consent, **6:62**

INDEX

ELECTION FOR S STATUS—Cont'd

- Election by QSST current income beneficiary—Cont'd
 - due date, **6:55**
 - effect of election, **6:61**
 - effective date, **6:54**
 - errors and omissions, **6:60**
 - execution of election form, **6:57**
 - extension to file election, **6:59**
 - Form 2553, **6:52**
 - form for election, **6:51**
 - necessity of election, **6:50**
 - revocation of election, **6:63**
 - separate written statement, **6:53**
 - transmittal and proof of filing, **6:56**
- Election to close books, transfers of stock, **7:71**
- Election to revoke S status, overview, **17:3**
- Eligibility
 - corporate-level restrictions, **2:4**
 - date of election, **3:82**
 - eligible corporation, **6:2**
 - shareholder-level restrictions, **2:4**
- Errors and omissions, **6:18**
- Executive compensation, nonstatutory stock option plan, **11:32**
- Executor consents, **6:29**
- Expensed property, S corporation special treatment, **7:39**
- Extension to file, **6:8**
- F reorganizations, **13:50**
- Farm-related deductions, **7:46**
- Fiduciary consents, **6:29**
- First time home buyer's credit, **7:55**
- Foreign taxes, S corporation special treatment, **7:31**
- Form of request for revocation, **16:65**
- Forms
 - election to close books
 - termination of stock interest, **7:92**
 - transfer substantial amount of stock, **7:93**
 - Form 2553, **6:76**
 - instructions to Form 2553, **6:76**
 - proof of filing, **6:78**
 - QSST election, **6:80**
 - separate statement of shareholder consent, **6:79**

ELECTION FOR S STATUS—Cont'd

- Fringe benefits, **7:24, 7:29**
- G reorganizations, **13:51**
- Golden parachute payments, **7:61**
- Hobby losses, **7:30**
- Home-related deductions, **7:27**
- Impact of election, **7:1 et seq.**
- Inadvertent termination of election
 - QSST or ESBTs, **16:63**
 - simplified procedures, **16:63**
- Income in respect of a decedent, **7:51**
- Interest, S corporation special treatment, **7:33**
- Invalid election relief
 - generally, **6:19**
 - QSST or ESBT election, **6:21, 16:63**
- Joint relief for late S corporation election and late classification election, **6:11**
- Late filing, simplified procedure for seeking relief, **6:10, 6:11**
- Liquidation, **14:8**
- Meal and entertainment expenses, **7:50**
- Medicare tax, **7:91**
- Mineral exploration expenditures, **7:35**
- Net operating losses, **7:20**
- New parent entity to hold stock of existing S corporation, **6:14**
- Newly organized corporation, **6:13**
- Non-subchapter S purposes, treatment of S corporation as corporation for, **7:52**
- Notification of acceptance, election form by the Service, **6:17**
- Oil and gas expenditures, **7:34**
- Organizational expenditures, S corporation special treatment, **7:20, 7:21**
- Overview, **6:1**
- Partial liquidation effect, **12:27**
- Pass through of tax items to shareholders
 - allocation in year of termination, **7:72**
 - allocation of tax items among shareholders, **7:70**
 - amount of pass through of tax items, **7:68**
 - at risk problems, **9:60**
 - character of tax items that pass through, **7:69**

ELECTION FOR S STATUS—Cont'd

Pass through of tax items to shareholders—Cont'd
 election to close books on transfer of shares, **7:71**
 IRS's power to reallocate tax items, **7:73**
 overview, **7:63**
 ownership of shares for purposes of allocating S corporation tax items, determining, **7:64**
 separately stated items, **7:65, 7:66**
 special problems, estates and trusts, **7:74**
 state and local taxes, **7:66**
 timing of pass through of tax items, **7:67**
 Personal use property, pass-through of expenses relating to, **7:43**
 Power of attorney consents, **6:40**
 Prior to
 generally, **1:7**
 small business corporation, **1:21**
 QSST election by current income beneficiary
 affirmative refusal to consent, **6:62**
 due date, **6:55**
 effect of election, **6:61**
 effective date, **6:54**
 errors and omissions, **6:60**
 extension to file election, **6:59**
 Form 2553, **6:52**
 form of election, **6:51**
 necessity of election, **6:50**
 revocation of election, **6:63**
 separate written statement, **6:53**
 transmittal and proof of filing, **6:56**
 Recapitalizations effect, **13:49**
 Redemptions effect, **12:17**
 Re-election after B reorganization, **13:21**
 Re-election after termination due to merger, **13:8**
 Reforestation expenditures, **7:42**
 Regulated futures contracts, **7:48**
 Revocation
 by purchasing shareholder, **12:5**
 former target corporation shareholders after merger, **13:7**
 Sale of stock, effect on, **12:5**

ELECTION FOR S STATUS—Cont'd

Section 165(g)3, treatment of S corporation as corporation for purposes of, **7:36, 7:57**
 Section 170, treatment of S corporation as corporation under, **7:56**
 Section 267, losses limited by, S corporation special treatment, **7:25**
 Section 1231 gain and loss, S corporation special treatment, **7:38**
 Section 1244 stock, worthless stock deduction, **7:54**
 Self-employment tax, **7:89**
 Shareholder agreements
 electing S status, **18:8**
 preserving S status, **18:9**
 Shareholder consent, shareholder level election, **17:17**
 Special treatment
 generally, **7:18 et seq.**
 alternative minimum tax, **7:44**
 bad debt deduction treatment, **7:53**
 capital gain and loss, **7:36, 7:60**
 carried interest rules, **7:58**
 character of gain at corporate level, **7:37**
 charitable contributions, **7:32, 7:56**
 claim of right doctrine, **7:49**
 compensation paid in property, **7:26**
 corporate level preference items under Section 267, **7:23**
 deductions limited by Section 267, **7:25**
 dividends qualifying for long-term capital gain rates, **7:60**
 dividends received deduction, **7:22**
 domestic manufacturing deduction, **7:40 (repealed)**
 domestic taxes, **7:41**
 expensed property, **7:39**
 farm-related deductions, **7:46**
 first time home buyer's credit and S corporations, **7:55**
 foreign taxes, **7:31**
 fringe benefits, treatment of, **7:24, 7:29**
 golden parachute payments, **7:61**
 hobby losses, **7:30**
 home-related deductions, **7:27**
 income in respect of a decedent, **7:51**

INDEX

ELECTION FOR S STATUS—Cont'd

- Special treatment—Cont'd
 - interest, **7:33**
 - losses limited by Section 267, **7:25**
 - meal and entertainment expenses, **7:50**
 - mineral exploration expenditures, **7:35**
 - miscellaneous itemized deductions, **7:47**
 - net operating losses, **7:20**
 - non-subchapter S purposes, treatment of S corporation as corporation for, **7:52**
 - oil and gas expenditures, **7:34**
 - organizational expenditures, **7:20, 7:21**
 - partnership tax principles, **7:52**
 - personal deductions, **7:29**
 - personal exemptions, **7:28**
 - personal use property, pass-through of expenses relating to, **7:43**
 - qualified business income deduction, **7:62**
 - reforestation expenditures, **7:42**
 - regulated futures contracts, **7:48**
 - Section 165(g)3, treatment of S corporation as corporation for purposes of, **7:36, 7:57**
 - Section 170, treatment of S corporation as corporation under, **7:56**
 - Section 1231 gain and loss, **7:38**
 - Section 1244 stock, worthless stock deduction, **7:54**
 - tax preference items, **7:45**
- Special treatment, generally, **7:19**
- State and local taxes, recognition of Subchapter S election, **7:41**
- Statutory merger, effect of, **13:7**
- Syndication, S corporation used in, **20:9**
- Tax credits
 - clinical drug testing credit, **7:85**
 - collateral adjustments, pass through credits, **7:79**
 - credit for production of fuel, nonconventional sources, **7:84**
 - foreign tax credit, **7:86**
 - gasoline and fuels credit, **7:87**
 - general business credits
 - generally, **7:80**

ELECTION FOR S STATUS—Cont'd

- Tax credits—Cont'd
 - general business credits—Cont'd
 - ITC's, **7:81**
 - limitation on use of general business credit, **7:83**
 - other general business credits, **7:82**
 - overview, **7:77**
 - pass through and allocation of credits, **7:78**
- Tax elections
 - corporate level, **7:75**
 - shareholder level, **7:76**
- Tax preference items, special treatment, **7:45**
- Tax-exempt entities, **6:32**
- Termination, proven property transfer rule effect, **20:21**
- Termination in year of sale of stock, **12:6**
- Termination upon reorganization
 - allocation of income and loss items, **13:12**
 - avoidance in B reorganizations, **13:20**
 - B reorganizations, **13:20**
 - C reorganizations, **13:27**
 - divisive D reorganizations, **13:39**
 - merger or consolidation of target S corporation, **13:7**
- Transfer treatment of corporation's proven oil and gas properties, **20:20**
- Transferor C corporation, divisive D reorganization, **13:40**
- Transmittal and proof of filing, **6:16**
- Waiver of inadvertent termination, procedures for request, **16:63**
- Withholding, **7:90**

ELECTION OF INCOME TAX TREATMENT

- Generally, **17:9**
- Alcohol fuels credit, **17:14**
- Alternative minimum tax, election of shareholders, **17:27**
- Bankruptcy, cancellation of indebtedness, **17:15**
- Business deduction, basis of tangible personal property, **17:16**
- Cancellation of indebtedness, **17:15**

ELECTION OF INCOME TAX

TREATMENT—Cont'd

Capitalization of taxes, interest and carrying charges, **17:16**
 Circulation expenditures, **17:16**
 Credits, **17:14**
 Development costs
 generally, **17:11**
 gas, **17:10**
 mine or other natural deposit, **17:16**
 oil, **17:10**
 Fertilizer expenditures, **17:16**
 Fiscal years, **17:16**
 Foreign taxes, election of shareholders, **17:26**
 Gas drilling and development costs, **17:10**
 Insolvency, cancellation of indebtedness, **17:15**
 Installment reporting, **17:12**
 Involuntary conversion of property, **17:13**
 Mine or other natural deposit expenditures, **17:16**
 Mining exploration expenses, election of shareholders, **17:25**
 Oil drilling and development costs, **17:10**
 Organizational expenses, amortization, **17:16**
 Pollution control facilities, amortization, **17:16**
 Profit activity, postponement of determination, **17:16**
 Research costs, **17:11**
 Section 444, **17:16**
 Shareholders
 generally, **17:24**
 alternative minimum tax, **17:27**
 consent to bypass AAA, **17:23**
 consent to S status, **17:17**
 foreign taxes, **17:26**
 mining exploration expenses, **17:25**
 Soil conservation expenditures, **17:16**
 Start-up expenses, amortization, **17:16**
 Targeted jobs credit, **17:14**
 Tax credits, **17:14**
 Trade or business deduction, basis of tangible personal property, **17:16**
 Water conservation expenditures, **17:16**

ELECTION RELIEF

General procedure, inadvertent invalid election relief, **6:20**
 Inadvertent, shareholder consent, **6:19**

ELECTION TO CLOSE

CORPORATION BOOKS

Generally, **17:7**
 Merger or consolidation, **13:12**
 Pro rata daily allocation exception, **16:23**
 S short year last day, **12:6**
 S status termination form, **16:67**
 Shareholder consent, **17:22**
 Stock redemption, **12:11**
 Termination of stock interest
 allocation of acquired S corporation's tax items, **15:12**
 carryover of unused losses, **19:7**
 estate allocation of income or loss, **19:6**
 forms, **7:92**
 timing of pass-through items, **7:67**
 Transfer of shares, **7:71**
 Transfer of shares before end of year, **10:32**

ELECTION TO REVOKE S STATUS

Overview, **17:3**

ELECTIONS

Accumulated adjustments account
 allocating for substantial stock transfers, **10:24**
 bypass PTI
 generally, **10:40**
 procedural considerations, **17:5**
 bypass under Section 1368(e)(3) form, **10:57**
 close books upon share transfers, **10:32**
 deemed distributions, **10:41**
 Amortize research and experimental expenditures, S corporation, **20:100**
 Basis reduction discharge of indebtedness, **7:9**
 Close book upon qualifying transfers
 generally, **10:32**
 procedural considerations, **17:7**
 Close books of S corporation
 merger or consolidation, **13:12**

INDEX

ELECTIONS—Cont'd

- Close books of S corporation—Cont'd
 - procedural considerations, **17:7**
 - S short year last day, **12:6**
 - stock redemption, **12:11**
- Close books on substantial disposition forms, **7:93**
 - Proposed Regulations, **7:71**
- Close books on termination of stock interest
 - allocation of acquired S corporation's tax items, **15:12**
 - estate allocation of income or loss, **19:6**
 - forms, **7:92**
 - timing of pass-through items, **7:67**
 - transfer of shares, **7:71**
 - transfers of shares before end of year, **10:32**
- Close books upon S status termination form, **16:67**
 - pro rata daily allocation exception, **16:23**
- Corporate level elections, shareholder level treatment, **7:32**
- Corporate level tax elections, **7:75**
- Credit for research and development expenditures, **20:99**
- Deemed distributions
 - generally, **10:41**
 - procedural considerations, **17:6**
- Deemed dividend election, **10:59**
- Discharge of indebtedness, basis reduction, **7:9**
- Distributions, election to treat as taxable dividends, **18:26**
- Distributions to shareholders, election to treat distributions as dividends, **10:40**
- Domestic corporations
 - see also index headings ELECTION FOR S STATUS; ELECTION OF INCOME TAX TREATMENT; ELECTION TO CLOSE CORPORATION BOOKS
 - created by state laws, **20:49**
- Excess net passive income tax liability for acquiring S corporation, **13:9**
- Excess passive investment income
 - applicability of tax, **8:52**
 - planning considerations, **8:81**

ELECTIONS—Cont'd

- Excess passive investment income—Cont'd
 - waiver of tax, **7:27**
- Mineral exploration expenditures, expense under Section 617, **7:35**
- Partnership interest, general, treatment as limited interest upon sale, **8:70**
- Partnerships, adjustment of basis, **2:37**
- Post-termination transition period adjustments, **16:54**
- Post-termination transition period distributions
 - dividends treatment, **16:51**
 - form for election, **16:68**
- Practice tips, distributions to S corporation, **10:17**
- Previously taxed income account, election to bypass form, **10:58**
- Property distributions, gain recognition rule consequences, **10:8**
- Qualified Subchapter S trusts
 - affirmative refusal to consent, **6:62**
 - defective election, **6:60**
 - due date, **6:55**
 - effect of election, **6:61**
 - effective date, **6:54**
 - errors and omissions, **6:60**
 - execution of election form, **6:57**
 - extension to file election, **6:59**
 - Form 2553, **6:52**
 - form for election, **6:51**
 - income beneficiaries, **3:24**
 - necessity of election, **6:50**
 - revocation of election, **6:63**
 - separate written statement, **6:53**
 - transmittal and proof of filing, **6:56**
- Ratable deduction of research or experimental expenditures, **20:100**
- Rental property services, retroactively apply final Regulations, **8:63**
- S corporation status
 - prior termination, effect, **3:80**
 - redemptions effect, **12:17**
- S status termination, **16:38**
- Section 83(b)
 - noncash compensation general effects, **11:3**
 - restricted stock plans, **11:29**
- Section 179, expensed property, **7:39**

ELECTIONS—Cont'd

- Section 338
 - acquisitions, **15:52**
 - S corporation as shareholder (prior law), **7:14**
- Section 444
 - generally, **4:12**
 - adjusted highest section tax rate determination, **4:32**
 - amount of applicable payments for base year determination, **4:29**
 - applicable percentage determination, **4:33**
 - assessment and collection of required payments, **4:39**
 - calendar year
 - generally, **4:2**
 - practice tips, **4:10**
 - computation of required payments liability, **4:25**
 - corporation's base year determination, **4:26**
 - corporation's net income for base year determination, **4:27**
 - deferral ratio determination, **4:28**
 - due date for election, **4:20**
 - due date for required payments, **4:36**
 - exception to required payments liability, **4:23**
 - execution of election, **4:18**
 - existing corporations
 - generally, **4:16**
 - exception to required payments liability, **4:23**
 - form for election, **4:17**
 - net base year income determination, **4:31**
 - net required payment balance determination, **4:34**
 - newly organized corporations
 - generally, **4:15**
 - exception to required payments liability, **4:22**
 - penalties for failure to make required payments, **4:41**
 - prior effective election, **4:13**
 - relationship with business purpose, **4:11**
 - required payment determination, **4:35**
 - required payments liability, **4:21**

ELECTIONS—Cont'd

- Section 444—Cont'd
 - tiered structure member, **4:14**
 - transmittal of election, **4:19**
 - treatment of required payments, **4:38**
- Services connected with rental property, retroactively apply final Regulations, **8:63**
- Shareholder level tax elections, **7:76**
- Tax preference items, S corporation special treatment, **7:45**
- Terminate S corporation year on date of sale of stock, **12:2**

ELIGIBILITY TO ATTAIN S STATUS

- Overview, **3:1 to 3:85**
- Bankruptcy of corporation, **3:84**
- Converted C corporation
 - Subchapter S eligibility requirements, **8:2**
 - timing and satisfaction of eligibility requirements, **8:7**
- Corporations, **3:2 to 3:11**
- Dissolution under state law, **3:83**
- Election by corporation, **6:2**
- Entity and owners, comparison of S corporations, C corporations, and partnerships, **2:4**
- Executive compensation, nonstatutory stock option plans, **11:32**
- Foreign corporations, **3:2**
- Impact of, generally, **3:66 to 3:74**
- Prior and continued
 - converted C corporation, **3:82**
 - date of election, **3:82**
- QSST election by current income beneficiary, effective date, **6:54**
- Qualification as an S corporation, requirements, **3:1**
- Qualified Subchapter S Trusts (QSST), distributions permitted, **3:24**
- S corporation disadvantage vs C corporation, **2:49**
- Shareholders
 - number limitations, **3:35 to 3:42**
 - permissible and impermissible, **3:12 to 3:32**
- Single-class-of-stock requirement
 - generally, **3:48**
 - economic rights, **3:51**

INDEX

ELIGIBILITY TO ATTAIN S STATUS

—Cont'd

- Single-class-of-stock requirement
 - Cont'd
 - unauthorized shares, impact of issuance of, **3:66**
- Stock acquisitions
 - conversion of an acquired C corporation, **15:3**
 - differences from partnerships and C corporations, **15:2**
- Subchapter S Revision Act of 1982
 - corporate limitations
 - generally, **1:20**
 - prior law, **1:6**
 - shareholder limitations
 - generally, **1:19**
 - prior law, **1:5**
- Unauthorized shares, impact of issuance of, **3:66**

EMPLOYEE FRINGE BENEFITS

- See index heading **FRINGE BENEFITS**

EMPLOYEE STOCK OWNERSHIP PLANS

- See index heading **ESOPS**

EMPLOYEES

- Compensation
 - timing considerations, **11:4**
- Compensation paid in property, S corporation special treatment, **7:26**
- Consent to S election by shareholders, restricted stock, **6:34**
- Converted C corporation, qualified employee benefit plan problems, **8:11**
- Executive compensation, incentive stock options plans, **11:33**
- Fringe benefits, two percent shareholders, **11:22**
- Hiring, real property rents (prior law), **8:64**
- Personal deductions, S corporation special treatment, **7:29**
- Split dollar life insurance, single class of stock issues, **11:42**

EMPLOYMENT AGREEMENT

- Single-class-of-stock requirement, **3:51**

EMPLOYMENT TAXES

- Compensation
 - generally, **11:7, 11:8**
 - choice-of-business form, **11:9**
 - “pay as you go” budget rules, **11:9**
 - recharacterization of distributions as salary, **11:20**

ENCUMBERED PROPERTY

- Contribution
 - recognition of gain or loss, **2:11**
 - S corporation disadvantage vs partnerships, **2:65**

ENCUMBRANCES

- Shareholder agreements, transfers to creditors, **18:14**

END OF YEAR DETERMINATIONS

- Pass-through losses. See index heading **PASS-THROUGH LOSSES, LIMITATIONS ON SHAREHOLDER USE OF**

ENTERTAINMENT

- Impact of S election, **7:43, 7:50**

ENTITY CLASSIFICATION

- Trusts taxable as associations, estate planning, **19:43**

ENTITY THEORY OF PARTNERSHIPS

- Compensation, fringe benefits, **11:22**

ENVIRONMENTAL SUPERFUND TAX

- Termination of S status, **16:28**

EQUIPMENT LEASING

- At risk rules, C corporation, **2:27**

EQUITY

- Debt
 - below-market debt, **5:19**
 - capitalization of S corporation, **5:13**
 - second class of stock, **3:75**
- S corporation's repayment of shareholder debt, treated as equity, **10:54**

ERRORS

- Electing S corporation status
 - shareholders consent, **6:47**
- QSST election by current income beneficiary, **6:60**

ESBTs

See index heading ELECTING SMALL BUSINESS TRUSTS (ESBTs)

ESOPs

Generally, **11:25, 20:67 to 20:74**
 Basis in shares, **20:69**
 Broad-based employee participation, requirement, **20:70**
 Disadvantages of S corporations, **2:52**
 Distribution of shares from ESOP, maintenance of S corporation status on, **20:71**
 Impact of section 415 on S corporation ESOPs, **20:74**
 Leveraged loans, Payments made on ESOP, **20:72**
 Loans to, interest deduction, **7:17**
 Maintenance of S corporation status on distribution of shares from ESOP, **20:71**
 Pass-through losses, limitations on shareholder use of, **9:8**
 Payments made on ESOP leveraged loans, **20:72**
 Permissible S corporation shareholder, **3:28**
 Permissible shareholder, ESOP as, **20:68**
 S Corporations
 General considerations, **20:67**
 Section 269, applied, **20:73**
 Synthetic equity, **11:29, 11:33, 11:38, 20:70**
 Taxation of S corporation income to an ESOP, Basis in shares, **20:69**
 Use of ESOPs, generally, **20:67 to 20:74**

ESTATE PLANNING

Beneficiaries of deceased shareholder, ineligible shareholders, **19:57**
 Carryover of unused losses, **19:7**
 Choice of entity, **2:38**
 Control retention, **19:52**
 Death of shareholder, effect on basis in stock and assets, **19:5**
 Deferral of estate taxes, **19:56**
 Distributions of S income, **19:6**
 Electing small business trusts, **19:27**
 Freezing techniques, **19:53**
 Gifts of stock, minor donees, **19:51**
 Income shifting, **19:49**

ESTATE PLANNING—Cont'd

Inter vivos planning, **19:45**
 Irrevocable trusts, **19:50**
 Loss carryover, **19:7**
 Nonpro rata distributions of stock, **19:11**
 Overview, **19:1**
 Pass through of income or loss generally, **19:6**
 carryover of unused losses, **19:7**
 Postmortem planning
 beneficiaries of deceased shareholder, ineligible shareholders, **19:57**
 deferral of estate taxes, **19:56**
 disclaimers, **19:58**
 freezing techniques, **19:53**
 inter vivos planning, **19:45**
 liquidity needs, **19:55**
 minor donees, **19:51**
 redemptions, **19:61**
 sales to eligible beneficiaries, **19:60**
 trust modifications, **19:59**
 Redemptions, **19:61**
 S corporation income taxed to estate, **19:6**
 S corporation shareholders, gifts to minors, **19:51**
 S corporations establishment, charitable remainder trusts, **19:54**
 Sales of stock, **19:46**
 Sales to eligible beneficiaries, **19:60**
 Short taxable year on termination, assigning items, **19:10**
 Trust modifications, **19:59**
 Valuation of stock
 deferral of taxes, **19:56**
 estate freezes, **19:53**

ESTATE TAXES

Deferral, Section 6166, **19:56**
 Installment payments
 estate conversion of corporation to S status, **19:13**
 estates as direct shareholders, **19:2**
 shareholder death effect on S election, **19:9**
 QSSTs, funding with income producing property, **19:19**
 Trusts as S corporation shareholders, marital trusts, **19:41**

INDEX

ESTATES

- Administration, husband and wife shareholder number limitation, **3:37**
- Beneficiaries of deceased shareholder, ineligible shareholders, **19:57**
- Built-in gains tax, transitional rules, **8:49**
- Deferral of estate taxes, **19:56**
- Disclaimer use, **19:58**
- Distribution considerations, **19:15**
- Fiscal year
 - ownership tax year test, **4:7**
- Freezing techniques, **19:53**
- Liquidity provisions, **19:55**
- Nonpro rata distributions of stock, **19:11**
- Pass through of tax items to shareholders, special problems, **7:74**
- Pass-through losses. See index heading PASS-THROUGH LOSSES, LIMITATIONS ON SHAREHOLDER USE OF
- Permissible and impermissible shareholders, types of estates that may own shares, **3:18**
- Redemption of interest, **19:61**
- S corporation shareholder
 - administrative powers needed by personal representative, **19:16**
 - allocation of income and loss, **19:4**
 - consent to S election by estate, **19:14**
 - conversion to S status, **19:13**
 - deemed shareholders, **19:3**
 - direct shareholders, **19:2**
 - fiduciary considerations when conversion to S status, **19:15**
 - fiduciary considerations when S status exists, **19:12**
 - S corporation in existence at death of shareholder, **19:4**
 - shareholder death effect on S election, **19:9**
 - stock transfer, **19:11**
 - termination of S election, **19:10**
- Section 1244 stock
 - eligible shareholders, **5:34**
 - expensed property, **7:39**
- Shareholder number limitation, **3:37, 3:43**
- Shareholders, as, **19:2**

ESTATES—Cont'd

- Timing of pass through of tax items, **7:67**
- Trusts, deemed owner, death of, effect, **19:3**

ESTIMATED TAX PAYMENTS

- Generally, **17:33**
- Converted C corporation, **8:28**
- Electing small business trusts (ESBTs), **19:36**
- Farming, **17:32**
- Fishing, **17:32**
- Shareholder agreements, distributions amount and timing, **18:23**
- Shareholders, **17:32**
- Termination of S status, **16:27, 19:27**

ESTIMATED TAXES

- C short taxable year liability, **16:27**
- LIFO recapture, installments for, **8:8**

EVIDENCE OF INDEBTEDNESS

- Capitalization of S corporation, **5:16**

EXCESS NET CAPITAL GAIN

- Capital gains tax, **8:85**
- Estimated tax, **17:33**

EXCESS NET PASSIVE INCOME

- A reorganizations, **13:9**
- Asset acquisitions, acquiring corporation S election effect, **15:22**
- Divisive D reorganization tax liability, **13:41**
- Excess passive investment income
 - computation of tax, **8:73**
 - taxable income limitation, **8:74**
- Stock acquisitions, corporate-level tax, **15:47**

EXCESS OF BASIS

- Pass-through losses. See index heading PASS-THROUGH LOSSES, LIMITATIONS ON SHAREHOLDER USE OF

EXCESS PASSIVE INVESTMENT INCOME

- Estates, shareholder death effect on S election, **19:9**
- Tax on excess passive investment income, applicability of tax, **8:53**

EXCESS RECOGNIZED BUILT-IN GAIN

Applicability of built-in gains tax, **8:39**
Calculation, **8:39**

EXCESS TAXABLE INCOME

Capital gains tax, **8:86**

EXCHANGE

See index heading **SALE OR EXCHANGE**

EXCLUDED ASSETS

Built-in gains tax, recognition events, **8:36**

EXCLUDED ITEMS

Pass-through losses, limitations on shareholder use of, **9:10**

EXECUTION OF S ELECTION FORM

Election by corporation, Form 2553, **6:4**

EXECUTIVE COMPENSATION

Generally, **11:27 to 11:42**
Below-market loans, **11:40**
Convertible debenture plans, **11:34**
Incentive stock option plans, **11:33**
Junior stock plans, **11:30**
Nonqualified deferred compensation, **11:44**
Nonstatutory stock option plans, **11:32**
Nonstock incentive programs
generally, **11:35**
performance unit plans, **11:37**
phantom stock plans, **11:39**
stock appreciation rights, **11:38**
Nonvoting stock, **11:28**
Options and convertible debenture plans
convertible debenture plans, **11:34**
incentive stock option plans, **11:33**
nonstatutory stock option plans, **11:32**
Performance unit plans, **11:37**
Phantom stock plans, **11:39**
Practice tips
incentive stock options plan, **11:33**
nonstatutory stock option plan, **11:32**
restricted stock plan, **11:29**
Qualified equity grants and Section 83(i) election, **11:31**
Rabbi trusts, **11:41**
Restricted stock plans, **11:29**
Stock appreciation rights, **11:38**

EXECUTIVE COMPENSATION

—Cont'd

Stock programs
junior stock plans, **11:30**
nonvoting stock, **11:28**
restricted stock plans, **11:29**

EXECUTIVES

Below-market loans, **11:40**
Compensation. See index heading **EXECUTIVE COMPENSATION**
Rabbi trusts, **11:41**
Stock programs
nonvoting stock, **11:28**
restricted stock plans, **11:29**

EXECUTORS

Consent to S election by shareholders
decedent's estates, **6:29**
representational capacity, **19:2**
testamentary trusts, **6:30**
Considerations of, **19:15**
Deferral of estate taxes, **19:56**
Estates
fiduciary considerations when S status exists, **19:12**
termination of S election, **19:10**
Methods to correct ineligible shareholders, **19:57**
Powers of, nonpro rata distributions of stock, **19:11**

EXEMPT INCOME

Pass-through losses, limitations on shareholder use of, **9:10**

EXEMPTIONS

Generation skipping trust exemption, impact of shareholder agreement on, **18:28**

EXPENSE DEDUCTIONS

Meals and entertainment, **7:50**
Mineral exploration, **7:35**

EXPENSED PROPERTY

Partnership IRD, subchapter K and subchapter S, **7:51**
Section 179, S corporation special treatment, **7:39**

INDEX

EXPENSES

- Accrual by S corporation used in syndication, **20:10**
- Capitalization of reorganization expenses, **7:59, 13:5**
- Election to deduct, **17:16**
- Farm-related deductions, S corporation special treatment, **7:46**
- Mineral exploration expenditures, S corporation special treatment, **7:35**

EXPERIMENTAL EXPENDITURES

- Pass-through losses, limitations on shareholder use of, **9:14**

EXPLORATION EXPENDITURES

- Pass-through losses, limitations on shareholder use of, **9:14**

EXTENSION TO FILE S ELECTION

- Consent by shareholders, **6:44**
- Electing small business trusts (esbts), **6:71**
- Election by corporation, **6:8**
- Power of attorney, consent to S election by shareholders, **13:50**
- S election not terminated, **13:50**

F

F REORGANIZATIONS

- Generally, **13:50**
- Mere change in identity, **6:40**

FACTS AND CIRCUMSTANCES TEST

- Application, **4:9**
- Procedure required, **4:10**

FAIR MARKET VALUE

- Accumulated earnings and profits, adjustments for distributions, **10:14**
- Adjustment to basis
 - estate planning considerations, **2:38**
 - Section 754 election, **2:37**
- Affiliated group limitation (prior law), transfer of stock to shareholders of parent corporation, **3:11**
- Boot
 - basis in stock, **5:28**
- Built-in gains tax
 - excess recognized built-in gain, **8:39**
 - excluded assets, **8:36**
 - net unrealized built-in gain, **8:32**

FAIR MARKET VALUE—Cont'd

- Built-in gains tax—Cont'd
 - planning considerations, **8:50**
 - transitional rules, **8:49**
- Charitable contribution of property, S corporation special treatment, **7:32**
- Compensation paid in property, S corporation special treatment, **7:26**
- Distributions, corporate-level consequences of noncash distributions overview, **10:4**
- Distributions by corporations with accumulated E&P, alternatives to cash distributions, **10:41**
- Estates, S corporation in existence at shareholder death, **19:4**
- Excess passive investment income, planning considerations, **8:81**
- Executive compensation
 - convertible debenture plans, **11:34**
 - nonstatutory stock option plans, **11:32**
 - restricted stock plans, **11:29**
- Noncash property distribution taxation, **10:46**
- Pass-through losses, limitations on shareholder use of, **9:4, 9:6**
- Property distributions
 - depreciated property, **10:9**
 - gain recognition rule consequences, **10:8**
- S corporation as shareholder, basis in nonliquidating distribution (prior law), **7:14**
- Services, compensation timing considerations, **11:4**
- Shareholder agreements
 - distributions of appreciated property, **18:25**

FAIR MARKET VALUE BASIS

- Distributions by corporations with accumulated E&P, distributions of PTI, **10:39**
- Property distributions, depreciated property, **10:9**

FAMILY

- Compensation, reallocation of income, **11:6**
- Definitions
 - reallocation of income among family members, **11:6**

FAMILY—Cont'd

Definitions—Cont'd

shareholder number limitation,
qualifying families, **3:37**

Family S corporation, reallocation of tax
items, **19:63**

Income shifting, estate planning, **19:49**

IRS power to reallocate tax items, **7:73**

Shareholder number limitation, **3:37**,
3:45, **16:13**

Withholding requirements, **17:29**

FAMILY PARTNERSHIP

Family S corporation problems, **19:64**

FAMILY PARTNERSHIP RULE

Section 704(e), IRS power to reallocate
tax items, **7:73**

FAMILY REALLOCATION RULES

IRS power to reallocate tax items, **7:73**

Section 1366(e), **2:24**

FAMILY S CORPORATION

Estate planning

problems, **19:64**

reallocation of tax items, **19:63**

tax savings potential, **19:62**

FAMILY-OWNED S CORPORATIONS

Inter vivos gifts, voting and nonvoting
stock, **19:47**

FARMING

Accounting methods, **7:11**

Estimated tax payments, **17:32**

FARMING SYNDICATE

Farm-related deductions, S corporation
special treatment, **7:46**

FARM-RELATED DEDUCTIONS

S corporation special treatment, **7:46**

FEDERAL INSURANCE

CONTRIBUTIONS ACT

Compensation, employment taxes and
wage withholding, **11:7**

Wage withholding, shareholders, **7:90**

FEDERAL SECURITIES LAW

Organization of S corporation, accrual
method of accounting, **5:39**

Private placement exemption, number of
permissible shareholders, **3:35**

**FEDERAL UNEMPLOYMENT TAX
ACT**

Compensation, employment taxes and
wage withholding, **11:7**

Wage withholding, shareholders, **7:90**

FEED

Farm-related deductions, S corporation
special treatment, **7:46**

FEES

Fiscal year, facts and circumstances test,
4:10

FIDUCIARIES

Consent to S election, decedent estates,
6:29

Termination of S status, Fiduciary
obligation to maintain S corpora-
tion status, **18:20**

FILING

Election to close books on transfer of
shares, **7:71**

Late filing. See index heading **LATE FILING**

QSST election

due date, **6:55**

effective date, **6:54**

Form 2553, **6:52**

separate written statement, **6:53**

transmittal and proof of filing, **6:56**

S election

expedited procedure for seeking relief
for late consents, **6:45**

extension to file election, **6:40**

extension to file shareholders consent,
6:44

transmittal and proof of filing
shareholders consent, **6:46**

Subchapter S status, statute of limita-
tions with respect to loss of, **17:43**

FINANCIAL INSTITUTIONS

Banks. See index heading **BANKS**

**FIRST-IN-FIRST-OUT INVENTORY
ACCOUNTING METHOD**

Built-in gains, excluded assets, **8:36**

Earnings and profits, distributions to S
corporation, **10:17**

INDEX

FISCAL YEAR

- Business purpose
 - generally, **4:4**
 - facts and circumstances test
 - generally, **4:9**
 - procedure, **4:10**
 - natural business year test
 - generally, **4:5**
 - procedure, **4:6**
 - ownership tax year test
 - generally, **4:7**
 - procedure, **4:8**
- Section 444 relationship, **4:11**
- Calendar year, exception to general rule, **4:2**
- Converted C corporation, permitted taxable year, **8:5**
- Electing S corporation status, designation of permitted taxable year, **6:6**
- Executive compensation, annual bonus plans, **11:36**
- Organization of S corporation
 - adoption of taxable year, **5:37**
 - change in taxable year, **5:38**
 - taxable year choice, **5:36**
- Practice tips, back-up Section 444 election, **4:10**
- S corporation disadvantage, **2:50**
- S corporation holding interest in partnership, effect, **20:43**
- Section 444 election
 - generally, **4:12**
 - adjusted highest section tax rate determination, **4:32**
 - amount of applicable payments for base year determination, **4:29**
 - applicable percentage determination, **4:33**
 - computation of required payments liability, **4:25**
 - corporation's base year determination, **4:26**
 - corporation's net income for base year, **4:27**
 - deferral ratio determination, **4:28**
 - due date for election
 - generally, **4:20**
 - exception to required payments liability, **4:23**
 - due date for required payments, **4:36**

FISCAL YEAR—Cont'd

- Section 444 election—Cont'd
 - execution of election, **4:18**
 - existing corporations, **4:16**
 - form for election, **4:17**
 - special rule permitting recognition of short taxable year income to be spread over 4-year period, **4:47**
- Special rule permitting recognition of short taxable year income to be spread over 4-year period, **4:47**
- Taxable year, permitted year, generally, **4:1, 4:4 to 4:46**

FISHING

- Estimated tax payments, **17:32**

FIVE-YEAR NO REELECTION RULE

- Shareholder agreements, reelecting S corporation status, **18:19**
- Stock acquisitions, acquiring corporation S status effect, **15:44**

FIVE-YEAR WAITING PERIOD

- Acquiring C corporation, **13:8**
- B reorganizations, **13:21**
- C reorganizations, **13:28**
- Controlled corporation in divisive D reorganization, **13:40**
- Waiver by Service, termination due to merger, **13:8**

FLOOR PLAN FINANCING

- Business interest limitation, double counting of business interest income and floor plan financing interest expense not allowed, **9:84**

FORECLOSURES

- G reorganizations, **13:51**

FOREIGN ACCRUAL PROPERTY INCOME (FAPI)

- U.S. citizens resident in foreign countries who own S corporations, **20:53**

FOREIGN CORPORATIONS

- Default classification of foreign entity, **2:5**
- Eligible corporations, **3:2**
- International transactions, **20:57 to 20:62**
- Investment in, **20:54**

FOREIGN CORPORATIONS—Cont'd

- Mismatching problems, S corporation special treatment, **7:31**
- Subsidiaries, using S corporations in international transactions, **20:55**

FOREIGN ESTATE

- Definition, qualified shareholder, **20:51**
- Permissible and impermissible shareholders, **3:16**

FOREIGN INCOME AND LOSS

- Domestic corporation requirement, **3:2**
- Former Section 1372 limitation (prior law), **3:9**
- Pass-through losses, limitations on shareholder use of, **9:34**
- Recapture. See index heading FOREIGN LOSS RECAPTURE
- Separately and nonseparately stated items, **7:65**

FOREIGN LOSS RECAPTURE

- Apportionment of foreign losses, foreign loss, **20:54**
- Converted C corporation, S election impact, **8:9**
- Excess foreign source deductions see also index heading OVERALL FOREIGN LOSSES
- foreign source gross income, **20:54**
- Recapture on S status termination, **16:32**
- Repatriation of foreign earnings, **20:63**
- S election consequences, **7:4**

FOREIGN OPERATIONS

- S corporations, percentage of ownership, **20:55**

FOREIGN PERSONAL HOLDING COMPANIES

- Definition, income inclusion, **20:54**

FOREIGN PROPERTIES

- Mineral exploration expenditures, **7:35**

FOREIGN SUBSIDIARIES

- Structure of corporation, **20:54**
- Using S corporations in international transactions, **20:55**

FOREIGN TAX

- Credit. See index heading FOREIGN TAX CREDIT

FOREIGN TAX—Cont'd

- Deduction or credit, S corporation special treatment, **7:31**
- Foreign tax credits, limitations, **20:54**
- Foreign tax limitation rule, offset of income tax, **20:54**
- International operation of S corporation, **20:48**
- Limitations, favorable tax aspects, **20:54**
- Pass through to shareholders, **20:54**
- Residual tax, foreign source income, **20:54**
- Sale of shares, not subject to tax, **20:50**
- Services provided, **20:50**
- Shareholder election, **17:26**
- Tax rates, **20:54**
- U.S. citizens resident in foreign countries who own S corporations, **20:53**

FOREIGN TAX CREDIT

- Carrybacks, unused taxes, **20:54**
- Credit against income tax, S corporations, double taxation, **20:54**
- Pass through and allocation, **7:86**
- S corporation special treatment, **7:31**
- Tax elections at shareholder level, **7:76**

FOREIGN TRUSTS

- Permissible and impermissible shareholders
- decedent's estate, **3:18**
- disqualification as shareholder, **3:20**

FORFEITURES

- Buy-sell procedures, provisions in shareholders agreements relating to termination of employment, **18:7**
- Consent to S election by shareholders, restricted stock, **6:34**

FORM 720

- Generally, **17:34**

FORM 1041

- Trusts as S corporation shareholders, trusts taxable as associations, **19:43**

FORM 1096

- Distributions, filing forms, **10:55**

FORM 1099

- Generally, **17:34**

INDEX

FORM 1099-DIV

Distributions, filing forms, **10:55**

FORM 1120

Trusts as S corporation shareholders,
trusts taxable as associations, **19:43**

FORM 1120-S

Accumulated adjustments account,
computation, **10:20**

Distributions

generally, **17:34**

information required to be reported on
schedules, **10:56, 17:34**

S corporation tax return, administration,
2:32

Section 444 election, transmittal of elec-
tion, **4:19**

Tax matters person (prior law), **17:52**

FORM 1128

Fiscal year

natural business year test procedure,
4:6

ownership tax year test procedure, **4:8**

FORM 2553

Calendar year, procedure for C corpora-
tion making S election, **4:3**

Consent to S election by shareholders
due date, **6:43**

separate statements attached to, **6:42**

shareholder number limitation, **3:37**

transmittal and proof of filing, **6:46**

Converted C corporation, permitted tax-
able year, **8:5**

Electing S corporation status

effective date of election, **6:5**

execution of election form, **6:4**

form for election by corporation, **6:3**

Fiscal year

facts and circumstances test proce-
dure, **4:10**

ownership tax year test procedure, **4:8**

Form, **6:76**

Instructions to Form 2553, **6:77**

Organization of S corporation, adoption
of taxable year, **5:37**

Proof of filing, **6:78**

QSST election by current income bene-
ficiary, use of Form 2553, **6:52**

Section 444 election, form, **4:17**

FORM 2553—Cont'd

Shareholder agreements, electing S
corporation status, **18:8**

FORM 5452

Generally, **7:33**

Distributions, filing necessary forms,
10:55

FORM 8082

Generally, **17:36**

FORM 8264

Generally, **17:34**

FORM 8271

Generally, **17:34**

Shareholders, **17:36**

FORM 8283

Generally, **17:34**

FORM 8716

Organization of S corporation, adoption
of taxable year, **5:37**

Section 444 election

back-up Section 444 election, **4:45**

due date of election, **4:20**

execution of election, **4:18**

form for election, **4:17**

sample form, **4:48**

transmittal of election, **4:19**

FORM 8752

Annual tax return requirement, **4:42**

Refund conditioned on filing of form
8752, **4:44**

Section 444 election

sample form, **4:49**

FORM FOR CONSENT

Consent to S election by shareholders,
6:42

FORM FOR DISCLOSURE OF SUBCHAPTER S ITEMS TO INVESTORS

Long form, **20:105**

Short form, **20:104**

FORM FOR QSST ELECTION

Generally, **6:51**

Sample, **6:80**

FORM FOR S ELECTION

- Due date, **6:55**
- Effective date, **6:54**
- Election by corporation, Form 2553 information, **6:3**
- Instructions to Form 2553, **6:77**
- Proof of filing, **6:78**
- QSST election by current income beneficiary
 - generally, **6:51**
 - due date, **6:55**
 - effective date, **6:54**
 - Form 2553, **6:52**
 - separate written statement, **6:53**
- Sample, **6:76**
- Separate statement of shareholder consent, **6:79**

FORMATION OF ENTITY

- Recognition of gain or loss
 - generally, **2:9**
 - boot, **2:12**
 - control requirements, **2:10**
 - receipt of interest in entity for services, **2:13**
 - transfer of encumbered property, **2:11**

FORMS

- Adjustment accounts, **10:56**
- Administrative adjustments
 - disallowance, **17:56**
 - notice, **7:46**
- Audit procedures, **17:38 to 17:53**
- Consent of shareholders to election, **10:58**
- Consent to election to close books
 - S status termination, **16:67**
 - Section 1377(a)(2), **7:92**
- Consent to revocation of S election, **16:66**
- Deemed dividend election, **10:59**
- Distributions
 - election to bypass the AAA, **10:57**
 - election to bypass the PTI account, **10:58**
 - filing forms, **10:55**
- Electing S corporation status
 - Form 2553, **6:76**
 - instructions to Form 2553, **6:77**
 - proof of filing, **6:78**

FORMS—Cont'd

- Electing S corporation status—Cont'd
 - QSST election, **6:80**
 - separate statement of shareholder consent, **6:79**
- Election to bypass AAA
 - filing requirement, **10:57**
 - post-termination transition period, **16:68**
- Election to bypass PTI account, filing requirement, **10:58**
- Election to close books
 - complete termination of interest, **7:92**
 - Section 1377(a)(2), **7:92**
 - transfer of substantial interest, **7:93**
- Election to close books upon termination, **16:67**
- Election under Section 1368(e)(3), **10:57**
- Form 1120-S, Schedules L, M-1 and M-2, **10:56**
- Refund procedures, **17:38 to 17:53**
- Request for waiver of inadvertent termination, **16:69**
- Revocation of S election, **16:65**
- Shareholder agreement, provisions, **18:29**
- Small S corporation, audit procedures election (prior law), **17:55**

FORMULAS

- Excess net passive income, **8:73**

FORWARD CASH MERGER

- Termination of S status, **17:41**

FORWARD TRIANGULAR MERGER

- A reorganization requirements, **13:17**

FRANCHISES

- Excess passive investment income, royalties, **8:68**

FRAUD

- Subchapter S status, statute of limitations with respect to loss of, **17:43**

FRINGE BENEFITS

- Generally, **11:22**
- Converted C corporation, S election impact, **8:12**
- Executive compensation, nonvoting stock, **11:28**

INDEX

FRINGE BENEFITS—Cont'd

- Guaranteed payments, **11:22**
- Health insurance premiums, **11:23**
- Medical reimbursement plans, shareholder participation, **11:23**
- S corporation as startup business, **20:85**
- S corporation disadvantage vs C corporation, **2:51**
- S corporation special treatment, **7:24, 7:29**
- Single-class-of-stock requirement, effect of differences, **3:54**
- Two-percent shareholders
 - compensation, generally, **11:22**
 - recharacterization under PAL rules, **11:21**
- S corporation special treatment, **11:20**
- Venture capital S corporation, **20:92**

FUTURES CONTRACTS

- Regulated, market-to-market rules, **7:48**
- Unrealized appreciation, S corporation as shareholder, **7:17**
- Use by S corporation shareholders, **13:51**

G

G REORGANIZATIONS

- S election effect, **7:48**

GAIN

- Accumulated earnings and profits, adjustments for distributions, **10:14**
- Basis in stock, transfer of property to S corporation, **5:28**
- Built-in gains tax
 - installment sales, **8:38**
 - like kind exchanges, **8:37**
 - purpose and scope of tax, **8:30**
 - transitional rules, **8:49**
- Capital gains tax
 - impact of tax under Section 1375, **8:90**
 - shareholder pass-through effect, **8:89**
- Character, distribution of appreciated property in redemption, **12:14**
- Converted C corporation, Section 291, **8:20**
- Discharge of indebtedness, debt owed to shareholder, **5:16**

GAIN—Cont'd

- Distributions
 - corporate-level consequences of noncash distributions overview, **10:4**
 - corporation without accumulated E&P, **10:28**
 - differing bases in stock, **10:29**
 - nonliquidating distributions of property, **10:6**
 - S corporation with accumulated E&P overview, **10:3**
 - S corporation without accumulated E&P overview, **10:2**
 - timing of adjustments to basis, **10:30**
- Distributions by corporations with accumulated E&P
 - alternatives to cash distributions, **10:41**
 - election to treat distributions as dividends, **10:40**
 - tax-exempt income and related expenses, **10:38**
- Excess passive investment income
 - passive investment income defined generally, **8:58**
 - sales and exchanges of stock or securities, **8:69**
 - sales of capital assets, **8:55**
- Income from corporate distributions, appreciated property, **7:12**
- Income on incorporating transfers, disadvantages of debt, **5:21**
- Multiple distributions that exceed AAA, **10:34**
- Partial liquidations
 - generally, **12:22**
 - sales of appreciated property, **12:25**
- Redemption of stock, **12:11**
- S corporation as shareholder
 - basis in nonliquidating distributions (prior law), **7:14**
 - installment obligations, **7:48**
 - liquidation of subsidiaries, **7:14**
- Sales of stock, character of, **12:2**
- Shareholder recognition, property received by corporation, **5:31**
- Stock acquisitions
 - liquidation of subsidiary tax consequences, **15:52**

GAIN—Cont'd

Stock acquisitions—Cont'd
sale of S corporation stock, **15:15**

GAIN OR LOSS

Acquiring corporation, distribution of stock in reorganization, **13:1**
Affiliated group limitation (prior law), transfer of stock to shareholders of parent corporation, **3:11**
Allocation, income on repayment of debt, **5:15**
Amount of pass through of tax items, **7:68**
Asset acquisitions, distributions by selling corporation, **15:36**
Compensation paid in property, S corporation special treatment, **7:26**
Discharge of indebtedness, debt owed to shareholder, **5:17**
Encumbered property contribution recognition of gain or loss, **2:11**
S corporation disadvantage vs partnership, **2:65**
Formation of entity
boot, **2:12**
control requirements, **2:10**
receipt of interest in entity for services, **2:13**
recognition in general, **2:9**
transfer of encumbered property, **2:11**
Income from corporate distributions, appreciated property, **7:12**
Liquidations
consequences of disposition of interests in entity, **2:35**
S corporation disadvantage vs partnership, **2:70**
Noncash compensation, **11:3**
Nonrecognition on issuance of stock, S corporation, **5:30**
Property distributions, gain recognition rule consequences, **10:8**
Regulated futures contracts, market-to-market rules, **7:48**
Reorganizations, tax-free transfers of interest in entity, **2:36**
S corporation's repayment of shareholder debt, treated as equity, **10:54**

GAIN OR LOSS—Cont'd

S election consequences
corporate tax items, **7:5**
status as pass-through entity, **7:3**
Sale of contributed property, character of gain or loss, **2:16**
Sale of mining property, mineral exploration expenditures recapture, **7:35**
Section 444 election payments, base year, **4:27**
Section 721 treatment, S corporation advantage vs partnership, **2:62**
Separately and nonseparately stated items, **7:65**
Shareholder agreements
cross-purchase agreement, **18:3**
distributions of appreciated property, **18:25**
Stock acquisitions
basis step-up, **15:14**
redemption effects, **15:17**
Stock basis, share-by-share record maintenance, **10:29**
Target corporation on exchange of assets for stock in reorganization, **13:1**
Target S corporation distribution of property not permitted to be received tax-free, **13:14**
Timing of pass-through items, **7:67**
Transfers of property to S corporation, general rule of nonrecognition, **5:22**
Trusts as S corporation shareholders, QSSTs, **19:19**

GAIN RECOGNITION RULE OF SECTION 311(b)

Property distributions
applicability, **10:7**
consequences, **10:8**

GAS DRILLING COSTS

Election to deduct, **17:10**

GASOLINE AND SPECIAL FUELS CREDIT

Built-in gains tax, credits offsetting tax, **8:46**
Capital gains tax, credits offsetting tax, **8:88**
Excess passive investment income, credits offsetting tax, **8:76**

INDEX

GASOLINE AND SPECIAL FUELS

CREDIT—Cont'd

Pass through and allocation, **7:87**

GCM 39750

Executive compensation, nonstock incentive programs, **11:35**

GENERAL BUSINESS CREDITS

Carryover to acquiring S corporation, merger or consolidation, **13:9**

GENERAL PARTNERSHIP

Choice of entity overview, **2:1**

GENERAL UTILITIES DOCTRINE

Built-in gains tax, purpose and scope of tax, **8:30**

Corporate-level tax on built-in gains, **1:26**

Double taxation, S corporation advantage vs C corporation, **2:41**

Estate planning considerations, choice of entity, **2:38**

GENERATION SKIPPING TRUST EXEMPTION

Shareholder agreement, impact of, **18:28**

GIFT TAXES

Irrevocable trusts, intervivos gift of voting and nonvoting stock, **19:50**

IRS power to reallocate tax items, **7:73**

Trusts as S corporation shareholders, marital trusts, **19:41**

GIFTS

Minors, estate planning, **19:51**

Pass-through losses, limitations on shareholder use of, **9:6**

Property, IRS power to reallocate tax items, **7:73**

S corporation stock, minor donees, **19:51**

Taxes. See index heading **GIFT TAXES**

GITLITZ CASE

Pass-through losses, limitations on shareholder use of, **9:10**

GOING CONCERN VALUE

Built-in gains tax, net unrealized built-in gain, **8:32**

GOLDEN PARACHUTES

Election for S status, **7:61**

Single class of stock issue, compensation agreements, **11:43**

GOOD FAITH

Excess passive investment income planning considerations, **8:81**
waiver of tax, **7:27**

GOOD WILL

Built-in gains tax, net unrealized built-in gain, **8:32**

Excess passive investment income, royalties, **8:68**

Transfer of property to S corporation, definition of property, **5:23**

GRANTOR TRUSTS

Consent to S election by shareholders, **6:30**

Death of shareholder, effect on basis in stock and assets, **19:5**

Deferral entity, Section 444 election, **4:14**

Electing small business trusts generally, **3:26**

number of shareholders, rules, **3:45**

Estates, deemed shareholders, **19:3**

Executive compensation, rabbi trusts, **11:41**

Pass through of tax items to shareholders, special problems, **7:74**

Permissible and impermissible shareholders, requirements for permissible shareholder, **3:21**

QSST election by current income beneficiary

due date, **6:55**

effective date, **6:54**

necessity of election, **6:50**

S corporation shareholder, **19:17**

Shareholder number limitation, **3:45**

GRANTORS

Irrevocable trusts, estate planning, **19:50**

GROSS ESTATE

Estates, deemed shareholders, **19:3**

Trusts as S corporation shareholders, grantor trusts, **19:17**

GROSS INCOME

- Affiliated group (prior law), limitation on inactive subsidiary exception, **3:8**
- Corporate income determination and realization
 - nonrecognition provisions applicability, **7:7**
 - overview, **7:6**
 - taxable year and method of accounting, **7:11**
- Cross-purchase agreement, life insurance effect, **18:4**
- Excess passive investment income
 - annuities, **8:59**
 - definition generally, **8:54**
- Fringe benefits
 - converted C corporation, **8:12**
 - S corporation disadvantage vs C corporation, **2:51**
- LIFO recapture, converted C corporation, **8:8**
- Original issue discount rules, S corporation as shareholder, **7:48**
- Pass-through losses, limitations on shareholder use of, **9:10**

GROSS RECEIPTS

- Converted C corporation, accounting method, **8:19**
- Corporate-level eligibility limitations
 - passive income, **1:20**
 - sources outside United States, **1:20**
- Excess passive investment income
 - applicability of tax, **8:53, 8:69**
 - definition generally, **8:54**
 - income from partnership interests, **8:70**
 - net passive income, **8:73**
 - passive investment income defined generally, **8:58**
 - planning considerations, **8:81**
 - sales of capital assets, **8:55**
 - special rules, **8:57**
- Fiscal year
 - natural business year test, **4:5**
 - natural business year test procedure, **4:6**

GROUP-TERM LIFE INSURANCE BENEFITS

- Compensation, fringe benefits, **11:22**

GUARANTEED PAYMENTS

- Fringe benefits, **11:22**

GUARANTORS

- Pass-through losses, limitations on shareholder use of, **9:17, 9:39**

GUARDIANS

- Consent to S election, identity of shareholders, **6:25**
- Permissible and impermissible shareholders
 - individuals, **3:12**
- Shareholder number limitation, **11:22**

H

HEALTH INSURANCE

- Above-the-line deductions, **11:22**

HEATING AND AIR-CONDITIONING

- Excess passive investment income, real property rents (prior law), **8:64**

HEDGING TRANSACTIONS

- Original issue discount rules exception, **7:48**
- Regulated futures contracts, market-to-market rules exception, **7:48**
- Use by S corporation shareholders, **7:48**

HEIRS

- Consent to S election by shareholders, decedents' estates, **6:29**

HIGH YIELD OBLIGATIONS

- Original issue discount, **16:29**

HOBBY LOSSES

- S corporation special treatment, **7:30**

HOLDERS OF DEBT

- Loss allocation, disadvantages of debt, **5:21**

HOLDERS OF NONVOTING STOCK

- Consent to S election by shareholders, **6:30**

HOLDERS OF STOCK WARRANTS

- Consent to S election by shareholders, **6:37**

INDEX

HOLDING COMPANY

Excess passive investment income tax, purpose and scope of tax, **8:51**

HOLDING PERIOD

Acquiring corporation, property received from target corporation in reorganization, **13:1**

Shareholders
boot received in reorganization, **13:1**
stock received in reorganization, **13:1**

HOME BUYER'S CREDIT

First time home buyer's credit and S corporations, **7:55**

HOME-RELATED DEDUCTIONS

S corporation special treatment, **7:27**

HOTELS

Excess passive investment income, real property rents (prior law), **8:64**

HUSBAND AND WIFE

Consent to S election by shareholders, **6:27**

Number of permissible shareholders
decedent's estate, **3:37, 3:43**
estate of minor, incompetent, or person under disability, **3:37, 3:43**

married individuals, **3:37**
tax-exempt entities, **3:46**
trusts, **3:45**

Pass-through losses, limitations on shareholder use of, **9:16**

Shareholder agreements, S corporation shareholder, **18:16**

HYBRID APPROACH

At risk limitation on pass through of losses, computation of initial amount at risk, **6:3**

I

IMMEDIATELY AFTER REQUIREMENT

Exchange of property for stock and securities, Section 351, **5:25**

IMPACT OF S ELECTION

Generally, **7:1 to 7:93**

IMPACT OF S ELECTION—Cont'd

Section 1231 gain or loss, sale of property, **7:38**

IMPERMISSIBLE SHAREHOLDERS

See index heading PERMISSIBLE AND IMPERMISSIBLE SHAREHOLDERS

IMPUTED INCOME

Excess passive investment income, definition generally, **8:54**

IMPUTED RENT

Excess passive investment income, definition generally, **8:54**

INACTIVE SUBSIDIARY EXCEPTION

Affiliated group, prior law exception requirements, **3:8**

INADVERTENT TERMINATION

Estates, termination of S election, **19:10**

Shareholder agreements
shareholder number limitation, **18:11**
termination of S corporation status, **18:18**

Subchapter S Revision Act of 1982, **1:22**

Temporarily ineligible shareholder, **3:34**

Trusts as S corporation shareholders, trusts taxable as associations, **19:43**

INADVERTENT TERMINATION OF S STATUS

Adjustments required by IRS
generally, **16:60**

Dividend income by shareholders, **16:60**

Impermissible shareholder treated as deemed shareholder, **16:60**

Reacquired eligibility in reasonable time, **16:59**

Rescission, use of to avoid termination consequences, **16:64**

Ruling requests, **16:62**

Trusts as shareholders, failure to file beneficiary election, **16:63**

Waiver by IRS

generally, **16:57**

procedure for requesting, **16:62**

simplified procedure, QSST election, **16:63**

INCENTIVE STOCK OPTIONS

- Executive compensation, **11:33**
- Noncash compensation, **11:3**

INCOME

- Accumulated adjustments account, computation of AAA, **10:20**
- Allocation in year of death of shareholder, **19:6**
- Allocation in year of reorganization
 - A reorganizations, **13:12**
 - B reorganizations, **13:23**
 - C reorganizations, **13:32**
 - divisive D reorganizations, **13:44**
- Allocation in year of sale of stock, **12:6**
- Amount of pass through of tax items, **7:68**
- Asset acquisitions, acquisition indebtedness, **15:37**
- Built-in gains tax, net unrealized built-in gain, **8:32**
- Cash compensation, **11:2**
- Compensation, timing considerations, **11:4**
- Consent to S election, identity of shareholders, **6:25**
- Converted C corporation, computation, **8:16**
- Corporate transactions, distribution of appreciated property, **7:12**
- Debt repayment, capitalization of S corporation, **5:15**
- Discharge of indebtedness income, **7:9**
- Dividend, excess passive investment income planning, **8:81**
- Estates, allocation of income or loss, **19:6**
- Excess passive investment income, partnership interests, **8:70**
- Executive compensation, restricted stock plans, **11:29**
- Exempt, Section 444 election required payments liability, **4:27**
- Grantor trusts, distribution or accumulation for spouse, **3:21**
- Income in respect of a decedent, **19:8**
- Income shifting, estate planning, **19:49**
- Incorporating transfers, disadvantages of debt, **5:21**
- Interest, excess passive investment income planning, **8:81**

INCOME—Cont'd

- Liquidation, passive investment, **14:14**
- Multiple distributions exceeding AAA, timing of distributions, **10:36**
- Noncash compensation, **11:3**
- Passive investment, liquidations, **14:14**
- Pass-through losses, limitations on shareholder use of, **9:24**
- Pass-through nature of Subchapter S, Subchapter S Revision Act of 1982
 - generally, **1:24**
 - prior law, **1:9**
- QSST election by current income beneficiary, effect of election, **6:61**
- S election consequences
 - corporate tax items, **7:5**
 - status as pass-through entity, **7:3**
- Separately and nonseparately stated items, **7:65**
- Shareholder agreements
 - allocation on termination of shareholder's interest, **18:22**
 - distributions amount and timing, **18:23**
 - life insurance effect on redemption agreement, **18:6**
- Shift between shareholder and corporation, S corporation as shareholder, **7:48**
- State tax law, incorporation, **5:3**
- Taxable, corporate tax items, **7:5**
- Timing of pass-through items, **7:67**
- Trusts as S corporation shareholders, QSSTs, **19:19**

INCOME BENEFICIARIES

- Affirmative refusal to consent to QSST election, successor income beneficiary, **6:62**
- Consent to S election by shareholders, **6:30**
- Converted C corporation, shareholder consent to S election, **8:7**
- Death, QSST election after to S election, **6:50**
- Disability, **3:24**
- Election by QSST current income beneficiary
 - affirmative refusal to consent, **6:62**
 - due date, **6:55**
 - effect of election, **6:61**

INDEX

INCOME BENEFICIARIES—Cont'd

- Election by QSST current income beneficiary—Cont'd
 - effective date, **6:54**
 - errors and omissions, **6:60**
 - execution of election form, **6:57**
 - extension to file election, **6:59**
 - Form 2553, **6:52**
 - form for election, **6:51**
 - necessity of election, **6:50**
 - revocation of election, **6:63**
 - separate written statement, **6:53**
 - successor income beneficiary, **6:61**
 - transmittal and proof of filing, **6:56**
- Lifetime trust termination, **3:24**
- Power to direct distribution of corpus, **3:24**
- Successor, **3:24**
- Termination of income interest, **3:24**
- Trusts as S corporation shareholders
 - death of QSST beneficiary, **19:24**
 - QSST distribution of income, **19:20**
 - QTIP trusts, **19:42**
 - special problems, **19:44**

INCOME IN RESPECT OF A DECEDENT

- Generally, **19:8**
- Distribution in year of death, **19:6**
- Treatment generally, **7:51**

INCOME SHIFTING

- Estate planning, **19:49**
- Family S corporation, tax savings potential, **19:62**

INCOME TAX RATES

- Built-in gains tax
 - applicability of tax, **8:45**
 - planning considerations, **8:50**
- C corporation planning technique, reduced rates on income, **2:21**
- Excess passive investment income, computation of tax, **8:75**
- S corporation advantage vs C corporation, **2:40**

INCOMPETENTS

- Permissible and impermissible shareholders
 - estate, **3:18**

INCOMPETENTS—Cont'd

- Permissible and impermissible shareholders—Cont'd
 - individuals, **3:12**
- Shareholder number limitation, estate, **3:37, 3:43**

INCORPORATION

- Domestic corporation requirement, **5:1**
- Local law, differences among states, **5:3**
- S election by corporation
 - form, **6:3**

INCORPORATORS

- Consent to S election by shareholders, **6:37**

INCREASES

- Pass-through losses. See index heading
PASS-THROUGH LOSSES, LIMITATIONS ON
SHAREHOLDER USE OF

INDEBTEDNESS

- Compensation, recharacterization of salary as distributions, **11:19**
- Evidence, capitalization of S corporation, **5:16**
- Pass-through losses. See index heading
PASS-THROUGH LOSSES, LIMITATIONS ON
SHAREHOLDER USE OF
- Profitable corporation with prior C history, shareholder without stock basis, **11:16**
- S corporations
 - loss deduction on redemption of stock limitation, **12:12**
 - loss deduction on sale of stock limitation, **12:4**
- Single-class-of-stock requirement, **18:15**
- Workouts, discharge of indebtedness income, **7:10**

INDEMNITORS

- Pass-through losses, limitations on shareholder use of, **9:17**

INDEPENDENT CONTRACTORS

- Compensation paid in property, S corporation special treatment, **7:26**

INDEPENDENT PRODUCER

EXEMPTION

- Percentage depletion allowance limitations, S corporations involved in oil

INDEPENDENT PRODUCER

EXEMPTION—Cont'd
and gas activities, **20:14**

INDIAN TRIBES

Permissible and impermissible S corporation shareholders, **3:33**

INDIVIDUAL RETIREMENT

ACCOUNTS

Bank and depository institution, **3:31**

Compensation, **11:26**

Permissible S corporation shareholder, **3:30**

Shareholder consent to S election, bank IRAs, **6:30**

INDIVIDUALLY HELD STOCK

Consent to S election by shareholders husband and wife, **6:27**
multiple capacities, **6:41**

INDIVIDUALS

Built-in gains tax, transitional rules, **8:49**

Grantor trusts, deemed ownership of trust, **3:21**

Permissible and impermissible shareholders, **3:12**

Section 1244 stock, eligible shareholders, **5:34**

INELIGIBLE CORPORATIONS

Banks, **3:4**

Building and loan associations, **3:4**

Cooperative banks, **3:3**

Insurance companies, **3:3**

Mutual savings banks, **3:3, 11:38**

Passive income, excessive, corporation ability to revoke, **8:62**

Possessions tax credit corporations, **3:3**

Qualification as an S corporation overview, **3:1**

Rationale for exclusion as S corporation, **3:3**

Refunds obtained on, **8:62**

Trust companies, **3:3**

INELIGIBLE SHAREHOLDERS

Asset acquisitions, acquiring corporation affiliated group limitation (prior law), **15:19**

Partnership of S corporations, **20:33**

INELIGIBLE SHAREHOLDERS

—Cont'd

QSST election by current income beneficiary, necessity of election, **6:50**

Shareholder agreements

transfers to creditors, **18:14**

transfers to permissible shareholders, **18:10**

Stock acquisitions, acquiring corporation S status effect, **15:39**

Stock received in C reorganization, **13:27**

INSOLVENCY

Advantages of debt, **5:20**

Cancellation of indebtedness, recognition of income, **17:15**

Discharge of indebtedness, corporate income determination and realization, **7:9**

Subsidiaries of S corporations, QSUB election, **21:9**

INSTALLMENT OBLIGATIONS

Converted C corporation, S election impact, **8:13**

Installment obligations, **15:52**

S corporation as shareholder, **7:48**

Section 338(h)(10) transactions, **15:52**

INSTALLMENT REPORTING

Electing out, **17:12**

INSTALLMENT SALES

Built-in gains tax

net recognized built-in gain, **8:42**

recognition events, **8:38**

temporary reduction in recognition period provided by American

Recovery and Reinvestment Act (prior law), **8:34**

Earnings and profits, distributions to S corporation, **10:17**

Pass-through losses, limitations on shareholder use of, **9:18**

Stock or securities, application of Section 453(k), **7:16**

INSTALLMENTS

See also index heading **ESTIMATED TAX PAYMENTS**

Estimated tax payments, **14:10**

INDEX

INSTALLMENTS—Cont'd

- LIFO recapture
 - divisive reorganizations, **13:43**
 - S election impact, **8:8**
- LIFO recapture amount, **14:23**
- Liquidation
 - income character, **14:14**
 - treatment, **14:10**
- Reporting, electing out of, **17:12**

INSTRUCTIONS

- Form 2553, **6:77**

INSURANCE COMPANIES

- Definition, **3:3**
- Ineligible corporations, **3:3**

INSURANCE POLICIES

- Annuities, excess passive investment income, **8:59**

INSURANCE PREMIUMS

- Cross-purchase agreement, life insurance effect, **18:4**
- Redemption agreement, life insurance effect, **18:6**

INSURANCE PROCEEDS

- Redemption agreement, life insurance effect, **18:6**

INTANGIBLE ASSETS

- Built-in gains tax, net unrealized built-in gain, **8:32**

INTANGIBLE DRILLING AND DEVELOPMENT COSTS

- Recapture
 - liquidating distribution of property, **20:24**
 - nonliquidating distribution of property, **20:24**
 - sale of property, **20:24**
 - transfer of stock, **20:23**

INTANGIBLE DRILLING COSTS

- Earnings and profits, distributions to S corporation, **10:17**
- Tax elections at shareholder level, **7:76**
- Tax preference items, S corporation special treatment, **7:45**

INTENT

- Termination of S status, **16:19**

INTER VIVOS GIFTS

- Gifts of stock, nonvoting and voting stock, **19:48**
- Income shifting, per share, per day, **19:49**
- S corporation shareholders, family-owned S corporations, **19:47**
- Voting and nonvoting stock, family-owned S corporations, **19:48**

INTER VIVOS PLANNING

- Estate planning
 - S corporation shareholder, **19:45**
 - transfers of stock, **19:45**

INTER VIVOS TRUSTS

- Trusts as S corporation shareholders, QTIP trusts, **19:42**

INTEREST

- Acquisition debt, deduction after S termination, **16:35**
- Audit and refund procedures, **17:44**
- Back-up Section 444 election, Section 6621(a)(2), **4:45**
- Below-market rate, capitalization of S corporation, **5:19**
- Debt incurred to acquire interest in entity, **2:18**
- Debt of corporation, definition of property, **5:23**
- Debt used to acquire shares, S corporation advantage vs C corporation, **2:47**
- Deductibility
 - advantages of debt, **5:20**
 - debt used to acquire S corporation stock, **5:18**
 - shareholder loans to C corporation, **2:15**
- Deductions
 - below-market debt, **5:19**
 - stock acquisition indebtedness, **15:5**
- Excess passive investment income
 - definition generally, **8:58**
 - gross receipts defined generally, **8:54**
 - special rules, **8:61**
- Income, below-market debt, **5:19**
- Nonqualified deferred compensation, **11:44**

INTEREST—Cont'd

- Overpayments of S corporation corporate-level taxes, interest on, **17:54**
- Pass-through losses. See index heading
PASS-THROUGH LOSSES, LIMITATIONS ON
SHAREHOLDER USE OF
- Personal, S corporation special treatment, **7:33**
- Section 444 election payments
 - failure to make timely payments, **4:40**
 - refund of required payments, **4:44**
 - treatment of required payments, **4:38**
- Subchapter S status, statute of limitations with respect to loss of, **17:43**
- Tax deficiencies, with respect to, **7:33**

INTEREST CHARGE

- Converted C corporation, Section 453A, **8:13**

INTERIM CLOSING OF THE BOOKS

- Allocation method
 - termination of S corporation status, **18:21**
 - termination of shareholder's interest, **18:22**
- Redemption agreement, life insurance effect, **18:6**

INTERLOCUTORY DECREE OF DIVORCE

- Shareholder number limitation, **3:37**

INTERNAL REVENUE CODE

- Consent to election to close books, form, **7:92**
- Subpart A, property distributions gain recognition, **10:7**
- Subpart E, grantor trusts, **19:17**
- Treasury regulations, **App. 1**

INTERNAL REVENUE SERVICE

- Power to reallocate tax items, **7:73**

INTERNATIONAL TRANSACTIONS

- Generally, **20:48 to 20:57**

INVENTORY

- Built-in gains tax
 - excluded assets, **8:36**
 - net unrealized built-in gain, **8:32**

INVENTORY—Cont'd

- Character of gain or loss, sale of contributed property, **2:16**
- Distributions, **2:25**
- LIFO recapture
 - basis adjustments, **8:8**
 - converted C corporation, **8:8**
 - pass through of tax items, **2:23**
 - S election immediate tax consequences, **7:4**
- Subchapter S Revision Act of 1982, **1:28**
- Purchase and sale, accrual method of accounting method, **5:39**
- Transfer of property to S corporation, definition of property, **5:23**

INVESTMENT ASSETS

- Stock acquisitions, investment interest limitation, business interests limitations, **15:9**

INVESTMENT EXPENSES

- Miscellaneous itemized deductions, S corporation special treatment, **7:47**

INVESTMENT INCOME

- Distributions by corporations with accumulated E&P, election to treat distributions as dividends, **10:40**
- Stock acquisitions, investment interest limitation, business interests limitations, **15:9**

INVESTMENT INTEREST

- Acquisition debt interest on S termination, **16:35**
- Distributions by corporations with accumulated E&P, election to treat distributions as dividends, **10:40**

INVESTMENT INTEREST LIMITATION

- Pass-through losses. See index heading
PASS-THROUGH LOSSES, LIMITATIONS ON
SHAREHOLDER USE OF

INVESTMENT INTEREST RULES

- C corporation, stock, **2:18**
- Discharge of indebtedness, corporate income determination and realization, **7:9**
- Interest on acquisition debt, portfolio assets, **2:18**

INDEX

INVESTMENT INTEREST RULES

—Cont'd

S corporation advantage vs C corporation, **2:47**

Stock acquisitions, effect on S stock purchaser, **15:9**

INVESTMENT PROPERTY

Personal interest, S corporation special treatment, **7:33**

INVESTMENT TAX CREDIT RECAPTURE

Pass-through losses, limitations on shareholder use of, **9:8**

INVESTMENT TAX CREDITS

See also index heading GENERAL BUSINESS CREDITS

Adjustments required by tax credits, **7:79**

Carryover to acquiring S corporation, merger or consolidation, **13:9**

Converted C corporation, S election impact, **8:10**

Estimated tax, **17:33**

Liquidations

S corporation, **14:4**

shareholders, **14:19**

Pass through to shareholders, redemption of stock, **12:13**

Recapture

divisive D reorganizations, **13:46**

liquidations, **2:35**

mere change in form exception, **2:14**

pass through of tax items, **2:23**

property distributions gain recognition rule, **10:8**

transfers of property by shareholder, **5:26**

Recapture by S corporation

accumulated E&P, effect on, **12:14**

redemption of stock, **12:13**

Recapture by shareholders

distribution of property in redemption of stock, **12:14**

partial liquidations, **12:24**

S status termination, **16:33**

INVESTMENTS

S corporations, **20:75**

INVESTORS

Disclosure of Subchapter S items checklist, **20:103**

long form, **20:105**

short form, **20:104**

Limitation on number, S corporations used in syndications, **20:3**

Partnership of S corporations

limited liability, **20:27**

management, **20:27**

Shareholders of S corporation used in syndication

appreciated property transferred to S corporation, **20:9**

disclosure of tax issues, **20:12**

limitation on number, **20:3**

participation in management, **20:7**

types, **20:4**

INVOLUNTARY CONVERSION OF PROPERTY

Realized gain recognition, election to defer, **17:13**

INVOLUNTARY CONVERSIONS

Corporate income determination and realization, nonrecognition provisions applicability, **7:7**

IRAs

See index heading INDIVIDUAL RETIREMENT ACCOUNTS

IRREVOCABLE TRUSTS

Estate planning, **8:64**

J

JANITORIAL SERVICES

Excess passive investment income, real property rents (prior law), **19:50**

JOBS AND GROWTH TAX RELIEF RECONCILIATION ACT

Dividends qualifying for long term capital gain rates, **7:60**

Double taxation of entity earnings, **2:3**

JOINT COMMITTEE ON TAXATION REPORT ON BACKGROUND AND LEGISLATIVE PROPOSALS RELATING TO S CORPORATIONS

Generally, **App. 6**

JOINT TENANCY

- Husband and wife, number of permissible shareholders, **3:37**
- Permissible and impermissible shareholders, individuals, **3:12**

JOINT VENTURES

- Research and development activities, **20:102**

JOINTLY HELD STOCK

- Consent to S election by shareholders, husband and wife, **6:27**
- Shareholder consent to S election, **6:26**
- Shareholder number limitation, **3:41**

JUDGMENT CREDITORS

- Shareholder agreements, transfers to creditors, **18:14**

JUDICIAL REVIEW

- Audit procedures, deficiency procedures (prior law), **17:47**
- Refund procedures (prior law), **17:48**

JUNIOR STOCK PLANS

- Executive compensation, stock programs, **11:24**

K

KEOGH PLANS

- Qualified employee benefit plans, compensation, **11:24, 11:30, 19:62**

KIDDIE TAX

- Family S corporation, tax savings potential, **8:36**
- Recapture
 - converted C corporation, **8:8**
 - pass through of tax items, **2:23**
 - S election immediate tax consequences, **7:4**
- Subchapter S Revision Act of 1982, **1:28**

L

LAST-IN-FIRST-OUT INVENTORY ACCOUNTING METHOD

- Built-in gains tax, excluded assets, **19:62**

LATE FILING

- Corporate return, penalty for late filing of, **17:35**
- S election, extension to file, **6:40**

LAUNDRY FACILITIES

- Excess passive investment income, real property rents (prior law), **8:64**

LEASEHOLDS

- Transfer of property to S corporation, definition of property, **5:23**

LEASES

- S election consequences, status as pass-through entity, **7:3**
- Single-class-of-stock requirement, binding agreements, **3:51**

LEGAL REPRESENTATIVE

- Consent to S election by shareholders minors, **6:28**
- multiple capacities, **6:41**
- QSST election by current income beneficiary, execution of election form, **6:57**

LEGATEES

- Consent to S election by shareholders, decedents' estates, **6:29**

LEGISLATIVE HISTORY

- Subchapter S Revision Act of 1982, **App. 2**

LENDERS

- Debt issued to third parties, debt as second class of stock, **3:75**

LENDING OR FINANCE BUSINESS

- Excess passive investment income interest, **8:61**
- sales and exchanges of stock or securities, **8:69**

LESSOR CORPORATION

- Excess passive investment income provider of significant services (prior law), **8:66**

LETTERS

- Transmittal
 - QSST election filing, **6:56**
 - shareholders consent to S election filing, **6:46**

INDEX

LEVERAGED INVESTMENTS

S corporation used in syndication, **20:8**

LIABILITIES

Basis in stock, transfers of property to S corporation, **5:28**

Boot treatment to target corporation, **13:1**

Deemed distributions, S corporation advantage, **2:61**

Inclusion in basis interest in entity, **2:26**

S corporation disadvantage, **2:66**

Limited, S corporation advantage, **2:58**

Section 1244 stock, **5:32**

LIFE ESTATE WITH GENERAL POWER OF APPOINTMENT

Trusts as S corporation shareholders, marital trusts, **19:41**

LIFE INSURANCE

Annuities, excess passive investment income, **8:59**

Shareholder agreements
cross-purchase agreement, **18:4**
redemption agreement, **18:6**

LIFE INSURANCE COMPANIES

Ineligible corporations, **3:3**

LIFE TENANTS

Pass-through losses, limitations on shareholder use of, **9:6**

Split interests
consent to S election by shareholders, **6:34**
permissible shareholders, **3:19**
shareholder number limitation, **3:44**

LIFETIME TRUST TERMINATION REQUIREMENT

Qualified Subchapter S trusts, **3:24**

LIFO RECAPTURE

Basis of inventory, adjustments, **8:8**

Carryover of built-in gain

A reorganizations, **13:11**

C reorganizations, **13:31**

corporate separations, **13:43**

D reorganizations, **13:43**

Converted C corporation, S election impact, **8:8**

LIFO RECAPTURE—Cont'd

Estimated tax, **17:33**

Installment payments, **14:23**

Liquidations, **14:23**

Pass through of tax items, **2:23**

S election consequences, immediate tax consequences, **7:4**

Subchapter S Revision Act of 1982, corporate-level tax, **1:28**

Theory of partnerships, converted S corporation, **8:8**

LIKE-KIND EXCHANGES

Built-in gains tax, recognition events, **8:37**

Corporate income determination, nonrecognition provisions applicability, **19:50**

LIMITATIONS

Pass-through losses. See index heading
PASS-THROUGH LOSSES, LIMITATIONS ON
SHAREHOLDER USE OF

LIMITED LIABILITY

Limited liability companies
generally, **2:6**

for detailed treatment see index heading
LIMITED LIABILITY COMPANIES

Participation in management, **2:22**

Shareholders
partnerships of S corporations, **20:26**
S corporation used in syndication, **20:7**

LIMITED LIABILITY COMPANIES

Basis, **2:26**

Boot, **2:12**

Classification for tax purposes, **2:4**

Electing S corporation status, consent by shareholders, **6:31**

Foreign subsidiary, **20:54**

Limited liability characteristic, **2:6**

Management participation, **2:22**

Partnership tax treatment, **2:6**

Passive loss rules, **2:28**

Permissible S corporation shareholders, **3:17**

LIMITED PARTNERS

Management, corporation advantage, **2:58**

LIMITED PARTNERS—Cont'd

- Material participation
 - interest on acquisition debt, **2:18**
 - loss of limited liability, **2:28**

LIMITED PARTNERSHIPS

- Alternative to partnership of S corporations, **20:44**
- Choice of entity, **2:1**
- Corporate characteristics, **2:6**
- Corporate general partner, classification of entity, **2:6**
- Excess passive investment income
 - exchanges of stock or securities generally, **8:56**
 - special rules, **8:69**
 - planning considerations, **8:81**
- Management, S corporation advantage re limited partnership, **2:58**
- Participation in management, **2:22**
- Passive loss rules
 - S corporation advantage, **2:59**
 - S corporation shareholder permissibility, **3:17**
- S corporations as partners, **20:26**
- S corporations compared, use in syndications, **20:2**

LIQUIDATED DAMAGES CLAUSE

- Excess passive investment income, planning considerations, **8:81**

LIQUIDATING DISTRIBUTIONS

- Income from corporate distributions, appreciated property, **7:12**
- Noncash distributions overview, **10:4**
- Partnership of S corporation, **20:41**
- Property distributions, gain recognition rule applicability, **10:7**

LIQUIDATION

- Pass-through losses, limitations on shareholder use of, **9:26**

LIQUIDATIONS

- Accumulated adjustments account, **14:11**
- Acquisitions, **15:52**
- Adjusted basis, carryover of unused losses, **14:20**
- Allocation of income and loss, **14:9**
- Basis of property received, **14:18**

LIQUIDATIONS—Cont'd

- Built-in gains tax, purpose and scope of tax, **8:30**
- Carryover of unused losses, **14:20**
- Corporate tax attributes, **14:11**
- Deferred COD income (prior law), **14:16**
- Distributions
 - complete, **10:11**
 - installment obligations, **14:10**
 - pro rata, **14:3**
 - related persons, **14:2**
 - Section 332 liquidations, **14:12**
 - shareholder gain or loss, **14:17**
- Distributions by corporations with accumulated E&P, alternatives to cash distributions, **10:41**
- Eighty-percent distributee, Section 332 liquidations, **14:12**
- Election of S status, effect, **14:8**
- Election of taxable year, Section 444, termination, **14:22**
- Excess passive investment income tax
 - purpose and scope of tax, **8:51**
 - sales and exchanges of stock, **8:56**
 - special rules, **8:69**
- Executive compensation
 - junior stock plans, **11:30**
 - nonstock incentive programs, **11:35**
 - phantom stock plans, **11:39**
- Income, character, **14:14**
- Installment obligations
 - generally, **14:10**
 - income character, **14:14**
- Investment tax credits
 - generally, **14:4**
 - shareholders, **14:19**
- LIFO recapture, **14:23**
- New corporation, Section 338 acquisition, **15:52**
- Overview, **14:1**
- Partial. See index heading PARTIAL LIQUIDATIONS
- Partnership liquidating distribution, partner's gain or loss, **2:35**
- Pass through treatment
 - generally, **14:2**
 - allocation of income and loss, **14:9**
 - installment obligations, **14:10**

INDEX

LIQUIDATIONS—Cont'd

- Passive investment income, **14:14**
- Purchasing corporation, **15:52**
- Recapture of investment tax credits
 - generally, **14:4**
 - shareholders, **14:19**
- Recognition of gains
 - generally, **14:2**
 - installment obligations, **14:10**
 - Section 332 liquidations, **14:12**
 - Section 338 acquisitions, **15:52**
 - Section 1374 effect
 - generally, **14:5**
 - prior law, **14:6**
 - shareholders, **14:17**
- Recognition of losses
 - generally, **14:2**
 - distributions to related persons, **14:3**
 - installment obligations, **14:10**
 - Section 332 liquidations, **14:12**
 - Section 338 acquisitions, **15:52**
 - shareholders, **14:17**
 - tax avoidance purposes, **14:3**
- Reorganizations compared, distributions, **14:2**
- Reporting requirements, **14:24**
- Rights, organization, **5:6**
- S corporation liquidating distribution, disadvantage vs partnership, **2:70**
- Sale of property, **14:2**
- Section 332
 - distributions, liquidation, **14:12**
 - gain or loss, **14:2**
- Section 338, acquisitions, **15:52**
- Section 444 election termination, **14:22**
- Section 965 net tax liability on liquidation of S corporation, triggering payment of, **14:15**
- Section 1374 effect
 - generally, **14:5**
 - prior law, **14:6**
- Section 1375 effect, **14:14**
- Shareholders
 - basis of property received, **14:18**
 - carryover of unused losses, **14:20**
 - gains, **14:17**
 - losses, **14:17**
 - recapture of investment tax credit, **14:19**

LIQUIDATIONS—Cont'd

- Stock acquisitions
 - basis step-up, **15:14**
 - subsidiary liquidation tax consequences, **15:52**
- Subsidiaries
 - generally, **15:50**
 - S corporation as shareholder (prior law), **7:14**
- Target corporation, **15:52**
- Taxable stock acquisitions by or of an S corporation, liquidation of acquired corporation, **15:49**
- Termination of Section 444 election, **4:43, 14:22**

LOANS

- At risk rules, applicability, **2:27**
- Below market, circumvent class of stock requirement, **3:51**
- Capitalization, partners or shareholders, **2:15**
- Distributions, complete liquidation, **10:11**
- ESOPs, payments made on leveraged loans, **20:72**
- Excess passive investment income, special rules, **8:57**
- IRS power to reallocate tax items, **7:73**
- Pass-through losses. See index heading PASS-THROUGH LOSSES, LIMITATIONS ON SHAREHOLDER USE OF
- Qualified employee benefit plans, converted C corporation, **8:11**
- Qualified plan rules (prior law), **2:52**
- Shareholder agreements
 - single-class-of-stock requirement, **3:51**
- Shareholders, to, deemed distributions, **10:47**
- Workouts, discharge of debt, **7:10**

LOCAL LAW

- Converted C corporation, treatment as S corporation, **8:6**
- Incorporation, differences among states, **5:3**
- International operation of S corporation, **20:48**
- Trust qualifications, **3:24**

LOCAL LAW—Cont'd

- Trusts as S corporation shareholders
 - QSST corpus distribution limitation, **19:22**
 - QSST single income beneficiary, **19:21**

LONG-TERM CAPITAL ASSETS

- Built-in gains tax, transitional rules, **8:49**

LONG-TERM CAPITAL GAINS

- Capital gains tax
 - corporations subject to the tax, **8:83**
 - effect on shareholder pass-through, **8:89**
- Distributions to shareholders, corporation without accumulated E&P, **10:28**
- Redemption of stock, **12:11**
- Sale of S corporation stock, **12:2**
- Stock acquisitions sale of S corporation stock, **15:15**

LONG-TERM CAPITAL LOSSES

- Redemption of stock, **12:11**
- Sale of S corporation stock, **12:2**

LONG-TERM CONTRACTS

- Built-in gains tax, recognition events, **8:35**

LOSS

- Carryover, suspension of losses, **13:46**

LOSS ALLOCATION

- Disadvantages of debt, **5:21**

LOSS CARRYOVERS

- Built-in gains tax, deductions offsetting built-in gain, **8:44**
- Converted C corporation, computation of income, **8:25**
- Net recognized built-in gain, **8:42**

LOSS CORPORATION WITH PRIOR C HISTORY

- Shareholder with stock basis, **11:17**
- Shareholder without stock basis, **11:18**

LOSSES

- Accumulated adjustments account, computation, **10:20**

LOSSES—Cont'd

- Accumulated earnings and profits, adjustments for distributions, **10:14**
- Allocation in year of reorganization
 - A reorganizations, **13:12**
 - B reorganizations, **13:23**
 - C reorganizations, **13:32**
 - divisive D reorganizations, **13:44**
- Allocation in year of sale of stock, **12:6**
- Asset acquisitions, post-termination transition period, **15:34**
- Built-in gains tax
 - excess recognized built-in gain, **8:39**
 - net recognized built-in gain, **8:42**
 - net unrealized built-in gain, **8:32**
 - planning considerations, **8:50**
 - taxable income, **8:40**
- Carryover
 - partial liquidations, **12:23**
 - redemption of stock, **12:12**
 - sale of stock, **12:4**
- Compensation by loss corporation with C history
 - shareholder with stock basis, **11:17**
 - shareholder without stock basis, **11:18**
- Compensation by loss corporation without C history
 - shareholder with stock basis, **11:13**
 - shareholder without stock basis, **11:14**
- Compensation by profitable corporation without C history, shareholder without stock basis, **11:12, 11:16**
- Consent to S election, identity of shareholders, **6:25**
- Converted C corporation
 - computation of income, **8:16**
 - Section 183, **8:21**
- Corporate, S corporation advantage, **2:42**
- Deduction by S corporation shareholders, **12:4**
- Deduction by shareholders in year of reorganization
 - A reorganizations, **13:13**
 - B reorganizations, **13:24**
 - C reorganizations, **13:33**
- Discharge of indebtedness
 - debt owed to shareholder, **5:17**
 - practice tip when losses exceed stock basis, **7:9**

INDEX

LOSSES—Cont'd

- Disposition of property, recognition in general, **2:9**
- Distributions to shareholders, timing of adjustments to basis, **10:30**
- Estates
 - allocation of income or loss, **19:6**
 - carryover of unused losses, **19:7**
- Excess passive investment income
 - sales and exchanges of stock or securities, **8:56**
 - sales of capital assets, **8:55**
- Foreign, recapture as S election consequence, **7:4**
- Income from corporate distributions, appreciated property, **7:12**
- Income shifting, estate planning, **19:49**
- Irrevocable trusts, estate planning, **19:50**
- Liquidations of entity, **2:35**
- Multiple distributions exceeding AAA, timing of distributions, **10:36**
- Noncash compensation, **11:3**
- Oil and gas activities of S corporations, losses suspended, **20:25**
- Partial liquidations
 - generally, **12:22**
 - depreciated property distributed, **12:25**
- Partnership
 - distribution of property, **2:25**
 - exceeding basis, **2:26**
- Pass through nature of Subchapter S prior to Subchapter S Revision Act of 1982, **1:10**
 - S election consequences, **7:3**
 - Subchapter S Revision Act of 1982, **1:24**
- Property distributions
 - depreciated property, **10:9**
- QSST election by current income beneficiary, election effect, **6:61**
- Redemptions of stock, **12:11**
- S corporation stock sold, character of, **12:2**
- S election consequences
 - corporate tax items, **7:5**
 - status as pass-through entity, **7:3**
- Section 267 limitation, S corporation special treatment, **7:25**

LOSSES—Cont'd

- Section 444 election required payments liability, base year, **4:27**
- Section 1244 stock, sale or exchange of stock, **5:32**
- Shareholder agreements
 - allocation on termination of shareholder's interest, **18:22**
 - distributions amount and timing, **18:23**
 - life insurance effect on redemption agreement, **18:6**
- Special treatment
 - redemption of stock, **12:11**
 - sale of stock, **12:2**
- Subchapter C years, immediate S election tax consequences, **7:4**
- Suspension of, **12:4**
- Transfers of property to S corporation, taxable sale, **5:29**
- Worthless stock, disadvantages of debt, **5:21**

LOSSES SUSPENDED BY AT RISK LIMITATION

- Increases during post-termination period, **16:53**
- S status termination, **16:42**

LOSSES SUSPENDED BY BASIS LIMITATION

- Effect on distributions, **10:28**
- S status termination
 - shareholder deduction, **16:52**
 - survival through post-termination transition period, **16:41**

LOSSES SUSPENDED BY PAL LIMITATION

- S status termination effect, **16:43**

M

MAID SERVICE

- Excess passive investment income, real property rents (prior law), **7:82**

MAIL

- Certified
 - proof of filing QSST election, **6:56**
- Notice of revocation of S status, mailing requirements, **16:6**

MAINTENANCE AND REPAIR

- Excess passive investment income
personal property rents (prior law),
8:65
- real property rents (prior law), **8:64**

MAJORITY SHAREHOLDERS

- Shareholder agreements
revoking S corporation status, **18:17**

MANAGEMENT

- Limited liability, S corporation
advantage re limited partnership,
2:58
- Limited liability companies, **2:22**

MANAGEMENT CONSULTING SERVICES

- Excess passive investment income, real
property rents (prior law), **8:64**

MARITAL DEDUCTION

- Trusts as S corporation shareholders,
estate and gift taxes, **19:41**

MARITAL TRUSTS

- Trusts as S corporation shareholders,
estate and gift taxes, **19:41**

MARKETING OF PRODUCTS

- Excess passive investment income, real
property rents (prior law), **8:64**

MARRIAGE

- Shareholder number limitation
generally, **3:36**
- dissolution. See index heading DIS-
SOLUTION OF MARRIAGE
- remarriage of surviving spouse while
estate open
generally, **3:37**
- decendent's estate, **3:43**

MATERIAL PARTICIPATION

- Interest on debt used to acquire shares, S
corporation advantage, **2:47**
- Passive loss rules, interest on acquisition
debt, **2:18**

MEALS AND ENTERTAINMENT

- Expense deductions, **7:50**

MEALS AND LODGING

- Compensation, fringe benefits, **11:22**

MEDICAL BENEFITS

- Compensation, fringe benefits, **11:22**

MEDICAL EXPENSES

- Personal deductions, S corporation
special treatment, **7:29**

MEDICAL REIMBURSEMENT PLANS

- Shareholder participation, **11:23**

MEDICARE TAX

- Election for S status, **7:91**
- Sales of stock, applicability of Medicare
tax to, **12:10**

MERE CHANGE IN FORM OF DOING BUSINESS

- ITC recapture, general business credits,
7:81
- Property distributions, gain recognition
rule consequences, **10:8**

MERGERS

- Accumulated adjustments account
effect, **13:10**
- Built-in gain tax, acquiring S corpora-
tion liability, **13:11**
- Carryover of tax attributes to acquiring
S corporation, **13:9**
- Cash mergers, **13:53**
- Corporate-level preference items under
Section 291, S corporation special
treatment, **7:23**
- Defined, **13:6**
- Excess passive investment income,
Subchapter C earnings and profits,
8:52
- LLC, merger of two S corporations for
cash into wholly owned LLC,
13:52
- Partnerships, **2:36**
- S corporation as acquiring corporation,
re-election of S status, **13:8**
- S corporation as target
deduction of unused losses by
shareholders, **13:13**
- S election termination, **13:7**
- Subsidiaries of S corporations, merger
transactions, **21:15**
- Tax-free transfer of interest in entity,
2:36

INDEX

MERGERS OR CONSOLIDATIONS

See also index headings CONSOLIDATIONS;
MERGERS

A reorganizations, **13:6**

S corporations, **13:7**

MINERAL EXPLORATION EXPENDITURES

Practice tips, Section 617, **7:35**

S corporation special treatment, **7:35**

MINERAL INCOME

Built-in gains tax, income from extrac-
tion, **8:39**

MINERAL PROPERTY

Exploration expenses, **7:35**

Mineral exploration expenditures, S
corporation special treatment, **7:35**

MINERAL ROYALTIES

Excess passive investment income, **8:68**

MINIMUM DISTRIBUTION PROVISIONS

Distributions to shareholders,
disproportionate, **10:47**

MINING DEVELOPMENT

Alternative minimum tax, **7:45**

Pass-through losses, limitations on
shareholder use of, **9:14**

Tax preference items, S corporation
special treatment, **7:45**

MINING EXPENDITURES

Election to deduct
generally, **17:16**
shareholders, **17:25**

MINING EXPLORATION EXPENDITURES

Separately and nonseparately stated
items, **7:65**

Tax elections at shareholder level, **7:76**

Tax preference items, S corporation
special treatment, **7:45**

MINORITY SHAREHOLDERS

Shareholder agreements
distributions amount and timing,
18:23
revoking S corporation status, **18:17**

MINORS

Consent to S election by shareholders,
6:28

Family S corporation
reallocation of tax items, **19:63**
tax savings potential, **19:62**

Permissible and impermissible
shareholders
estate, **3:18**
individuals, **3:12**

QSST election by current income bene-
ficiary, election form execution,
6:57

Shareholder number limitation, estate,
3:37, 3:43

Trusts as S corporation shareholders,
QSST election for each S corpora-
tion, **19:25**

MINOR'S TRUSTS

Trusts as S corporation shareholders,
QSST distribution of income, **19:20**

MISCELLANEOUS ITEMIZED DEDUCTIONS

Two-percent floor, S corporation special
treatment, **7:47**

MOBILE HOME PARKS

Excess passive investment income, real
property rents (prior law), **8:64**

MODEL BUSINESS CORPORATION ACT

Statutory close corporation supplement,
domestic corporation requirement,
3:2

MOMENTARY STOCK OWNERSHIP

Asset acquisitions, ineligible sharehold-
ers, **15:19**

Corporate shareholders, reorganizations
(prior law), **3:9**

MONEY OR CASH

Claim of right doctrine, S corporation
special treatment, **7:49**

Mergers, cash mergers, **13:53, 17:41**

Post-termination transition period distri-
bution requirement, **16:50**

Property distributions, gain recognition
rule applicability, **10:7**

MONEY OR CASH—Cont'd

Transfer of property to S corporation
corporate nonrecognition on issuance
of stock, **5:30**
definition of property, **5:23**

MONEY ORDERS

Section 444 election payments, medium
of payments, **4:37**

MOTELS

Excess passive investment income, real
property rents (prior law), **8:64**

MOVING EXPENSES

Personal deductions, S corporation
special treatment, **7:29**

MULTIPLE BASES

Distributions to shareholders, differing
bases in stock, **10:29**

MULTIPLE CAPACITIES

Consent to S election by shareholders,
6:41

MULTIPLE DEBTS

Pass-through losses, limitations on
shareholder use of, **9:20**

MULTIPLE DISTRIBUTIONS

Accumulated adjustments account,
transfer or issuance of shares,
10:24
Exceeding AAA, **10:34**
Practice tips
redemptions, **10:22**
timing of distributions, **10:36**
transfers of stock, **10:35**
Previously taxed income, **10:39**
Shareholders with different taxable
years from S corporation, **10:44**

MULTIPLE INCOME

BENEFICIARIES

Qualified Subchapter S trust, **3:24**
Trusts as S corporation shareholders
QSST multiple trust owners, **19:23**
QSST single income beneficiary,
19:21

MULTI-STATE BUSINESS

State tax considerations, **2:31**

MUTUAL SAVINGS BANKS

Ineligible corporations, **3:3, 11:38**

N

NAKED SAR

Executive compensation, stock apprecia-
tion rights, **3:4**

NAME

Consent to S election by shareholders,
form, **6:42**
Election by corporation, form, **6:3**
QSST election by current income bene-
ficiary
affirmative refusal to consent, **6:62**
revocation of election, **6:63**
separate written statement, **6:53**

NATURAL BUSINESS YEAR TEST

Fiscal year
application, **4:5**
computation, **4:5**
procedure required, **4:6**
S corporation owning partnership inter-
est, **20:43**

NEGLIGENCE

Subchapter S status, statute of limita-
tions with respect to loss of, **17:43**

NET CAPITAL GAIN

Capital gains tax
amount of tax, **8:87**
excess net capital gain, **8:85**
Corporate level tax on S corporations,
13:15
Excess passive investment income, plan-
ning considerations, **8:81**

NET EARNINGS

Compensation, self-employment taxes,
11:9

NET INCOME

Section 444 election payments, base
year, **4:27**

NET LONG-TERM GAIN

Capital gains tax, excess net capital
gain, **8:85**

INDEX

NET LOSSES

Converted C corporation, Section 183, **8:21**

NET OPERATING LOSS

CARRYOVERS

Built-in gains tax
deductions offsetting net recognized built-in gain, **8:44**
net recognized built-in gain, **8:42**
taxable income, **8:40**
Discharge of indebtedness, corporate income determination and realization, **7:9**
Excess passive investment income taxable income, **8:71**

NET OPERATING LOSSES

Built-in gains tax, planning considerations, **8:50**
Carryover to acquiring S corporation in merger and consolidation, **13:9**
Corporate losses, S corporation advantage vs C corporation, **2:42**
Discharge of indebtedness, corporate income determination and realization, **7:9**
Distributions by corporations with accumulated E&P, election to treat distributions as dividends, **10:40**
LIFO recapture, effect on, **8:8**
Pass through of tax items to estate or trust, **7:74**
S corporation special treatment, **7:20**

NET PASSIVE INCOME

Distributions by corporations with accumulated E&P
differentiating Subchapter C and S, **10:43**
elimination of Subchapter S E&P, **10:42**
Excess passive investment income generally, **8:72**
planning considerations, **8:81**
Pass through of tax items, **2:23**
Subchapter S Revision Act of 1982, corporate-level tax, **1:27**

NET RECOGNIZED BUILT-IN GAIN

Built-in gains tax
ceiling on, **8:43**

NET RECOGNIZED BUILT-IN GAIN

—Cont'd

Built-in gains tax—Cont'd
computation of built-in gains tax, **8:42**
deductions offsetting, **8:44**
Converted C corporation, loss carryforwards, **8:25**
Estimated tax, **17:33**

NET REGULAR TAX LIABILITY

General business credit limitation, **7:83**

NET REQUIRED PAYMENT BALANCE

Computation of Section 444 election required payments liability, **4:34**

NET SHORT-TERM LOSS

Capital gains tax, excess net capital gain, **8:85**

NET UNREALIZED BUILT-IN GAIN

Built-in gains tax
applicability of tax, **8:32**
ceiling on net recognized built-in gain, **8:43**
planning considerations, **8:50**

NEWLY ORGANIZED CORPORATIONS

Calendar year, procedure for adoption as taxable year, **4:3**
Fiscal year
natural business year test, **4:5**
permissible, **4:15**
Organization of S corporation, adoption of accounting method, **5:40**
QSST election by current income beneficiary, Form 2553, **6:52**
Section 444 election
deferral entities alternative de minimis exception, **4:14**
exception to required payments liability, **4:22**
Transfers of property, general rule of nonrecognition, **5:22**

NEWLY OWNED STOCK

Pro rata allocation rule exception, **16:24**

NOMINEES

Consent to S election, identity of shareholders, **6:25**

NOMINEES—Cont'd

Permissible shareholders
 corporations, **3:15**
 individuals, **3:12**

**NONBUSINESS BAD DEBT
 DEDUCTION**

Corporation consideration, **7:53**

NONCASH COMPENSATION

General effects, **11:3**
 Timing considerations, **11:4**

NONCASH DISTRIBUTIONS

Corporate-level consequences overview,
 10:4
 Post-termination transition period, **10:52**
 Taxation to shareholders, **10:46**

**NONCONFORMING
 DISTRIBUTIONS**

Single-class-of-stock rules, **3:52**

**NONCONTROLLING
 SHAREHOLDERS**

Shareholder agreements, distributions of
 appreciated property, **18:25**

NONDIVIDENDS

Accumulated adjustments account,
 purposes, **10:18**
 Distributions
 filing necessary forms, **10:55**
 S corporation with accumulated E&P,
 10:3
 Distributions by corporations with
 accumulated E&P
 generally, **10:30**
 distributions of PTI, **10:39**
 Stock acquisitions
 AAA balance, **15:10**
 pre-and post-acquisition distributions,
 15:13
 redemption effects, **15:17**

**NONDIVISIVE D
 REORGANIZATIONS**

Generally, **13:37**
 G reorganizations, **13:51**

NONLIQUIDATING DISTRIBUTIONS

Corporate-level consequences of
 noncash distributions overview,
 10:4

**NONLIQUIDATING DISTRIBUTIONS
 —Cont'd**

Depreciated property, **10:9**
 Distributions in complete liquidation,
 10:11
 Income from corporate distributions,
 appreciated property, **7:12**
 Property, consequences of distributions
 to S corporation, **10:6**
 S corporation as shareholder, basis (prior
 law), **7:14**

NONPERMITTED TAXABLE YEAR

S status termination, **16:14**

NON-PRO RATA DISTRIBUTIONS

Distributions by corporations with
 accumulated E&P, **10:30**
 Distributions to shareholders, corpora-
 tion without accumulated E&P,
 10:28

**NONRECOGNITION (GAIN OR
 LOSS)**

Affiliated group limitation (prior law),
 corporate division, **3:11**
 Pass-through losses, limitations on
 shareholder use of, **9:5, 9:18, 9:36**
 Transfers of property to S corporation
 basis of property received, **5:31**
 basis of stock, **5:28**
 control immediately after exchange,
 5:25
 corporate nonrecognition upon issu-
 ance of stock, **5:30**
 exceptions to nonrecognition, **5:27**
 general rule, **5:22**
 investment tax credit recapture, **5:26**
 solely in exchange for stock and secu-
 rities, **5:24**
 taxable sale of property to corpora-
 tion, **5:29**
 transfer of property, **5:23**

NONRECOURSE DEBT

Real estate investment, **20:76**
 Reduction or discharge, **7:10**

NONREDEEMING SHAREHOLDERS

Shareholder agreements, redemption
 agreement, **18:5**

INDEX

NONRESIDENT ALIENS

- Community property, United States citizen spouse, **3:13**
- Definition, **3:13, 20:51**
- Executive compensation
 - nonstatutory stock option plans, **11:32**
 - nonvoting stock, **11:28**
- Nondiscrimination, violation of tax treaties, **20:51**
- Permissible and impermissible shareholders
 - generally, **3:13**
 - beneficiaries, **3:26**
 - grantor trusts, **3:21**
 - individual retirement accounts, **3:30, 11:26**
 - individuals, **3:12**
 - Section 678 trusts, **3:22**
- S corporation shareholders, U.S. citizens, **20:51**

NONSEPARATELY COMPUTED INCOME OR LOSS

- Separately and nonseparately stated items, **7:65**

NONSEPARATELY COMPUTED TAX ITEMS

- Allocation among shareholders, **7:70**
- Election to close books on transfer of shares, **7:71**

NONSEPARATELY STATED INCOME

- Distributions to shareholders, corporation without accumulated E&P, **10:28**

NONSEPARATELY STATED TAX ITEMS

- Allocation of tax items among shareholders, pro rata share, **7:70**
- Pass through of tax items to shareholders, **7:65**

NONSTATUTORY STOCK OPTIONS

- Executive compensation
 - incentive stock options plans, **11:33**
 - nonstatutory stock option plans, **11:32**
- Single-class-of-stock rules, **11:32**

NONSTOCK INCENTIVE PROGRAMS

- Executive compensation
 - generally, **11:35**

NONSTOCK INCENTIVE PROGRAMS—Cont'd

- Executive compensation—Cont'd
 - annual bonus plans, **11:36**
 - performance unit plans, **11:37**
 - phantom stock plans, **11:39**
 - stock appreciation rights, **11:38**

NONTAX CONSIDERATIONS FOR FISCAL YEAR

- Facts and circumstances test, **4:9**

NONTAXABLE DISTRIBUTIONS

- Filing necessary forms, Form 5452, **10:55**

NONTAXABLE DIVIDENDS

- Accumulated adjustments account, **12:7**

NONVOTING STOCK

- Consent to S election by shareholders, **6:30**
- Control of corporation, **2:22**
- Excess passive investment income, sales and exchanges of stock or securities, **8:56**
- Executive compensation, stock programs, **11:28**
- Open account debt, evidence of indebtedness, **5:16**
- Shareholder agreements, single-class-of-stock requirement, **18:15**

NOTES

- Accumulated adjustments account, adjustments for distributions, **10:14**
- Accumulated earnings and profits, adjustments for distributions, **10:14**
- Evidence of indebtedness, **5:16**
- Excess passive investment income, sales and exchanges of stock or securities
 - generally, **8:56**
 - special rules, **8:69**
- Income shifting
 - estate planning, **19:49**

NOTICE

- Audit procedures (prior law)
 - generally, **17:46**
 - deficiency procedures (prior law), **17:47**
- Refund procedures (prior law), **11:30**

NOTICE—Cont'd

Revocation of S status, **17:3**

**NOTICE OF RESCISSION OF
REVOCATION OF S STATUS**

Filing requirements, **16:11**

Form, **16:11**

**NOTICE OF REVOCATION OF S
STATUS**

Effective date, **16:3**

Execution, **16:5**

Extension of time to file, **16:10**

Filing with IRS, **16:6**

Form for revocation, **16:4**

Mailing requirements, **16:6**

Proof of filing, **16:6**

Rescission of, **16:11**

Retroactive effective date, **16:3**

Shareholder agreements, **18:17**

Shareholder consents filed with, **16:9**

**NOTICE OF TERMINATION OF S
STATUS**

Requirements, **8:64**

O

OFFICE BUILDINGS

Excess passive investment income, real
property rents (prior law), **16:13**

OIL AND GAS

Converted C corporation, computation
of income, **8:17**

Depletion

AAA computation, **10:20**

adjustments to basis, **20:18**

losses in excess of basis, **9:34**

percentage depletion loss, S election
consequences, **7:4**

S corporation special treatment, **7:34**
separately and nonseparately stated
items, **7:65**

Income, separately and nonseparately
stated items, **7:65**

Recapture recognition, **20:24**

Restricted stock, **20:22**

Royalties, excess passive investment
income, **8:68**

S corporation oil and gas activities
generally, **20:13 to 20:25**

OIL AND GAS—Cont'd

S corporation oil and gas activities

—Cont'd

aggregation for purposes of at risk
rules, **20:25**

allocation of depletable basis, **20:18**

basis limitation not applicable, **20:15**

decrease in shareholder's stock basis,
20:16

depletion allowance as shareholder-
level item, **20:14**

intangible drilling and development
costs recapture, **20:23**

passive loss rules, **20:25**

reallocation of depletable basis, **20:18**

recapture recognition, **20:24**

working interest exception, **20:25**

S election consequences, percentage
depletion loss, **7:4**

Stock acquisitions, adjustments to basis,
20:18

OIL AND GAS DEPLETION

Pass-through losses, limitations on
shareholder use of, **9:24**

Recapture, **20:23**

OIL AND GAS PROPERTIES

Intangible drilling and development cost
recapture, **20:24**

Percentage depletion, S status termina-
tion, effect on, **16:31**

OIL DRILLING COSTS

Election to deduct, **17:10**

OMISSIONS

Electing S corporation status
shareholders consent, **6:47**

QSST election by current income bene-
ficiary, **6:60**

Subchapter S status, statute of limita-
tions with respect to loss of, **17:43**

OPEN ACCOUNT DEBT

Pass-through losses, limitations on
shareholder use of, **9:20**

OPERATION OF ENTITY

Administrative matters, **2:32**

Allocation of tax items, **2:24**

At risk rules applicability, **2:27**

Basis in interest in entity, **2:26**

INDEX

OPERATION OF ENTITY—Cont'd

- Compensation, **2:30**
- Current distributions, **2:25**
- Participation in management, **2:22**
- Pass through of tax items, **2:23**
- Passive loss rules, **2:28**
- Risk of loss of tax favored status, **2:29**
- State tax considerations, **2:31**
- Tax rates, **2:21**

OPTIONEE

- Executive compensation, nonstatutory stock option plans, **11:32**

OPTIONS

- Dealer, excess passive investment income, **8:69**
- Nonstatutory stock options, nonstatutory stock option plans, **11:32**
- Partnership of S corporations alternative, **20:45**
- Shareholder agreements, transfers to permissible shareholders, **18:10**
- Single-class-of-stock requirement, **3:59**
- Stock
 - allocation of tax items, **2:24**
 - disproportionate distributions of cash, **2:25**
 - exchange for services, **2:13**
 - noncash compensation general effects, **11:3**
 - nonqualified stock options, tax consequences of, **2:13**

ORDERING RULES

- Pass-through losses, limitations on shareholder use of, **9:27**

ORDINARY INCOME

- Boot received in corporate reorganization, **13:1**
- Built-in gains tax, transitional rules, **8:49**
- Capital gains tax, purpose and scope of tax, **8:82**
- Contribution of property, conversion of ordinary income, **2:16**
- Converted C corporation, Section 291, **8:20**
- Distributions exceeding AAA, **12:11**
- Gain character determination, S corporation special treatment, **7:37**

ORDINARY INCOME—Cont'd

- Indebtedness, evidence, **5:16**
- Property distributions, gain recognition rule consequences, **10:8**
- Reorganization, gain or loss on receipt of property, **2:36**
- S election consequences, status as pass-through entity, **7:3**
- Sale of interest, S corporation stock, **2:33**
- Sale of mining property, mineral exploration expenditures recapture, **7:35**
- Section 721 treatment, S corporation advantage vs partnership, **2:62**
- Stock acquisitions, sale of S corporation stock, **15:15**

ORDINARY LOSSES

- S corporation stock sold, **12:2**
- Section 1231 gain and loss, S corporation special treatment, **7:38**
- Section 1244 stock
 - computation, **5:35**
 - eligible shareholders, **5:34**
 - sale or exchange of stock, **5:32**
- Worthless stock, disadvantages of debt, **5:21**

ORGANIZATION OF S CORPORATION

- Domestic corporation requirement, **5:1**
- Economic rights distinctions, **5:6**
- Local law, differences among states, **5:3**
- Overview, **5:1**
- Preemptive rights, **5:7**
- Restrictions on issuance and transfer of stock, **5:9**
- Section 1366(e) impact, **5:10**
- Single-class-of-stock requirement, **5:4**
- Special allocations, **5:11**
- Stock options, **5:11**
- Voting rights distinctions, **5:5**
- Voting trusts, **5:8**

ORGANIZATIONAL EXPENDITURES

- Built-in gains tax
 - net recognized built-in gain, **8:42**
 - taxable income, **8:40**
- Excess passive investment income, taxable income, **8:71**

ORGANIZATIONAL EXPENDITURES

—Cont'd

S corporation special treatment, **7:20, 7:21**

ORGANIZATIONAL EXPENSES

Amortization election, **17:16**

ORIGINAL BASIS

Pass-through losses. See index heading
PASS-THROUGH LOSSES, LIMITATIONS ON
SHAREHOLDER USE OF

ORIGINAL ISSUE DISCOUNT RULES

High yield obligations, **16:29**

S corporation as shareholder, **7:48**

OVERALL FOREIGN LOSSES

Administrative and procedural considerations, **17:1**

Advantages and disadvantages of S corporation, **2:39**

Capitalization, **5:1**

Choice of entity, **2:1**

Compensation, **11:1**

Converted C corporation, **8:1**

Corporate-level consequences of distributions, noncash distributions, **10:4**

Distributions, **10:1**

Electing S corporation status, **6:1**

Eligibility to attain S corporation status, **3:1**

Estate planning, **19:1**

Organization of S corporation, **5:1**

Origin and history of Subchapter S, **1:1**

Pass-through and allocation of tax credits, **7:77**

Reorganizations and divisive transactions, **13:1**

S corporation special treatment of tax items, **7:18**

S election impact, conduit system of subchapter S, **7:1**

Shareholder agreements, **18:1**

Shareholder-level consequences of distributions

S corporation with accumulated E&P, **10:3**

S corporation without accumulated E&P, **10:2**

Stock and asset acquisitions, **15:1**

OVERALL FOREIGN LOSSES

—Cont'd

Stock sales, redemptions, and partial liquidations, **12:1**

Termination of S status, **16:1**

Uses of S corporations in particular industries and investments, **20:1**

OWNERSHIP CHANGES

Impact of distributions taking into account changes of ownership, **3:58**

Single-class-of-stock requirement, distributions to compensate, **3:57**

OWNERSHIP TAX YEAR TEST

Fiscal year
application, **4:7**
consolidation with subsidiary, **3:7**
practical liquidation of subsidiary, **3:10**
procedure required, **3:7**
transfer of stock to shareholders, **3:11**
S corporation as background, **21:1**

P

PAL RULES

Pass-through losses. See index heading
PASS-THROUGH LOSSES, LIMITATIONS ON
SHAREHOLDER USE OF

PARENTS

Consent to S election by shareholders, minors, **6:28**

QSST election by current beneficiary, election form execution, **6:57**

PARK FACILITIES

Excess passive investment income, real property rents (prior law), **8:64**

PARTIAL LIQUIDATIONS

AAA effect, **12:29**

Accumulated earnings and profits effect, **12:29**

Allocation of S corporation tax items, **12:26**

Appreciated property distributed, **12:25**

Carryover of losses, **12:23**

Cash distributions, **12:25**

Depreciated property distributed, **12:25**

INDEX

PARTIAL LIQUIDATIONS—Cont'd

- Gain or loss recognition to shareholders, **12:22**
- Income or loss of S corporation effect, **12:25**
- Investment credit recapture, **12:24**
- Post-termination transition period distributions, **16:50**
- Property distributed for which ITC claimed, recapture of credit, **12:25**
- Recapture rules, **12:28**
- Redemption treatment, **12:21**
- S election effect, **12:27**

PARTIAL REPAYMENTS

- Pass-through losses. See index heading
PASS-THROUGH LOSSES, LIMITATIONS ON
SHAREHOLDER USE OF

PARTICIPATION IN MANAGEMENT

- Control of business entity, **2:22**

PARTNERS

- At risk rules applicability, **2:27**
- Basis
 - inclusion of liabilities, **2:26**
 - S corporation disadvantage, **2:66**
- Basis in partnership interest computation, **2:26**
- Compensation
 - fringe benefits, **11:22**
 - partnership, **2:30**
- Deemed distributions, S corporation advantage vs partnership, **2:61**
- Estate planning considerations, **2:38**
- Executive compensation, nonvoting stock, **11:28**
- General, S corporation as, disposition of interest, **8:70**
- Health insurance costs, **11:22**
- Liquidations, recognition of gain or loss, **2:35**
- Loans to partnership, capitalization, **2:15**
- No limitation on number, S corporation disadvantage, **2:68**
- S corporation as partner
 - advantages of membership, **20:26 to 20:33**
 - alternatives to use, **20:44 to 20:47**
 - disadvantages of membership, **20:34 to 20:43**

PARTNERS—Cont'd

- S corporation as partner—Cont'd
 - natural business year test, **4:5**
- Single-class-of-stock requirement, validity agreements, **20:42**

PARTNERSHIP INTERESTS

- Built-in gains tax
 - recognition events, **8:35**
 - recognized built-in gain, **8:39**
- Passive investment income, **8:70**

PARTNERSHIP OF S CORPORATIONS

- Adjusted basis, Section 754 adjustment, **2:37**
- Allocation of tax items, **2:24**
- Choice of entity, **2:1**
- Classification of entity, **2:7**
- Disproportionate allocation of tax items, **2:2**
- Disproportionate distribution of cash current distributions, **2:25**
 - shareholders of an S corporation partner, **2:2**
- Interest in entity for services, **2:13**
- Tax returns, administration of entity, **2:32**
- Taxable year selection, **2:19**
- Validity of organization, single class of stock Regulations, **20:42**

PARTNERSHIP TAX TREATMENT

- Limited liability companies, **2:6**
- Section 1244 stock, worthless stock deduction, **7:53**

PARTNERSHIPS

- Adjusted basis
 - partner contribution of encumbered property, **2:11**
 - Section 754 election, **2:37**
- Agreement, control of partnership, **2:22**
- Allocation of tax items among partners, restrictions, **2:24**
- Basis limitation of Section 704(d), charitable contributions, **7:32**
- Basis of assets, transferee of interest, **19:6**
- Bookkeeping requirements, **2:32**
- Built-in gains tax, recognition events, **8:35**

PARTNERSHIPS—Cont'd

Choice of entity, **2:1**
 Classification of entity, **2:6**
 Compensation, fringe benefits, **11:22**
 Corporate characteristics
 classification of entity, **2:6**
 loss of tax favored status of entity, **2:29**
 Corporate-level tax, S corporation disadvantage vs partnership, **2:68**
 Deemed distributions, S corporation advantage vs partnerships, **2:61**
 Deferral entity, Section 444 election, **4:14**
 Disproportionate distributions of cash, **2:25**
 Distributions of cash and property, **2:25**
 Eligibility, comparison of entities, **2:4**
 Estate planning considerations, **2:38**
 Executive compensation, nonvoting stock, **11:28**
 Family partnership, allocation of tax items, **2:24**
 Family S corporation problems, **19:64**
 Gross receipts, excess passive investment income, **8:54**
 Interest in exchange for services, **2:13**
 Mergers, tax-free transfers of interest in entity, **2:36**
 Mineral exploration expenditures, S corporation special treatment, **7:35**
 Passive investment income, excess income from partnership interests, **8:70**
 planning considerations, **8:81**
 sales and exchanges of stock generally, **8:56**
 special rules, **8:69**
 Pass-through losses. See index heading PASS-THROUGH LOSSES, LIMITATIONS ON SHAREHOLDER USE OF
 Permissible shareholders, beneficial owner of stock, **3:16**
 Post-termination entity classification of associations, **16:44**
 Redemption of partnership interest, **2:34**
 S corporation as partnership
 claim foreign tax credit, **20:54**
 foreign source income, **20:54**

PARTNERSHIPS—Cont'd

S corporations as partners
 administrative costs, **20:34**
 advantages over limited partnership, **20:44**
 anti abuse regulations, **20:42**
 avoidance of Subchapter S limitations, **20:33**
 basis in ownership interest, **20:36**
 business purpose, **20:42**
 capital gains treatment of transfer of interest, **20:32**
 disproportionate distributions, **20:26**
 distributions, **20:38**
 economic substance, **20:42**
 formation, **20:31**
 interest received for services, **20:30**
 limitation avoidance, **20:42**
 limitation on owners, **20:35**
 limited partnership as alternative, **20:44**
 liquidating distributions, **20:41**
 management by shareholders, **20:27**
 passive loss rules, **20:28**
 reorganizations, **20:32**
 research and development activities, **20:101**
 sale of partnership interest, **20:39**
 Section 754 election, **20:39**
 separate basis in blocks of shares, **20:40**
 sham treatment, **20:42**
 special allocations of tax items, **20:26**
 stock basis increases, **20:36**
 taxable year, **20:43**
 tax-free exchange of stock, **20:32**
 unitary basis rule, **20:40**
 validity as entity, **20:42**
 venture capital activities, **20:89**
 S election consequences, status as pass-through entity, **7:3**
 Sale of contributed property
 character of gain or loss, **2:16**
 Section 707(a)(2)(B), **2:12**
 Sale of interest consequences, **2:33**
 Section 751 treatment, S corporation advantage, **2:62**
 Stock acquisitions, partnerships v. C corporations, **15:2**

INDEX

PARTNERSHIPS—Cont'd

- Tax classification certainty, S corporation advantage vs partnerships, **2:57**
- Tax returns, administration of entity, **2:32**
- Tax shelter, accrual method of accounting, **2:20**
- Taxable year selection, **2:19**
- Taxation of, **1:1**
- Tax-free contribution of property, S corporation disadvantage, **2:58**
- Tax-free reorganization treatment, S corporation advantage vs partnership, **2:60**
- Termination, sale of partnership interest, **2:33**
- Timing of pass through of tax items, **7:67**
- Trusts as S corporation shareholders, trusts taxable as associations, **19:43**

PASSIVE ACTIVITY

- Compensation, recharacterization under PAL rules, **11:21**
- Interest, S corporation special treatment, **7:33**
- Pass-through losses. See index heading
PASS-THROUGH LOSSES, LIMITATIONS ON
SHAREHOLDER USE OF

PASSIVE ACTIVITY CREDIT RULES

- Research and development activities, **20:99**

PASSIVE ACTIVITY LOSS RULES

- Built-in gains tax, taxable income, **8:40**
- Compensation, recharacterization under PAL rules, **11:21**
- Compensation by loss corporation without C history, shareholder with stock basis, **11:13**
- Compensation by profitable corporation without C history, shareholder with stock basis, **11:11**
- Converted C corporation, computation of income, **8:16**
- Corporate income, **7:8**
- Discharge of indebtedness, corporate income determination, **7:9**
- Excess passive investment income, taxable income, **8:71**

PASSIVE ACTIVITY LOSS RULES

—Cont'd

- Interest, S corporation special treatment, **7:33**
- Interest on acquisition debt, **2:18**
- Limited liability companies, **2:28**
- Loss carryover on S status termination, **7:82**
- Material participation in management, **2:28**
- Net operating losses, S corporation special treatment, **7:20**
- Oil and gas properties owned by S corporations, **20:25**
- Partnerships of S corporations, **20:28**
- Pass-through losses. See index heading
PASS-THROUGH LOSSES, LIMITATIONS ON
SHAREHOLDER USE OF
- Practice tips
 - separate activities, **2:28**
- S corporation advantage re limited partnership, **2:59**
- S corporations conducting real estate activities, **20:81**
- Stock acquisitions, effect on S stock purchaser, **15:8**

PASSIVE FOREIGN INVESTMENT COMPANIES

- Gross income, percentage, **20:54**

PASSIVE INCOME

- Affiliated group limitation (prior law), current Section 1375 limitation, **3:9**
- Asset acquisitions
 - acquiring corporation S election effect, **15:22**
 - passive income generating assets, **15:26**
- Compensation by profitable corporation without C history, shareholder with stock basis, **11:11**
- Stock acquisitions, nature of assets acquired, **15:43**
- Subchapter S Revision Act of 1982
 - corporate-level eligibility limitations, **1:20**
 - corporate-level tax, **1:26**

PASSIVE INVESTMENT INCOME

- Amount of pass through of tax items, **7:68**

PASSIVE INVESTMENT INCOME

—Cont'd

- Built-in gains tax, planning considerations, **8:50**
- Distributions by corporations with accumulated E&P, election to treat distributions as dividends, **10:40**
- Liquidations, **14:14**
- Partnership interests, **8:70**
- Property distributions, gain recognition rule consequences, **10:8**
- S status termination
 - generally, **16:15**
 - effective date, **16:18**
 - inadvertent termination
 - generally, **16:57**
 - adjustments, **16:60**
 - waiver by IRS, **16:56**
- Tax on excess passive investment income
 - annuities, **8:59**
 - credits offsetting tax, **8:76**
 - dividends, **8:60**
 - excess net passive income, **8:73**
 - excess passive investment income, **8:53**
 - gross receipts defined generally, **8:54**
 - income and partnership interests, **8:70**
 - interest, **8:61**
 - net passive income, **8:72**
 - passive investment income defined generally, **8:58**
 - personal property rents (prior law), **8:65**
 - planning considerations, **8:81**
 - provider of property services (prior law), **8:66**
 - purpose and scope of tax, **8:51**
 - real property rents (prior law), **8:64**
 - rents generally, **8:63**
 - royalties, **8:68**
 - sales of certain capital assets, **8:55**
 - Section 1374 tax impact, **8:78**
 - service fee distinguished, **8:67**
 - shareholder pass-through effect, **8:77**
 - special rules, **8:57**
 - stock or securities, sales
 - generally, **8:56**
 - special rules, **8:69**

PASSIVE INVESTMENT INCOME

—Cont'd

- Tax on excess passive investment income—Cont'd
 - Subchapter C earnings and profits, **8:52**
 - tax rate, **8:75**
 - taxable income, **8:71**
 - taxable income limitation, **8:74**
 - termination of S election, **8:80**
 - waiver of tax, **7:27**

PASSIVE LOSS LIMITATIONS

- See index heading **PASSIVE ACTIVITY LOSS RULES**

PASS-THROUGH ENTITY

- S election consequences, status as pass-through entity, **7:3**

PASS-THROUGH INCOME

- Basis of stock, IRC Section 1022, **19:6**

PASS-THROUGH LOSSES

- Distributions to shareholders, corporation without accumulated E&P, **10:28**
- Limitations. See index heading **PASS-THROUGH LOSSES, LIMITATIONS ON SHAREHOLDER USE OF**
- Multiple distributions exceeding AAA, timing of distributions, **10:36**

PASS-THROUGH LOSSES, LIMITATIONS ON SHAREHOLDER USE OF

- Generally, **9:1 to 9:91**
- Accelerated partial repayments of debt, **9:27**
- Accommodation party, effect of shareholder as, **9:17**
- “Actual economic outlay” doctrine, **9:38, 9:39**
- Additional stock, purchases of, **9:37**
- Adjustments to basis
 - excess of basis, treatment of losses in, **9:30**
 - timing and order, **9:22 to 9:26**
- Allocation
 - at risk limitation, **9:56**
 - indebtedness of S corporation
 - shareholder, basis attributable to, **9:20**

INDEX

PASS-THROUGH LOSSES, LIMITATIONS ON SHAREHOLDER USE OF —Cont'd

Allocation—Cont'd
interest deductions, treatment and allocation of, **9:79**

Alternative minimum tax elections, effect of, **9:14**

Amortization of expenses, **9:14**

Amount of increase in debt basis
indebtedness of S corporation shareholder, basis attributable to, **9:20**

Amount of risk. See “At risk limitation” under this index heading

Assumption of shareholder’s indebtedness by corporation, **9:38**

At risk limitation
generally, **9:41 to 9:60**
activities to which at risk rules apply, **9:55**
aggregation of activities, **9:56**
allocation of amount at risk among various activities, **9:52**
carryover of suspended Section 465 loss, **9:57**
corporate-level debt, effect on shareholder’s amount at risk, **9:49**
corporation’s role in determining amount at risk and applicability of at risk rules, **9:43**
decreases in amount at risk, generally, **9:48 to 9:51**
deduction limitation, **9:44**
determination of amount at risk, **9:45 to 9:47**
dispositions of interests in activity, including disposition of stock, **9:58**
economic amount at risk, **9:47**
election or termination of Subchapter S status, at risk problems arising from, **9:60**
increases in amount at risk, generally, **9:48 to 9:51**
noncreditor, loans from persons having interest other than as creditor, **9:51**

PASS-THROUGH LOSSES, LIMITATIONS ON SHAREHOLDER USE OF —Cont'd

At risk limitation—Cont'd
post-termination transition period, amount at risk during, **9:54**
recapture in event of negative amount of risk, **9:59**
related-party loans, **9:50**
separation of activities, **9:56**
shareholders to whom at risk rules apply, **9:44**
stop loss arrangements, **9:46**
time at which amount at risk is determined, **9:53**

Back-to-back loan approach for basis limitation, **9:39**

Basis limitation
generally, **9:2 to 9:38**
accelerated partial repayments of debt, **9:27**
“actual economic outlay” doctrine, **9:38, 9:39**
additional stock, purchases of, **9:37**
adjustments to stock basis, timing and order, **9:22 to 9:26**
alternative minimum tax elections, effect of, **9:14**
amortization of expenses, **9:14**
assumption of shareholder’s indebtedness by corporation, **9:38**
back-to-back loan approach, **9:39**
capital gains, **9:27**
circulation expenditures, alternative minimum tax, **9:14**
co-maker, shareholder as, **9:39**
contributions to capital, **9:5, 9:8, 9:12, 9:37**
converted C corporations, original basis, **9:7**
cost of property as basis, generally, **9:3**
debt basis, means of increasing, **9:39**
decreases to basis in stock, **9:12 to 9:14, 9:27**
depletion and depreciation
decreases to basis in stock, **9:12**
increases to basis in stock, **9:8, 9:9**
original basis, **9:6**

**PASS-THROUGH LOSSES,
LIMITATIONS ON
SHAREHOLDER USE OF
—Cont'd**

Basis limitation—Cont'd
 depletion and depreciation—Cont'd
 timing and order of adjustments to
 basis, **9:24**
 distributions, **9:26**
 dividends of stock, basis, **9:5**
 double benefit from S corporation
 losses, prevention of, **9:2**
 drilling costs, alternative minimum
 tax, **9:14**
 each share of stock, increases to basis,
 9:11
 end of year, timing of adjustments to
 basis, **9:22, 9:23**
 ESOP, increases to basis in stock, **9:8**
 excess of basis. See “Excess of basis,
 treatment of losses in,” under
 this index heading
 excluded items from gross income,
 increases to basis in stock for,
 9:10
 exempt income, **9:10**
 experimental expenditures, alternative
 minimum tax, **9:14**
 exploration expenditures, alternative
 minimum tax, **9:14**
 fair market value of stock as basis,
 9:4, 9:6
 gifts, **9:6**
 Gitlitz case, **9:10**
 gross income, items excluded from,
 9:10
 guarantor, shareholder as, **9:39**
 income, losses and distributions, order
 of adjustment to basis, **9:24**
 increases to basis in stock
 generally, **9:8 to 9:11**
 means of increasing basis, **9:37 to**
 9:39
 indebtedness of S corporation. See
 “Indebtedness of S corporation
 to shareholder, basis attributable
 to” under this index heading
 investment tax credit recapture,
 increases to basis in stock, **9:8**
 life estates, **9:6**

**PASS-THROUGH LOSSES,
LIMITATIONS ON
SHAREHOLDER USE OF
—Cont'd**

Basis limitation—Cont'd
 liquidation, effect on pass-through of
 loss, **9:26**
 loans, **9:8, 9:37, 9:39**
 means of increasing basis, **9:37 to**
 9:39
 mining development expenditures,
 alternative minimum tax, **9:14**
 nonrecognition transactions, original
 basis of stock acquired in, **9:5**
 oil and gas depletion, **9:24**
 ordering rules for priority of reduc-
 tions, **9:27**
 original basis, generally, **9:3 to 9:7**
 partial repayments, **9:27**
 partnerships, **9:24, 9:37**
 priority of reductions, **9:27**
 regulations, generally, **9:10, 9:27**
 reorganizations, basis in stock in, **9:5**
 research expenditures, alternative
 minimum tax, **9:14**
 Section 59(e) election, **9:14**
 Section 267(d) items, basis adjust-
 ments for, **9:10**
 Section 351 exchanges, generally,
 9:5, 9:38
 Section 1367, generally, **9:24**
 “separately stated items,” **9:10, 9:12**
 services rendered, fair market value
 basis in stock received for, **9:4**
 share-by-share basis, decreases to
 basis in stock on, **9:13**
 stock basis, means of increasing, **9:38**
 tax deferred income, **9:10**
 tax free reorganizations, basis in stock
 in, **9:5**
 tax investment account, basis viewed
 as, **9:2**
 third party, shareholder's acquisition
 of debt from, **9:39**
 timing and order
 adjustments to stock basis, **9:22 to**
 9:26
 decreases to debt basis, **9:27**
 worthlessness of stock or securities,
 effect of, **9:25**

INDEX

PASS-THROUGH LOSSES, LIMITATIONS ON SHAREHOLDER USE OF —Cont'd

Business interest limitation
generally, **9:76 to 9:78.90**
character of business interest items,
9:83
debt-financed acquisitions, **9:91**
debt-financed distributions, **9:91**
dispositions of S corporation stock,
effect on business interest deduc-
tion, **9:80**
double counting of business interest
income and floor plan financing
interest expense not allowed,
9:84
exceptions to business interest deduc-
tion rules, **9:77**
passive loss rules, **9:83**
regulations affecting the deduction of
business interest, **9:79**
section 163(j), treatment of S corpora-
tion businesses not subject to,
9:81
section 382, applicability to business
interest carryforwards, **9:86**
sections 461(l), 456 and 469 effect on
the business interest deduction,
9:85
securities trading activities, **9:89**
self-charged business interest, **9:82**
statutory rules applying business
interest limitation to S corpora-
tions, **9:78**
termination of qualified subchapter S
subsidiary status, effect on busi-
ness interest deduction, **9:87**
Capital gains, basis limitation, **9:27**
Carryovers
at risk limitation, **9:57**
excess of basis, carryover in, **9:35,**
9:37
Charitable contributions, **9:34**
Circulation expenditures, alternative
minimum tax, **9:14**
Closely held C corporations. See “Pas-
sive activities, limitations on losses
from,” under this index heading
Co-maker, effect of shareholder as, **9:17,**
9:39

PASS-THROUGH LOSSES, LIMITATIONS ON SHAREHOLDER USE OF —Cont'd

Computation of net increases in basis,
9:20
Contributions to capital, basis limitation,
9:5, 9:8, 9:12, 9:37
Conversions of corporate status, **9:7,**
9:71
Cost of property as basis, generally, **9:3**
Debt basis, increases or decreases in,
9:19, 9:39
Decreases
at risk limitation, decreases in amount
of risk, **9:48 to 9:51**
debt, decreases in basis to, **9:19**
stock, decreases in basis to, **9:12 to**
9:14, 9:27
Depletion and depreciation. See “Basis
limitation” under this index head-
ing
Differing basis in shares, effect of, **9:30**
Dispositions
at risk limitation, **9:58**
passive activities, limitations on
losses from, **9:66**
Distributions
basis limitation, **9:26**
Dividends, basis limitation, **9:5**
Divorce, transfers of stock incident to,
9:36
Double benefit from S corporation
losses, prevention of, **9:2**
Drilling costs, alternative minimum tax,
9:14
Each share of stock, increases to basis,
9:11
End of year determinations
basis limitation, timing of adjustments
to basis, **9:22, 9:23**
excess of basis, treatment of losses in,
9:28
ESOP, increases to basis in stock, **9:8**
Estates. See “Trusts and estates” under
this index heading
Excess business losses, limitations on,
9:80
Excess of basis, treatment of losses in
generally, **9:28 to 9:36**

**PASS-THROUGH LOSSES,
LIMITATIONS ON
SHAREHOLDER USE OF
—Cont'd**

Excess of basis, treatment of losses in
—Cont'd
adjustment to basis downward, **9:30**
carryovers, **9:35, 9:37**
charitable contributions, **9:34**
differing basis in shares, effect of,
9:30
divorce, transfers of stock incident to,
9:36
end of year, timing of basis limitation,
9:28
foreign taxes, **9:34**
loss limitation rules, determination of
basis for, **9:29**
nature and character of loss carried
forward, **9:32**
noncapital, nondeductible expenses,
9:33
nonrecognition transactions, **9:36**
oil and gas depletion, **9:34**
partnerships, **9:32, 9:34**
passive activity regulations, **9:32**
post-termination transition period,
carryover to, **9:35**
reduction in basis of multiple debts,
9:31
Section 1366(d)(1), effect of transfer
of stock to losses carried over
under, **9:36**
Section 1366(d)(2), **9:28, 9:35**
suspended losses, **9:28, 9:36**
tax free reorganizations, **9:36**
timing of basis adjustments, **9:36**
Excluded items from gross income,
increases to basis in stock for, **9:10**
Exempt income, basis limitation, **9:10**
Experimental expenditures, alternative
minimum tax, **9:14**
Exploration expenditures, **9:14**
Fair market value of stock as basis, **9:4,**
9:6
Foreign losses, **9:34**
Gifts, basis limitation, **9:6**
Gitlitz case, **9:10**
Gross income, items excluded from,
9:10

**PASS-THROUGH LOSSES,
LIMITATIONS ON
SHAREHOLDER USE OF
—Cont'd**

Guarantor, effect of shareholder as,
9:17, 9:39
Husband and wife, loans and property
transfers, **9:16**
Income, losses and distributions, order
of adjustment to basis, **9:24**
Increases
amount of increase in debt basis,
indebtedness of S corporation
shareholder, **9:20**
at risk limitation, increases in amount
at risk, generally, **9:48 to 9:51**
basis in stock, increases to. See
“Basis limitation” under this
index heading
computation of net increases in basis,
9:20
debt basis, increases or decreases in,
9:19
ESOP, increases to basis in stock, **9:8**
excluded items from gross income,
increases to basis in stock for,
9:10
Indebtedness of S corporation to
shareholder, basis attributable to
generally, **9:15 to 9:21**
accommodation party, effect of
shareholder as, **9:17**
allocations to debt basis, **9:20**
amount of increase in debt basis, **9:20**
co-maker, effect of shareholder as,
9:17
computation of net increases in basis,
9:20
debts, transfer of, **9:20**
decreases in basis of debt, **9:19**
guarantor, effect of shareholder as,
9:17
husband and wife, loans and property
transfers, **9:16**
increases in basis, computation of,
9:20
indemnitor, effect of shareholder as,
9:17
installment obligations, **9:18**
installment sales, **9:18**
multiple debts, **9:20**

INDEX

PASS-THROUGH LOSSES, LIMITATIONS ON SHAREHOLDER USE OF —Cont'd

Indebtedness of S corporation to shareholder, basis attributable to —Cont'd
net increases in basis, computation of, **9:20**
nonrecognition transactions, **9:18**
open account debt, treatment of, **9:20, 9:21**
original basis in indebtedness, **9:18**
partial repayment of principal on restoration of basis, **9:20**
partnerships distinguished from S corporations, **9:15**
property transfers among related parties, **9:16**
regulations, generally, **9:20**
related parties, loans and property transfers among, **9:16**
reorganization exchange, **9:18**
repayment of liabilities having reduced basis, effect of, **9:21**
restoration of debt basis, **9:20**
Section 351 exchange, **9:18**
Section 1367(b)(2)(A), **9:19**
Section 1367(b)(2)(B), **9:20**
services rendered by shareholder, **9:18**
surety, effect of shareholder as, **9:17**
tax-free distributions, **9:19, 9:20**
third parties, loans to, **9:17**
timing of restoration basis, **9:20**
transfer of shares, **9:20**
Indemnitor, effect of shareholder as, **9:17**
Installment sales, **9:18**
Interest
business interest limitation. See “Business interest limitation,” under this index heading
interest deductions, treatment and allocation of, **9:79**
investment interest, **9:73 to 9:75**
passive activities, limitations on losses from, **9:65**
Interface among basis, at risk and PAL limitations, **9:70**

PASS-THROUGH LOSSES, LIMITATIONS ON SHAREHOLDER USE OF —Cont'd

Interplay among limitations, confusion resulting from, **9:1**
Introduction, **9:1**
Investment income, applicability of the tax on net investment income, **9:62**
Investment interest limitation, **9:73 to 9:75**
Investment tax credit recapture, increases to basis in stock, **9:8**
Life estates, basis limitation, **9:6**
Liquidation, effect on pass-through of loss, **9:26**
Loans
basis limitation, **9:8, 9:37, 9:39**
indebtedness of S corporation. See “Indebtedness of S corporation to shareholder, basis attributable to,” under this index heading
Loss limitation rules, determination of basis for, **9:29**
Means of increasing basis, **9:37 to 9:39**
Mining development expenditures, alternative minimum tax, **9:14**
Multiple debts, **9:20**
Net increases in basis, computation of, **9:20**
Nonrecognition transactions, **9:5, 9:18, 9:36**
Oil and gas activities, **9:24**
Oil and gas depletion, **9:34**
Open account debt, treatment of, **9:20**
Ordering rules for priority of reductions, **9:27**
Original basis
basis limitation. See “Basis limitation” under this index heading
indebtedness of S corporation to shareholder, basis attributable to, **9:18**
PAL rules. See “Passive activities, limitations on losses from,” under this index heading
Partial repayments
basis limitation, **9:27**
indebtedness of S corporation to shareholder, basis attributable to, **9:20**

**PASS-THROUGH LOSSES,
LIMITATIONS ON
SHAREHOLDER USE OF
—Cont'd**

Partnerships

basis limitation, organizing operations through partnership, **9:37**
distinguished from S corporations, **9:15**
excess of basis, treatment of losses in, **9:32, 9:34**
timing and order of adjustments to stock basis, **9:24**

Passive activities, limitations on losses from

generally, **9:61 to 9:72**
business interest limitation, **9:83**
compensation paid to shareholders, **9:68**
conversions of corporate status, **9:71**
definition of activity, **9:63**
disposition of stock or interest in activity, **9:66**
distributions, **9:67**
excess of basis, treatment of losses in, **9:32**
interest deductions, treatment and allocation of, **9:65**
interface among basis, at risk and PAL limitations, **9:70**
investment income, applicability of the tax on net investment income, **9:62**
passive activities, generally, **9:64**
post-termination transition period, losses allowable during, **9:72**
self-charged interest rule, **9:69**
suspended losses, **9:65**
Post-termination transition period at risk limitation, **9:54**
excess of basis, treatment of losses in, **9:35**
passive activities, limitations on losses from, **9:72**
Priority of reductions, **9:27**
Property transfers among related parties, **9:16**
Reduction in basis of multiple debts, **9:31**

**PASS-THROUGH LOSSES,
LIMITATIONS ON
SHAREHOLDER USE OF
—Cont'd**

Regulations

basis limitation, **9:10, 9:27**
indebtedness of S corporation to shareholder, basis attributable to, **9:20**

Related parties, loans and property transfers among, **9:16**

Reorganization exchange, **9:18**

Reorganizations, basis in stock in, **9:5**

Repayment of liabilities having reduced basis, effect of, **9:21**

Research expenditures, alternative minimum tax, **9:14**

Restoration of debt basis, **9:20**

Section 59(e) election, **9:14**

Section 267(d) items, basis adjustments for, **9:10**

Section 351 exchanges. See “Basis limitation” under this index heading

Section 465, See “At risk limitation” under this index heading

Section 1366(d)(1), effect of transfer of stock to losses carried over under, **9:36**

Section 1366(d)(2), **9:28, 9:35**

Section 1367. See “Basis limitation” under this index heading

Section 1367(b)(2)(A), **9:19**

Section 1367(b)(2)(B), **9:20**

“Separately stated items,” **9:10, 9:12**

Services

fair market value basis in stock received for, **9:4**

indebtedness of S corporation to shareholder, basis attributable to services rendered, **9:18**

Share-by-share basis, decreases to basis in stock on, **9:13**

Stock basis, means of increasing, **9:38**

Surety, effect of shareholder as, **9:17**

Suspended losses, **9:28, 9:36**

Tax deferred income, basis limitation, **9:10**

Tax free reorganizations, **9:5, 9:36**

INDEX

PASS-THROUGH LOSSES, LIMITATIONS ON SHAREHOLDER USE OF —Cont'd

- Tax investment account, basis viewed as, **9:2**
- Tax-free distributions, **9:19, 9:20**
- Third parties
 - basis limitation, shareholder's acquisition of debt from third party, **9:39**
 - loans to, **9:17**
- Time or timing
 - at risk limitation, **9:53**
 - basis limitation. See "Basis limitation" under this index heading
 - restoration of debt basis, **9:20**
- Transfer of shares, indebtedness of S corporation to shareholder, **9:20**
- Worthlessness of stock or securities, effect of, **9:25**

PASS-THROUGH OF TAX ITEMS TO SHAREHOLDERS

- Overview, **7:63**
- Allocation among shareholders, **7:70**
- Allocation in year of termination, **7:72**
- Amount, **7:68**
- Built-in gains tax, effect on shareholder pass-through, **8:47**
- Capital gains tax, effect on shareholder pass-through, **8:89**
- Capital services, separate aggregation, **7:65**
- Character, **7:69**
- Collateral effects, **7:88**
- Credits, **7:78**
- Election to close books, **7:71**
- Estates, **7:74**
- Excess passive investment income effect, **8:77**
- IRS power to reallocate, **7:73**
- Ownership of shares for purposes of allocating S corporation tax items, determining, **7:64**
- Separately and nonseparately stated items, **7:65**
- Separately status items, proposed regulations, **7:63**
- Timing, **7:67**
- Trusts, **7:74**

PASS-THROUGH TAX STATUS

- Partnership of S corporations, **20:29**
- S corporation used in syndication, **20:6**

PASS-THROUGH TREATMENT

- Foreign taxes, shareholder election, **17:26**
- Liquidations
 - generally, **14:2**
 - allocation of income and loss, **14:9**
 - installment obligations, **14:10**
- Small S corporation qualification (prior law), **17:51**
- Withholding requirements, **17:29**

PATENTS

- Capital gain and loss, disposition, **7:36**
- Excess passive investment income, royalties, **8:68**
- Transfer of property to S corporation, definition of property, **5:23**

PAYMENTS

- Cash, performance unit plans, **11:37**
- Computation of Section 444 election required payments liability
 - applicable payments for base year, **4:29**
 - due date, **4:36**
 - excess applicable payments for deferral period, **4:30**
 - medium, **4:37**
 - transmittal, **4:37**
 - treatment, **4:38**
- Services, cash compensation general effects, **11:2**
- Stock appreciation, phantom stock plans, **11:39**

PENALTIES

- Audit and refund procedures, **17:44**
- Estimated tax underpayment, shareholder agreements, **18:23**
- Golden parachute payments, **7:61**
- Late filing of corporate return, **17:35**
- Section 444 election required payments, failure to make timely payments, **4:41**
- Subchapter S status, statute of limitations with respect to loss of, **17:43**

PERCENTAGE DEPLETION

- Converted C corporation, computation of income (prior law), **8:17**
- S election consequences, immediate tax consequences, **7:4**
- S status termination effect (prior law), **16:31**
- Stock acquisitions, loss of percentage depletion, **15:10**

PERCENTAGE DEPLETION ALLOWANCE

- S corporations in oil and gas activities generally, **20:14**
 - proven property transferred to S corporation generally, **20:19**
 - stock transfer effect, **20:23**
 - shareholders' stock basis increases, **20:17**
 - termination of S status effect, **20:21**

PERCENTAGE OF COMPLETION METHOD OF ACCOUNTING

- Earnings and profits, distributions to S corporation, **10:17**

PER-DAY, PER-SHARE ALLOCATION RULE

- Allocation of pass-through items, **7:70**
- Asset acquisitions
 - acquiring corporation S status maintenance, **15:28**
 - acquiring corporation S status termination, **15:29**
 - selling corporation S status maintenance, **15:30**
- Clinical drug testing credit, **7:85**
- Election to close books on transfer, **7:71**
- Estates
 - allocation of income or loss, **19:6**
 - carryover of unused losses, **19:7**
- Family S corporation, tax savings potential, **19:62**
- Income shifting, estate planning, **19:49**
- Pass through and allocation of tax credits, **7:78**
- Production of fuel from nonconventional source credit, **7:84**
- Shareholder agreements, allocation on termination of shareholder's interest, **18:22**

PERFORMANCE UNIT PLAN

- Executive compensation, nonstock incentive programs, **11:37**

PERMISSIBLE AND IMPERMISSIBLE SHAREHOLDERS

- Converted C corporation, subchapter S eligibility requirements, **8:2**
- Corporations, **3:15**
- Deemed shareholder treatment, **16:60**
- ESOPs, **20:68**
- Estates, **3:18**
- Estates as direct shareholders, **19:2**
- Grantor trusts, **3:21**
- Inadvertent termination, **16:56**
- Indian tribes, **3:33**
- Individuals, **3:12**
- Jointly held stock, **3:41**
- Nonresident aliens, **3:13**
- Partnerships, **3:16**
- QSST election by current beneficiary, affirmative refusal to consent, **6:62**
- Qualification of S corporation, overview, **3:1**
- Qualified Subchapter S trusts, **3:24**
- Qualifying families, **3:38**
- Restricted bank director stock, **3:39**
- Restricted stock generally, **3:40**
- S status termination, **16:13**
- Section 678 trusts, **3:22**
- Shareholder agreements, transfers to permissible shareholders, **18:10**
- Split interests, **3:19**
- Temporarily ineligible shareholder, **3:34**
- Testamentary trusts, **3:23**
- Trusts-general, **3:20**
- Voting trusts, **3:25**

PERMITTED TAXABLE YEAR

- Generally, **4:1 to 4:49**
- Calendar year. See index heading
CALENDAR YEAR
- Capital gains tax, duration of exposure, **8:84**
- Converted C corporation
 - requirement issues, **8:5**
 - Subchapter S eligibility requirements, **8:2**

INDEX

PERMITTED TAXABLE YEAR

—Cont'd

Electing S corporation status, designation of permitted taxable year, **6:6**

Fiscal year. See index heading **FISCAL YEAR**

Organization of S corporation, taxable year choice, **5:36**

PERSONAL DEDUCTIONS

S corporation special treatment, **7:29**

PERSONAL HOLDING COMPANIES

Excess passive investment income, royalties, **8:68**

Excessive income
additional tax on C corporation, **2:23**
risk of loss of tax favored status, **2:29**

Foreign income, excess passive investment income, **8:60**

Foreign personal holding companies, using S corporations in international transactions, **20:55**

Majority foreign ownership, application of rules, **20:54**

Rules, ownership of stock, **20:54**

S corporation advantage vs C corporation, **2:44**

S election consequences, status as pass-through entity, **7:3**

PERSONAL HOLDING COMPANY TAX

Shareholder agreements, distributions after termination of S status, **18:26**

PERSONAL INTEREST

S corporation special treatment, **7:33**

PERSONAL PROPERTY

Excess passive investment income
rents (prior law), **8:65**
rents generally, **8:63**

PERSONAL PROPERTY TAXES

Excess passive investment income
personal property rents (prior law), **8:65**

PERSONAL REPRESENTATIVES

Estates
administrative powers needed, **19:16**
consent to S election by estate, **19:14**

PERSONAL REPRESENTATIVES

—Cont'd

Estates—Cont'd

direct shareholders, **19:2**

S corporation in existence at shareholder death, **19:4**

PERSONAL RESIDENCE

Personal interest, S corporation special treatment, **7:33**

PERSONAL SERVICE CORPORATIONS

Built-in gains tax
planning considerations, **8:50**
taxable income, **8:40**

Converted C corporation, computation of income, **8:16**

Deferral entity, Section 444 election, **4:14**

PERSONAL USE

Home-related deductions, S corporation special treatment, **7:27**

Pass through of tax items to shareholders, special treatment, **7:43**

PHANTOM STOCK

Executive compensation, nonstock incentive programs, **11:39**

Partnership of S corporations alternative, **20:45**

Venture capital S corporations, **20:92**

PLANNING CONSIDERATIONS

Built-in gains tax, **8:50**

Excess passive investment income tax, **8:81**

PLEDGES

Shareholder agreements, transfers to creditors, **18:14**

POLLUTION CONTROL FACILITIES

Amortization election, **17:16**

PORTFOLIO ACTIVITIES

Investment interest limitation, interest on acquisition debt, **2:18**

POSITIVE INCOME ADJUSTMENTS

Built-in gains tax
net unrealized built-in gain, **8:32**
recognition events, **8:35**

**POSSESSIONS TAX CREDIT
CORPORATIONS**

Ineligible corporations, **3:3**

**POST-REORGANIZATION
DISTRIBUTIONS**

Acquiring S corporation, **13:14**

**POTENTIAL CURRENT
BENEFICIARY**

ESBT, S corporation shareholder, **3:26**

POULTRY

Farm-related deductions, S corporation special treatment, **7:46**

POWERS OF APPOINTMENT

Lifetime appointment, termination of S election, **3:26**

Limitations on number of shareholders, **3:45**

Potential current beneficiary, distributions, **3:26**

POWERS OF ATTORNEY

Consent to S election, execution by attorney in fact, **6:40**

Consent to S election by shareholders, **6:40**

PRACTICE TIPS

Accumulated adjustments account, transfer or issuance of shares, **10:24**

At risk rules
aggregation of activities, **2:27**
C corporation, **2:27**
increases during transition period, **16:54**

Basis of debt, **5:14**

Calendar year, lack of business purpose, **4:10**

Compensation
fringe benefits, **11:22**
individual retirement accounts, **11:26**
Keogh plans, **19:62**

Compensation by corporation without C history, shareholder without stock basis, **11:12**

Discharge of indebtedness, corporate income determination, **7:9**

Distributions to shareholders, differing bases in stock, **10:29**

PRACTICE TIPS—Cont'd

Earnings and profits adjustments, distributions to S corporation, **10:17**

Exchange of property for stock, delayed transfers to corporation, **5:25**

Executive compensation
incentive stock options plans, **11:33**
nonstatutory stock option plans, **11:32**
restricted stock plans, **11:29**

Expensing election, shareholder dollar limitation, **7:39**

Fiscal year, back-up Section 444 election, **4:10**

Increases in amount at risk, **16:54**

Mineral exploration expenditures, Section 617, **7:35**

Multiple distributions exceeding AAA, timing of distributions, **10:36**

Passive loss rules, separate activities, **2:28**

Property distributions, depreciated property, **10:9**

QSST election by income beneficiary
affirmative refusal to consent, **6:62**
revocation of election, **6:63**

Section 179, expensed property, **7:39**

Section 267 limitation, payment to related party, **7:25**

Section 1244 stock, computation of ordinary loss, **5:35**

**PRECONSOLIDATION
DISTRIBUTIONS**

Target S corporation, **13:14**

PREDECESSOR CORPORATION

Election by corporation, form, **6:3**

Qualification as an S corporation overview, **3:1**

Section 444 election, prior effective election, **4:13**

PREDECESSOR ORGANIZATION

Fiscal year, natural business year test, **4:5**

PREEMPTIVE RIGHTS

Organization of S corporation, stock, **5:7**

PREFERRED STOCK

Organization of S corporation, economic rights, **5:6**

INDEX

PREFERRED STOCK—Cont'd

Single-class-of-stock requirement generally, **3:50**
authorized but unissued, **3:48**
preferences among shareholders, **3:51**
single-class-of-stock requirement, **5:25**

PREMERGER DISTRIBUTIONS

Target S corporations, **13:14**

PREMIUM PAYMENTS

Cross-purchase agreement, life insurance effect, **18:4**
Redemption agreement, life insurance effect, **18:6**

PRESIDENT

Electing S corporation status, election form execution, **6:4**
Section 444 election execution, **4:18**

PRESUMPTIONS

Section 183 profit motive, converted C corporation, **8:21**

PREVIOUSLY TAXED INCOME ACCOUNT

Accumulated adjustments account
bypass election
generally, **10:40**
procedural considerations, **17:5**
shareholder consent, **17:20**
distributions effect, **10:21**
nature of, **10:19**
transfer or issuance of shares, **10:24**
Distributions
distributions of PTI, **10:39**
information required on Schedules of Form 1120-S, **10:56**
S termination effect, **16:39**

PRINCIPAL

Debt
evidence of indebtedness, **5:16**
income on repayment, **5:15**

PRINCIPAL BUSINESS ACTIVITY

Election by corporation, form, **6:3**

PRINCIPAL SHAREHOLDERS

Organization of S corporation, change in taxable year, **5:38**

PRIOR ELECTION LIMITATION

Section 444 election, ineligible corporations, **4:13**

PRIORITIES

Liquidation preferences, return of capital, **3:74**

PRIORITY OF REDUCTIONS

Pass-through losses, limitations on shareholder use of, **9:27**

PRIVATE EMPLOYEE OWNERSHIP ACT OF 2011

Promotion and expansion of, **App. 12**

PRIVATE EMPLOYEE OWNERSHIP ACT OF 2017

Promotion and expansion of, **App. 17**

PRIVATE FOUNDATION

Charitable contribution limitation, S corporation special treatment, **7:32**

PRIVATE LETTER RULINGS

Prior law exception to affiliated group limitation, 30-day standard, **3:9**

PRIVATE PLACEMENTS

See also index heading SYNDICATIONS
Formation of S corporation, **20:9**
Restriction on transfer of shares, **20:11**
S corporations compared with limited partnerships, **20:2**

PRO RATA DAILY ALLOCATION RULE

Allocation between S short taxable year and C short taxable year, **16:22**
Exceptions
election to close books on termination, **16:23**
fifty percent of stock is newly owned, **16:24**
Section 338 election, **16:25**
S termination year, **16:22**
Shareholder agreements, allocation on termination of S status, **18:21**

PRO RATA SHARE

Allocation of pass-through items, **7:70**

PRODUCTION OF FUEL FROM ALCOHOL

Other general business credits, **7:82**

**PRODUCTION OF FUEL FROM
NONCONVENTIONAL SOURCE
CREDIT**

Pass through and allocation, **7:84**

PROFESSIONAL FEES

Miscellaneous itemized deductions, S corporation special treatment, **7:47**

PROFESSIONAL JOURNALS

Miscellaneous itemized deductions, S corporation special treatment, **7:47**

PROFIT MOTIVE

Converted C corporation, Section 183, **8:21**

Hobby losses
S corporation special treatment, **7:30**

**PROFITABLE CORPORATION WITH
PRIOR C HISTORY**

Shareholder with stock basis, **11:15**
Shareholder without stock basis, **11:16**

**PROFITABLE CORPORATION
WITHOUT PRIOR C HISTORY**

Compensation
shareholder with stock basis, **11:11**
shareholder without stock basis, **11:12**

PROFITS

Executive compensation, annual bonus plans, **11:36**

PROHIBITED SHAREHOLDERS

Deemed shareholder treatment, **16:60**
Inadvertent termination, **16:56**
S status termination, **16:13**

PROHIBITED TRANSACTIONS

Qualified employee benefit plan, converted C corporation, **8:11**

PROMISSORY NOTES

Accumulated adjustments account, adjustments for distributions, **10:14**
Accumulated earnings and profits, adjustments for distributions, **10:14**
Evidence of indebtedness, **5:16**
Excess passive investment income, sales and exchanges of stock or securities
generally, **8:56**
special rules, **8:69**

PROMISSORY NOTES—Cont'd

Income shifting
estate planning, **19:49**

PROMOTERS

S corporation used in syndication, stock received for services, **20:9**

PROPERTY

Appreciated
accumulated adjustments account
distribution adjustments, **10:14**
distributions and shareholder agreements, **18:25**
income from corporate distributions, **7:12**

Built-in gains, planning considerations, **8:50**

Charitable contributions, S corporation special treatment, **7:32**

Claim of right doctrine, S corporation special treatment, **7:49**

Excess passive investment income
generally, **8:54**
income from corporate distributions, **7:12**

recognition events for built-in gains tax, **8:35**

Exchange for services, **2:13**

Gain recognition rule of Section 311(b), property distributions, **10:7**

Involuntary conversion, election to defer gain recognition, **17:13**

Issuance of stock for, corporate income determination and realization, **7:13**

Mineral, exploration expenditures, **7:35**
Noncash compensation general effects, **11:3**

Oil and gas, percentage depletion loss after S election, **7:4**

Section 179, S corporation special treatment, **7:39**

Transfer of property
IRC Section 2001(a), **19:1**
taxation of, **19:1**

Transfers to S corporation
basis of property received by S corporation, **5:31**
basis of stock, **5:28**
corporate nonrecognition on issuance of stock, **5:30**

INDEX

PROPERTY—Cont'd

- Transfers to S corporation—Cont'd
 - definition, **5:23**
 - exceptions to shareholder nonrecognition, **5:27**
 - nonrecognition rule for shareholders, **5:22**
 - shareholder ITC recapture, **5:26**
 - shareholder's control immediately after exchange, **5:25**
 - shareholder's transfer, **5:23**
 - shareholder's transfer in exchange for stock and securities, **5:24**
 - taxable sale to corporation, **5:29**

PROPERTY DISTRIBUTIONS

- Corporations with accumulated E&P, alternatives to cash distributions, **10:41**
- Distributions to shareholders, distributions to which Section 1368 applies, **10:27**
- Gain recognition rule
 - applicability, **10:7**
 - consequences, **10:8**
- Noncash property distribution, taxation, **10:46**

PROPORTIONATELY HELD DEBT

- Debt as second class of stock generally, **3:75**
- TARP program, debt issued under, **3:77**

PROPOSED SUBCHAPTER S MODERNIZATION ACT OF 2003

- Generally, **App. 4, App. 5**

PROPRIETARY TEST

- Built-in gains tax, transitional rules, **8:49**

PROVEN PROPERTY TRANSFER RULE

- Oil and gas property
 - S corporation treated like partnership, **20:19**
 - S election effect, **20:20**
 - S election termination effect, **20:21**
 - stock transfer effect, **20:23**

PUBLIC OFFERING

- Executive compensation, phantom stock plans, **11:39**

PUBLIC ORGANIZATION

- Charitable contribution limitation, S corporation special treatment, **7:32**

PUBLICATION 589

- Tax information on S corporations, **App. 3**

PURCHASING CORPORATIONS

- Liquidations, **15:52**

Q

QSST ELECTION

- Affirmative refusal to consent, **6:62**
- Disposition of stock, taxable to trust, **15:52**
- Due date, **6:55**
- Effect of election, **6:61**
- Effective date, **6:54**
- Errors and omissions, **6:60**
- Extension to file election, **6:59**
- Filing date, **6:55**
- Form 2553, **6:52**
- Form of election, **6:51**
- Gain allocation of shareholders, **15:52**
- Necessity of election
 - electing S corporation status, **6:50**
 - shareholder agreements, **18:12**
- Permissible and impermissible shareholders, **3:23**
- Practice tips
 - affirmative refusal to consent, **6:62**
 - revocation of election, **6:63**
- Prop Reg Section 1.1361-1(h), **6:55**
- Revocation of election, **6:63**
- Section 678 trust, election to become QSST, **3:22**
- Separate written statement, **6:53**
- Shareholder agreements, shares held by QSST, **18:12**
- Transmittal and proof of filing, **6:56**
- Treatment as shareholder, **3:35**
- Trusts as S corporation shareholders
 - QSST election for each S corporation, **19:25**
 - QSST multiple trust owners, **19:23**

QSST ELECTION—Cont'd

- Trusts as S corporation shareholders—Cont'd
 - QSST successive income beneficiaries, **19:23**
 - QTIP trusts, **19:42**
 - Untimely filed, simplified procedure for relief, **16:63**

QSUBs

- Controlled corporation in divisive D reorganization, **13:40**
- Election of QSUB status
 - generally, **21:3, 21:5**
 - acquired S corporation, special rules for, **21:12**
 - carryover issues, Subchapter C, **21:8**
 - consolidated return issues, **21:7**
 - coordination of QSUB election with Section 338, **21:13**
 - insolvent subsidiaries, **21:9**
 - liabilities in excess of basis, QSUB elections for subsidiaries having, **21:10**
 - partially-owned subsidiaries, acquisitions of, **21:11**
 - pass-through status, using QSUB elections to accelerate, **21:19**
 - relief from invalid QSUB election, **21:3**
 - Section 338, **21:13, 21:14**
 - step transaction doctrine, **21:6**
- F reorganizations, **13:50**
- New corporation, spin off; split off corporation, **13:47**
- Reorganization transactions involving QSUBs and single-member LLCs, **13:52**
- Sales of QSUB stock, **21:16**
- Section 385 regulations, debt as a second class of stock, **3:76**
- Spin offs; split offs, subsidiary, **13:47**
- State law purposes, treatment of QSUBs for, **21:18**
- Termination of QSUB status, **21:16**
- Treatment, single-member LLCs, **13:4**

QUALIFIED CORPORATION

- Built-in gains tax, transitional rules, **8:49**

QUALIFIED CORPORATION

—Cont'd

- Capital gains tax, corporations subject to tax, **8:83**

QUALIFIED EMPLOYEE BENEFIT PLANS

- Compensation, Keogh plans, **19:62**
- Converted C corporation, S election impact, **8:11**

QUALIFIED NONRECOURSE FINANCING

- At risk rules, **2:27**

QUALIFIED PENSION PLANS

- Plan rules, qualified plan rules (prior law), **2:52**

QUALIFIED PERSONS

- Built-in gains tax, transitional rules, **8:49**

QUALIFIED REAL PROPERTY BUSINESS INDEBTEDNESS

- Election to reduce basis, **7:9**

QUALIFIED REHABILITATION EXPENDITURES

- Investment tax credits, general business credits, **7:81**

QUALIFIED SUBCHAPTER S SUBSIDIARY (QSSS)

- Background, **21:1**
- Basic requirements, **20:50**
- Election, effective date of election, **21:2**
- Inadvertent S status termination, waiver, **16:56**
- Ineligible corporation, **19:41, 20:50**
- Pass-through losses, limitations on shareholder use of, **9:88**

QUALIFIED SUBCHAPTER S SUBSIDIARY ISSUES

- Generally, **3:81**

QUALIFIED SUBCHAPTER S TRUSTS (QSSTs)

- Beneficiary requirement
 - generally, **3:4**
 - death of beneficiary, **19:24**
 - successive income beneficiaries, **19:39**

INDEX

QUALIFIED SUBCHAPTER S TRUSTS (QSSTs)—Cont'd

- Consent to S election by shareholders, **6:30**
- Converted C corporation, shareholder consent to S election, **8:7**
- Coordination with grantor trusts, overlap of QSST rules, **19:41**
- Death of trust owner
 - generally, **3:21**
 - effect on basis in stock and assets, **19:5**
- Deferral entity, Section 444 election, **4:14**
- Distributions
 - corpus, limitation, **19:22**
 - income requirement, **19:20**
 - permitted, **3:24**
- Election by current income beneficiary
 - affirmative refusal to consent, **6:62**
 - due date, **6:55**
 - effect of election, **6:61**
 - effective date, **6:54**
 - errors and omissions, **6:60**
 - execution of election form, **6:57**
 - extension to file election, **6:59**
 - Form 2553, **6:52**
 - form for election, **6:51**
 - necessity of election, **6:50**
 - revocation of election, **6:63**
 - separate written statement, **6:53**
 - subsequent to S election, **6:50**
 - transmittal and proof of filing, **6:56**
- Election considerations, **19:25**
- Eligibility as shareholder, **3:24**
- Estates
 - deemed shareholders, **19:3**
 - stock transfer, **19:11**
- Form for QSST election, **6:80**
- Grantor trusts, **3:21**
- Multiple owners, **19:23**
- Practice tips
 - affirmative refusal to consent to election, **6:62**
 - revocation of election, **6:63**
- QSST election
 - requirements, **19:41**
 - revocation of election, **19:41**
 - timing of election, **19:41**

QUALIFIED SUBCHAPTER S TRUSTS (QSSTs)—Cont'd

- Qualification of trust as a QSST, **3:24**
- Qualifications, **19:41**
- Revocation of QSST election, **3:24, 6:63**
- S corporation shareholder, requirements, **19:19**
- S status termination
 - generally, **16:13**
 - effective date, **16:18**
- Shareholder agreements, shares held by QSST, **18:12**
- Shareholder number limitation, **3:37, 3:45**
- Termination of income interest, **19:23**
- Termination of QSST, **19:41**
- Untimely filed, simplified procedure for relief, **16:63**
- Use of QSST, marital deduction trust, **19:41**

QUALIFIED TERMINABLE INTEREST PROPERTY TRUSTS

- Trusts as S corporation shareholders
 - marital trusts, **19:41**
 - QSST qualification, **19:42**

QUALIFYING BUSINESS

- At risk rules, C corporation, **2:27**

QUALIFYING SMALL BUSINESS CORPORATIONS

- Eligibility
 - attainment of S corporation status, **3:1**
 - comparison of business entities, **2:4**
- Loss of status as result of merger, **13:7**
- Risk of loss of tax-favored status, **2:29**
- S corporation election, **1:21**
- Violation of requirements
 - S status termination, **16:13**
 - waiver, **11:41**

R

RABBI TRUSTS

- Executive compensation, **16:56**

REAL ESTATE ACTIVITIES

- At risk rules, **20:81**
- Corporate level tax on excess passive income, **20:78**

REAL ESTATE ACTIVITIES—Cont'd

- Gain recognition on incorporation, **20:79**
- Nonrecourse debt, **20:76**
- PAL rules, **20:81**
- Refinancing proceeds, **20:77**
- Refinancing proceeds, distribution of, **20:77**

REAL ESTATE INVESTMENT TRUST

- Choice of entity, **2:1**

REAL ESTATE MORTGAGE INVESTMENT CONDUIT

- Choice of entity, **2:1**

REAL PROPERTY

- Election to reduce basis, discharge of indebtedness, **7:9**
- Excess passive investment income
 - rents (prior law), **8:64**
 - rents generally, **8:63**

REALLOCATION OF INCOME

- Family members, compensation, **11:6**

REASONABLE CAUSE

- S election, extension to file shareholders consent, **6:44**

REASONABLE COMPENSATION

- Cash compensation general effects, **11:2**
- Employment taxes and wage withholding, **11:7, 11:8**
- Probative factors, **11:5**
- Reallocation of income among family members, **11:6**

REASONABLE PERIOD

- Correction of termination event after S status termination, **16:59**

RECAPITALIZATION

- Converted C corporation, single-class-of-stock requirement, **13:49**

RECAPTURE

- Accumulated earnings and profits, ITC recapture, **10:16**
- Accumulated earnings and profits effect, **12:20**
- At risk limitation, **9:59**
- Foreign losses, S election consequences, **7:4**

RECAPTURE—Cont'd

- Gain character determination, S corporation special treatment, **7:37**
- Investment tax credits
 - accumulated earnings and profits effect, **12:20**
 - general business credits, **7:81**
 - partial liquidations, **12:24**
 - redemption of stock, **12:13**
- Partial liquidations, **12:28**
- Property distributions, gain recognition rule consequences, **10:8**
- Redemption or sale of stock, **12:8, 12:18, 12:19**

RECAPTURE, MINERAL EXPLORATION EXPENDITURES

- Section 617, **7:35**

RECAPTURE ITEMS

- Gain attributable on redemption, **12:14**

RECAPTURE OF INVESTMENT TAX CREDITS

- Liquidations
 - generally, **14:4**
 - shareholders, **14:19**

RECEIVERS IN BANKRUPTCY

- Electing S corporation status, execution of election form, **6:4**
- Notice of revocation of S status execution, **16:5**
- Section 444 election, execution, **4:18**

RECEIVERSHIPS

- G reorganizations, **13:51**

RECLASSIFICATION OF DEBT

- Disadvantages of debt, **5:21**

RECOGNITION EVENTS

- Built-in gains tax applicability, **8:35**

RECOGNITION OF GAINS

- Liquidations
 - generally, **14:2**
 - carryover of unused losses, **14:20**
 - installment obligations, **14:10**
 - Section 332 liquidations, **14:12**
 - Section 1374, effect
 - generally, **14:5**

INDEX

RECOGNITION OF GAINS—Cont'd

- Liquidations—Cont'd
 - Section 1374, effect—Cont'd
 - prior law, **14:6**
 - shareholders, **14:17**
 - Shareholders, liquidation, **14:17**

RECOGNITION OF INCOME

- Cancellation of indebtedness, **17:15**

RECOGNITION OF LOSSES

- Liquidations
 - generally, **14:2**
 - carryover of unused losses, **14:20**
 - distributions to related persons, **14:3**
 - installment obligations, **14:10**
 - Section 332 distributions, **14:12**
 - shareholders, **14:17**
 - tax avoidance purposes, **14:3**
 - Shareholders, liquidation, **14:17**

RECOGNITION PERIOD

- Built-in gains tax
 - American Recovery and Reinvestment Act, temporary reduction in recognition period provided by (prior law), **8:34**
 - applicability, **8:33**
 - ceiling on net recognized built-in gain, **8:43**
 - excluded assets, **8:36**
 - impact of tax, **8:48**
 - installment sales, **8:38**
 - like kind exchanges, **8:37**
 - multiple periods, **8:33**
 - recognition events, **8:35**
 - “tacked” recognition periods (prior law), **8:34**

RECOGNIZED BUILT-IN GAINS AND LOSSES

- Built-in gains tax
 - excess recognized built-in gain, **8:39**
 - impact of tax, **8:48**
 - net recognized built-in gain, **8:42**
 - planning considerations, **8:50**
- Excess passive investment income, impact of tax under Section 1374, **8:78**

RECONTRIBUTION OF CASH

- Distributions by corporations with accumulated E&P, alternatives to cash distributions, **10:41**

RECORDS

- Stock basis, determining gain or loss, **10:29**

RECREATIONAL CENTERS

- Excess passive investment income, real property rents (prior law), **8:64**

REDEEMING SHAREHOLDER

- Shareholder agreements, redemption agreement, **18:5**

REDEMPTION AGREEMENTS

- Shareholder agreements
 - buy-sell procedures generally, **18:2**
 - income tax consequences, **18:5**
 - life insurance effect, **18:6**

REDEMPTION OF STOCK

- Accumulated adjustments account
 - effect on AAA, **10:22**
 - nature of AAA, **10:19**
- Accumulated earnings and profits, adjustments for corporate transactions, **10:15**
- Allocation of tax items effect, **12:16**
- Appreciated property distributed
 - generally, **12:14**
 - accumulated adjustments account effect, **12:20**
 - accumulated earnings and profits effect, **12:20**
- Carryover of unused losses by shareholders ‘relative to redeemed shares, **12:12**
- Complete termination of interest, **12:11**
- Death of officer-shareholder, **11:28**
- Debt financed
 - interest on debt, **12:14**
- Depreciated property distribution, **12:14**
- Distribution treatment
 - AAA adjustments, Proposed Regulation, **10:22**
 - AAA effect, **12:20**
 - generally, **12:11**
- Distributions to shareholders
 - disproportionate, **10:47**

REDEMPTION OF STOCK—Cont'd

- Distributions to shareholders—Cont'd
 - distributions to which Section 1368 applies, **10:27**
- Estate planning, postmortem, **19:61**
- Exchange treatment
 - AAA effect, **12:20**
 - qualifications, **12:10**
- Gain or loss recognition to shareholders, **12:11**
- Income and loss of S corporation, **12:14**
- Interests in the entity, **2:34**
- Investment credit property distributed, recapture of investment credit, **12:13**
- Investment credit recapture, **12:13**
- Multiple distributions exceeding AAA, **10:37**
- Oil and gas property, adjustments to basis, **20:18**
- Partial liquidations
 - AAA effect, **12:29**
 - allocation of S corporation tax items, **12:26**
 - carryover of losses, **12:23**
 - exchange treatment, **12:21**
 - gain or loss recognition by shareholders, **12:22**
 - income and loss of S corporation effect, **12:25**
 - S election effect, **12:27**
- Post-termination transition period distributions, **10:52, 16:50**
- Property distributions, gain recognition rule applicability, **10:7**
- Recapture rules for the redemption of stock treated as a sale or exchange, **12:18**
- S corporation's repayment of shareholder debt, treated as equity, **10:54**
- S elections effect, **12:17**
- Shareholder agreements, transfers to permissible shareholders, **18:10**
- Stock acquisitions, effect of sale of stock on seller, **15:17**
- Terminating shareholders interest, allocation of tax items, **12:16**

REDEMPTIONS OF DEBT

- Distributions to shareholders, second class of stock and other concerns, **10:47**

REDUCTION IN BASIS

- Pass-through losses, limitations on shareholder use of, **9:31**

RE-ELECTION OF S STATUS

- Asset acquisitions, acquiring corporation S election effect, **15:23**
- B reorganizations, **13:21**
- Built-in gains tax, transition rules, **8:49**
- C reorganizations, **13:28**
- Earnings and profits, carryover, **16:38**
- Five-year waiting period, **16:34**
- Inadvertent termination waiver, **16:61**
- Losses suspended by at risk limitation, **16:42**
- Losses suspended by PAL limitation, **7:82**
- Prior termination, limitation on re-election not applicable, **3:80**
- Shareholder agreements, terminating S corporation status, **18:19**
- Termination due to merger, **13:8**
- Termination prior to Aug. 20, 1996, **3:80**

REFORESTATION EXPENDITURES

- S corporation special treatment, **7:42**

REFUNDS

- See also index heading CONSOLIDATED AUDIT AND REFUND PROCEDURES
- E&P distributions, revocation of election, **8:62**
- Interest on overpayments of S corporation corporate-level taxes, **17:54**
- Section 444 election required payments, termination of election, **4:44**

REGISTRATION REQUIREMENTS

- Excess passive investment income, personal property rents (prior law), **8:65**

REGULATED FUTURES CONTRACTS

- Market-to-market rules, S corporation special treatment, **7:48**

REGULATED INVESTMENT TRUST

- Choice of entity, **2:1**

INDEX

REGULATION D

Private placements, **20:3**

REGULATIONS

See also Tables tab for specific Regulations

See Appendix 1 for a full reprint of Regulations

Excess passive investment income royalties, **8:68**

Pass-through losses. See index heading PASS-THROUGH LOSSES, LIMITATIONS ON SHAREHOLDER USE OF

Section 1.5431(b)(11)(ii) and (iii), excess passive investment income royalties, **8:68**

Section 1.5431(b)(12)(iv), excess passive investment income royalties, **8:68**

REHABILITATION CREDIT

Adjustments required by tax credits, **7:79**

RELATED CORPORATION

Sale of stock, S corporation as shareholder (prior law), **7:14**

RELATED PARTIES

At risk limitation, related-party loans, **9:50**

Compensation, timing considerations, **11:4**

Converted C corporation, computation of income, **8:18**

Home-related deductions, S corporation special treatment, **7:27**

Income shifting, estate planning, **19:49**

Pass-through losses, limitations on shareholder use of, **9:16**

Sale of depreciable property, S corporation as shareholder, **7:48**

Section 267 limitation on deductions and losses, determination, **7:25**

Section 385 regulations, debt as a second class of stock, **3:76**

RELEASES

Qualified Subchapter S trusts, income beneficiary's power to direct corpus distribution, **3:24**

REMAINDERMEN

Split interests

consent to S election by shareholders, **6:34**

shareholder number limitation, **3:44**

Trusts as S corporation shareholders, charitable lead trust, **19:40**

REMARRIAGE

See index heading MARRIAGE

RENEWAL OF S ELECTION

Effect of election, **6:22**

RENTS

Generally, **8:63**

Imputed, excess passive investment income, **8:54**

Passive investment income defined generally, **8:54, 8:58**

Personal property (prior law), **8:65**

Provider of property services (prior law), **8:66**

Real property (prior law), **8:64**

Service fee distinguished, **8:67**

Special rules, **8:63**

REORGANIZATION EXCHANGE

Pass-through losses, limitations on shareholder use of, **9:18**

REORGANIZATIONS

See also index headings A REORGANIZATIONS; B REORGANIZATIONS; C REORGANIZATIONS; DIVISIVE D REORGANIZATIONS; F REORGANIZATIONS; G REORGANIZATIONS; NONDIVISIVE D REORGANIZATIONS; RECAPITALIZATION

Generally, **13:51, 15:53**

Accumulated earnings and profits, adjustments for corporate transactions, **10:15**

Acquiring S corporation, **13:20**

Acquisition of stock or assets involving S corporations, **15:53**

AAA, effect on, **10:23**

A reorganizations. See index heading A REORGANIZATIONS

B reorganizations. See index heading B REORGANIZATIONS

C reorganizations. See index heading C REORGANIZATIONS

REORGANIZATIONS—Cont'd

- Capitalization of reorganization expenses, **7:59, 13:5**
 - Corporate income and determination, S corporation as shareholder (prior law), **7:14**
 - Divisive D reorganizations. See index heading **DIVISIVE D REORGANIZATIONS**
 - E reorganizations, recapitalizations, **13:49 et seq.**
 - Excess passive income, Subchapter C earnings and profits, **8:52**
 - F reorganizations, mere change in identity, **13:50**
 - G reorganizations, **13:51**
 - ITC recapture, general business credits, **7:81**
 - Liquidations compared, **14:2**
 - Merger of AAA of companies, **10:23**
 - Momentary affiliations (prior law), **3:9**
 - Nondivisive d reorganizations. See index heading **NONDIVISIVE D REORGANIZATIONS**
 - Pass-through losses, limitations on shareholder use of, **9:5**
 - Post-termination transition period distributions, **16:50**
 - Property distributions, gain recognition rule applicability, **10:7**
 - S corporation
 - as shareholder, prior law, **7:14**
 - partnerships, **20:75**
 - S election effect, **13:7**
 - S corporations, involved, **15:55**
 - Section 355, **13:20**
 - Shareholders
 - boot characterization, **13:14**
 - gain or loss recognition, **13:1**
 - Statutory merger and consolidation, **13:1**
 - Stock for stock acquisitions generally, **13:19**
 - Tax-free reorganization treatment, S corporation advantage vs partnership, **2:60**
 - Tax-free transfer of interest in entity, **2:36**
 - Venture capital S corporation, **20:90**
- REPATRIATION OF FOREIGN EARNINGS**
- S corporations operating internationally, **16:46, 20:63**

REPAYMENT OF DEBT

- Disproportionate distributions, **10:47**
- Pass-through losses, limitations on shareholder use of, **9:21**
- S corporation's for shareholder treated as debt, **10:53**
- treated as equity, **10:54**

REPORTING REQUIREMENTS

- Liquidations, **14:24**

REQUIRED PAYMENTS

- Section 444 election
 - generally, **4:21**
 - adjusted highest section tax rate determination, **4:32**
 - amount of applicable payments for base year determination, **4:29**
 - applicable percentage determination, **4:33**
 - assessment and collection of required payments, **4:39**
 - back-up Section 444 election, **4:45**
 - computation of liability, **4:25**
 - corporation's base year determination, **4:26**
 - corporation's net income for base year determination, **4:27**
 - deferral ratio determination, **4:28**
 - due date of payments, **4:36**
 - exceptions
 - existing corporations, **4:23**
 - liability not exceeding 500 dollars, **4:24**
 - newly-organized corporations, **4:22**
 - medium of payments, **4:37**
 - net base year income determination, **4:31**
 - net required payment balance, **4:34**
 - newly-organized corporations, **4:22**
 - refunds, **4:44**
 - required payment determination, **4:35**
 - taxable year change, **5:38**
 - taxable year choice, **5:36**
 - termination, **4:43**
 - transmittal of payments, **4:37**
 - treatment of payments, **4:38**

RESCISSION

- Consequences of termination, use of rescission to avoid, **16:64**

INDEX

RESCISSION—Cont'd

Of revocation of s status
filing requirements, **16:11**
form, **16:11**

RESEARCH AND DEVELOPMENT ACTIVITIES

S corporation conducting
generally, **20:98 to 20:102**
credits, **20:99**
deductions, **20:100**
joint ventures, **20:102**
shareholder limitations, **20:101**

RESEARCH AND DEVELOPMENT EXPENDITURES

Credits, pass through to shareholders,
20:99
Deductions, **20:100**

RESEARCH AND EXPERIMENTAL EXPENDITURES

Tax preference items, S corporation
special treatment, **7:45**

RESEARCH CREDIT

General business credit limitation, **7:83**
Other general business credits, **7:82**

RESEARCH EXPENDITURES

Election to deduct, **17:11**
Pass-through losses, limitations on
shareholder use of, **9:14**

RESIDENCY OF SHAREHOLDERS

Distributions to shareholders,
disproportionate, **10:47**

RESTORATION OF DEBT BASIS

Distributions to shareholders, corpora-
tion without accumulated E&P,
10:28
Pass-through losses, limitations on
shareholder use of, **9:20**

RESTRICTED STOCK

Allocation of pass-through items, **7:70**
Bank director stock, **10:50**
Consent to S election by shareholders,
6:34
Distributions, stock disregarded as
outstanding for Subchapter S
purposes
general restricted stock, **10:51**

RESTRICTED STOCK—Cont'd

Distributions, stock disregarded as
outstanding for Subchapter S
purposes—Cont'd
restricted bank director stock, **10:50**
Holder not shareholder for purposes of,
issuance and transfer, **5:9**
Nonqualified deferred compensation
plans, **11:29**
Oil and gas industry, **20:22**
Proved-property transfer rule, **20:23**

RESTRICTED STOCK PLANS

Executive compensation, stock
programs, **11:29**
Single-class-of-stock rules, **11:29**

RETAINED EARNINGS

Tax rates, C corporation planning
technique, **2:21**

RETIREMENT

Shareholder agreements, buy-sell
procedures generally, **18:2**

RETURN OF CAPITAL

Debt repayment, capitalization of S
corporation, **5:15**

RETURNS

See also specific Forms
Annual tax return requirement, permit-
ted taxable years, **4:42**
C corporation, administration of entity,
2:32
C short taxable year, **16:26**
Corporate, **17:34, 17:35**
Decedent's final income tax return, tim-
ing of pass through of tax items,
7:67
Errors and omissions, **4:46**
Fiscal year, Section 444 election, **4:12**
Form 1120-S, S corporation, **2:32**
Information returns, administration of
entity, **2:32**
Multi-state business, multiple return
filing requirements, **2:31**
Partnership of S corporations,
administration of entity, **2:32**
S short taxable year, **16:26**
Schedule K-1
generally, **17:34**
administration of entity, **2:32**

RETURNS—Cont'd

- Shareholders, **17:37**
- Single class of stock, filing of state income tax returns, **3:55**

REVENUE ACT OF 1987

- Generally, **App. 2**

REVENUE PROCEDURES

- Fiscal year
 - natural business year test, **4:5**
 - ownership tax year test, **4:8**

REVENUE RULINGS

- Affiliated group limitation (prior law), administrative exception, **3:9**

REVERSE TRIANGULAR MERGERS

- A reorganization requirements, **13:18**
- G reorganizations, **13:51**

REVERSIONARY INTERESTS

- Grantor trusts, permissible shareholders, **3:21**

REVOCABLE INTER VIVOS TRUSTS

- Permissible shareholders, grantor trusts, **3:21**

REVOCATION OF QSST ELECTION

- Shareholder agreements, **18:12**

REVOCATION OF S ELECTION

- Consent by shareholders, **6:49**
- Electing S corporation status
 - effect, **6:22**
 - shareholders consent, **6:23**
- Estates
 - shareholder death effect on S election, **19:9**
 - termination of S election, **19:10**
- Prior to Subchapter S Revision Act of 1982, **1:8**
- Subchapter S Revision Act of 1982, prospective, **1:23**

REVOCATION OF S STATUS

- Generally, **17:3**
- Effective date, **16:3**
- Execution of form, **16:5**
- Extension of time to file, **16:10**
- Filing requirements, **16:6**
- Form for request, **16:65**
- Information required, **16:4**

REVOCATION OF S STATUS—Cont'd

- Notice
 - generally, **17:3**
 - shareholder consent, **17:18**
- Rescission of, **16:11**
- Shareholder consent
 - generally, **17:18**
 - filing with IRS, **16:13**
 - form, **16:66**
 - information required, **16:7**
- Tax advantages, **16:2**
- Waiver by Service not permitted, **16:56**

REVOCATION OF TRUSTS

- Grantor trust, permissible shareholders, **3:21**

RIGHTS OF FIRST REFUSAL

- Shareholder agreements, transfers to permissible shareholders, **18:10**

RISK OF LOSS

- Executive compensation, nonstock incentive programs, **11:35**
- Tax favored status of entity, **2:29**

ROYALTIES

- Excess passive investment income
 - passive investment income, **8:58**
 - special rules, **8:68**
- International transactions, using S corporations in, **20:50**

RULING REQUESTS

- Foreign losses recapture, **16:32**
- Merger, **13:7**
- Partnership as a limitation, **20:42**
- QSST election by current beneficiary, extension to file election, **6:59**
- Re-election of S status, **16:34**
- Subchapter C application, **13:1**
- Termination
 - accumulated adjustments account, **16:40**
 - acquisition debt interest deduction, **16:35**
 - earnings and profits carryover, **16:38**
 - effective date, **16:18**
 - election subsequent to, **3:80**
 - excess passive investment income, **16:15**
 - foreign losses recapture, **16:32**

INDEX

RULING REQUESTS—Cont'd

- Termination—Cont'd
 - inadvertent, **16:57**
 - ITC recapture, **16:33**
 - loss carryover suspended by at risk limitation, **16:42**
 - loss carryover suspended by basis limitation, **16:41**
 - loss carryover suspended by PAL limitation, **7:82**
 - merger, **13:7**
 - nonpermitted taxable year, **16:14**
 - notification of IRS, **16:56**
 - percentage depletion, effect on, **16:31**
 - post-termination transition period
 - defined, **16:48**
 - distributions, **16:50**
 - previously taxed income account, **16:39**
 - re-election of S status, **16:34**
 - reorganization, **13:12**
 - separate taxable years, **16:21**
 - violation of eligibility requirements, **16:56**
 - waiver by IRS, **16:56**
- Voluntary revocation of
 - generally, **16:2**
 - rescission of revocation, **16:11**
- Waiver of inadvertent S status termination, **19:55**

S

S CORPORATION CAPITAL PURCHASE PROGRAM (S CORP SPP)

- Debt securities, **3:77**

S CORPORATION ELECTION

- Capitalization of reorganization expenses, **7:59, 13:5**
- Revocation, built-in gains, **8:50**
- Termination of status, transitional relief, **8:49**

S CORPORATION

MODERNIZATION ACT OF 2008

- Generally, **App. 10**

S CORPORATION

MODERNIZATION ACT OF 2009

- Generally, **App. 11**

S CORPORATION

MODERNIZATION ACT OF 2011

- Promotion and expansion of, **App. 13**

S CORPORATION

MODERNIZATION ACT OF 2013

- Promotion and expansion of, **App. 14**

S CORPORATION

MODERNIZATION ACT OF 2015

- Promotion and expansion of, **App. 15**

S CORPORATION

MODERNIZATION ACT OF 2017

- Promotion and expansion of, **App. 16**

S CORPORATION REFORM ACT OF 2006

- Generally, **App. 8**

S CORPORATION STATUS

- Estate planning, postmortem, **16:50**

S CORPORATION TAX ATTRIBUTES

- S termination, effect on, **16:37**

S ELECTION

- See also index heading ELECTION FOR S STATUS
- Controlled corporation, divisive D reorganization, **13:40**
- F reorganizations, **13:50**
- Form of request for revocation, **16:65**
- G reorganizations, **13:51**
- Partial liquidation effect, **12:27**
- Recapitalizations effect, **13:49**
- Redemptions effect, **12:17**
- Re-election after B reorganization, **13:21**
- Re-election after termination due to merger, **13:8**
- Revocation by former target after merger, **13:7**
- Revocation by purchasing shareholder, **12:5**
- S corporation used in syndication, **20:9**
- Sale of stock, effect on, **12:5**
- Statutory merger, effect of, **13:7**
- Termination
 - later election, **3:80**
 - proven property transfer rule effect, **20:21**

S ELECTION—Cont'd

- Termination in year of sale of stock, **12:6**
- Termination upon reorganization
 - allocation of income and loss items, **13:12**
 - avoidance in B reorganizations, **13:20**
 - B reorganizations, **13:20**
 - C reorganizations, **13:27**
 - divisive D reorganizations, **13:39**
 - merger or consolidation of target S corporation, **13:7**
- Transfer treatment of oil and gas properties, **20:20**
- Transferor C corporation, divisive D reorganization, **13:40**

S PERIOD

- Accumulated adjustments account computation, **10:20**

S SHORT TAXABLE YEAR

- Allocation in year of termination, **7:72**
- Allocation of tax items on S status termination, **16:22**
- Corporation books
 - election to close, **17:7**
 - shareholder consent to close, **17:22**
- Election to close books, **16:23**
- Estates, termination of S election, **19:10**
- S election termination on sale of stock, **12:6**
- Shareholder agreements, allocation on termination of S status, **18:21**
- Tax returns, **16:26**
- Termination of S status on reorganization
 - A reorganizations, **13:12**
 - B reorganizations, **13:23**

S STATUS RETENTION

- Dissolution under state law, **3:83**
- Stock acquisitions, effects on purchaser of S stock, **15:4**

S TERMINATION YEAR

- Computation of tax items, **16:22**

SAFE HARBOR RULES

- Debt as second class of stock
 - generally, **3:75**
 - straight debt, **3:78**

SAFE HARBOR RULES—Cont'd

- Options, **11:32**

SALARY

- See index heading **COMPENSATION**

SALE OR EXCHANGE

- Accumulated adjustments account
 - nature of AAA, **10:19**
 - redemptions effect on AAA, **10:22**
- Appreciated property
 - partial liquidations, **12:25**
- Appreciated stock or securities, excess passive investment income, **8:78**
- Boot distribution in excess of stock basis, **13:14**
- Built-in gains tax
 - planning considerations, **8:50**
 - recognition events, **8:35**
- Capital assets, excess passive investment income
 - generally, **8:55**
 - planning considerations, **8:81**
- Capital gains tax
 - impact of tax under Section 1375, **8:90**
 - shareholder pass-through effect, **8:89**
- Carryover of unused losses
 - generally, **12:4**
 - excess passive investment income, **8:69**
- Depreciable property
 - gain character determination, **7:37**
 - related party, **7:48**
- Distributions to shareholders
 - corporation without accumulated E&P, **10:28**
 - distributions to which Section 1368 applies, **10:27**
- Excess passive investment income
 - impact of tax under Section 1374, **8:77**
 - real property rents (prior law), **8:64**
- Gain or loss recognition, **12:2**
- Interest in entity, **2:33**
- Inventory
 - gross receipts for excess passive investment income tax, **8:54**
 - interest for excess passive investment income tax, **8:61**

INDEX

SALE OR EXCHANGE—Cont'd

- Investment credit recapture
 - Section 1244 stock, **5:32**
- Liquidations, **14:2**
- Medicare tax, applicability to sales of stock, **12:10**
- Mining property, gain or loss, **7:35**
- Multiple distributions exceeding AAA, redemptions, **10:37**
- Partial liquidations, **12:21**
- Practice tips, exchange of property for stock and securities, **5:25**
- Property to corporation, taxable, **5:29**
- Rental real estate, excess passive investment income planning considerations, **8:81**
- S election effect, **12:5**
- Section 1250 property, converted C corporation, **8:20**
- Securities, excess passive investment income, **8:69**
- Shareholder agreements, redemption agreements, **18:5**
- Stock. See index heading **STOCK**
- Transfers of property to S corporation
 - control of corporation after exchange, **5:25**
 - corporate nonrecognition on issuance of stock, **5:30**
 - property for stock or securities, **5:24**

SCHEDULE D

- Installment reporting, electing out, **17:12**

SCHEDULE K-1

- Information returns, corporations, **17:34**
- Partnership and S corporation tax returns, **2:32**

SCHEDULE L OF FORM 1120-S

- Distributions, information required to be reported, **10:56**

SCHEDULE M OF FORM 1120-S

- Distributions, information required to be reported, **10:56**

SECOND CLASS OF STOCK

- Asset acquisitions, acquiring corporation
 - S election effect, **15:21**
- Capitalization of S corporation, **5:13**

SECOND CLASS OF STOCK—Cont'd

- Debt
 - capitalization of S corporation, **5:13**
 - corporate debt as equity, **3:75**
 - reclassification, **5:21**
- Executive compensation, junior stock plans, **11:30**
- Identical distribution rights, **15:52**
- Income shifting, estate planning, **19:49**
- Nonprorata portions, single class of stock requirement, **15:52**
- Purchase arrangement, arm's length negotiation, **15:52**
- S corporation's repayment of shareholder debt, treated as equity, **10:54**
- S status termination, **16:56**
- Shareholder agreements
 - distributions effect on single-class-of-stock requirement, **18:24**
 - single-class-of-stock requirement, **18:15**
- Stock acquisitions, acquisition debt, **15:41**

SECRET PROCESSES AND FORMULAS

- Excess passive investment income, royalties, **8:68**

SECRETARY OF CORPORATION

- Electing S corporation status, election form execution, **6:4**
- Section 444 election execution, **4:18**

SECTION 11

- Built-in gains tax, planning considerations, **8:50**

SECTION 11(a)

- Corporate level tax on corporation, **2:5**

SECTION 11(b)

- Built-in gains tax, tax rate, **8:45**
- Excess passive investment income, tax rate, **8:75**

SECTION 34

- Built-in gains tax, credits offsetting tax, **8:46**
- Capital gains tax, credits offsetting tax, **8:88**

SECTION 34—Cont'd

- Excess passive investment income, credits offsetting tax, **8:76**
- Gasoline and fuels credit, pass through and allocation, **7:84**

SECTION 38 PROPERTY

- Converted C corporation, S election impact, **8:10**
- Investment tax credit recapture, transfers of property by shareholders to S corporation, **5:26**

SECTION 40(a)

- Alcohol fuels credit, general business credits, **7:80**

SECTION 41

- Credits for research and development expenditures, **20:98**

SECTION 41(a)

- Research credit
 - credits offsetting tax, **8:46**
 - general business credits, **7:80**

SECTION 42(a)

- Low income housing credit, general business credits, **7:80**

SECTION 51(a)

- Targeted jobs credit, general business credits, **7:80**

SECTION 55

- Converted C corporation, minimum taxes, **8:27**

SECTION 59(e)

- Ratable deduction of research or experimental expenditures by shareholders, **20:100**

SECTION 59(E) ELECTION

- Pass-through losses, limitations on shareholder use of, **9:14**

SECTION 67

- Miscellaneous itemized deductions, S corporation special treatment, **7:47**

SECTION 72

- Annuities, excess passive investment income, **8:59**

SECTION 83

- Allocation of pass-through items, restricted stock, **7:70**
- Compensation, timing considerations, **11:4**
- Compensation paid in property, S corporation special treatment, **7:26**
- Executive compensation, **11:31, 11:33**
- Receipt of interest in entity for services, **2:13**

SECTION 83(b)

- Buy-sell procedures, provisions in shareholders agreements relating to termination of employment, **18:7**
- Consent to S election by shareholders, restricted stock, **6:34**
- Executive compensation, restricted stock plans, **11:29**
- Noncash compensation general effects, **11:3**

SECTION 83(b) ELECTION

- Proven-property transfer rule, **20:23**

SECTION 108

- Discharge of indebtedness, corporate income determination and realization, **7:9**

SECTION 108(a)

- Discharge of indebtedness, corporate income determination and realization, **7:9**

SECTION 108(b)

- Discharge of indebtedness, corporate income determination and realization, **7:9**

SECTION 108(d)(7)(B)

- Discharge of indebtedness, corporate income determination and realization, **7:9**

SECTION 108(d)(7)(C)

- Discharge of indebtedness, corporate income determination and realization, **7:9**

SECTION 108(e)(6)

- Discharge of indebtedness, corporate income determination and realization, **7:9**

INDEX

SECTION 111

- Applied to corporations, **7:8**
- Converted C corporation, tax benefit, **8:22**

SECTION 162

- Compensation
 - fringe benefits, **11:22**
 - reallocation of income among family members, **11:6**
 - recharacterization of salary as distributions, **11:19**
- Executive compensation, below-market loans, **11:40**

SECTION 163(d)

- Investment interest rules, S corporation advantage vs C corporation, **2:47**

SECTION 163(j)

- Pass-through losses, limitations on shareholder use of, **9:81**

SECTION 165(g)(3)

- Capital gain and loss, S corporation special treatment, **7:36, 7:57**

SECTION 166(d)(1)

- Nonbusiness bad debts, **7:53**

SECTION 172

- Built-in gains tax
 - net recognized built-in gain, **8:42**
 - taxable income, **8:40**
- Capital gains tax
 - excess net capital gain, **8:85**
 - excess taxable income, **8:86**
- Excess passive investment income
 - excess net passive income, **8:74**
 - taxable income, **8:71**
- Net operating losses, S corporation special treatment, **7:20**

SECTION 174(a)

- Research or experimental expenditures deduction, **20:100**

SECTION 174(b)

- Election to amortize research and experimental expenditures, **20:100**

SECTION 179

- Expensed property dollar limitation, S corporation special treatment, **7:39**

SECTION 183

- Converted C corporation, deductibility of losses, **8:21**
- Hobby losses, S corporation special treatment, **7:30**

SECTION 183(e)

- Start-up losses, S corporation special treatment, **7:30**

SECTION 194

- Reforestation expenditures, S corporation special treatment, **7:42**

SECTION 199

- Domestic manufacturing deduction, **7:40 (repealed)**
- Election for S status. qualified business income deduction under Section 199A, **7:62**

SECTION 241 THROUGH 250

- Built-in gains tax
 - net recognized built-in gain, **8:42**
 - taxable income, **8:40**
- Capital gains tax
 - excess net capital gain, **8:85**
 - excess taxable income, **8:86**
- Excess passive investment income
 - excess net passive income, **8:74**
 - taxable income, **8:71**

SECTION 243

- Dividends received deduction, S corporation special treatment, **7:22**

SECTION 248

- Built-in gains tax
 - net recognized built-in gain, **8:42**
 - taxable income, **8:40**
- Capital gains tax
 - excess net capital gain, **8:85**
 - excess taxable income, **8:86**
- Excess passive investment income
 - excess net passive income, **8:74**
 - taxable income, **8:71**
- Organizational expenditures amortization, **7:21**

SECTION 263A

- Earnings and profits, distributions to S corporation, **10:17**

SECTION 267

- Compensation, timing considerations, **11:4**
- Converted C corporation, computation of income, **8:18**

SECTION 267(a)(1)

- Limitation on deductions and losses, S corporation special treatment, **7:25**

SECTION 267(a)(2)

- Limitation on deductions and losses, S corporation special treatment, **7:25**

SECTION 267(b)

- Compensation, timing considerations, **11:4**
- Limitation on deductions and losses, S corporation special treatment, **7:25**

SECTION 267(D) ITEMS

- Pass-through losses, limitations on shareholder use of, **9:10**

SECTION 267(e)

- Limitation on deductions and losses, S corporation special treatment, **7:25**

SECTION 267(f)(1)

- Built-in gains tax, transitional rules, **8:49**

SECTION 269

- ESOPs applied, **20:73**
- Subsidiary corporations, **21:20**

SECTION 280G

- Golden parachutes, **11:43**

SECTION 291

- Converted C corporation, corporate preference items, **8:20**
- Corporate-level preference items under Section 291, S corporation special treatment, **7:23**
- Pass through of tax items, **2:23**

SECTION 301

- Dividend distribution, redemptions of interests, **2:34**

SECTION 301 THROUGH 307

- Property distributions, gain recognition rule applicability, **10:7**

SECTION 301(c)

- Distributions to shareholders corporation without accumulated E&P, **10:28**
- distributions to which Section 1368 applies, **10:27**

SECTION 302

- Distributions to shareholders corporation without accumulated E&P, **10:28**
- distributions to which Section 1368 applies, **10:27**
- Estate planning, postmortem, **19:61**
- Multiple distributions exceeding AAA, redemptions, **10:37**

SECTION 302(a)

- Redemption of S corporation stock qualifying as exchange, **12:10**
- Sale or exchange, redemptions of interests, **2:34**
- Shareholder agreements, redemption agreement, **18:5**

SECTION 302(b)

- Multiple distributions exceeding AAA, redemptions, **10:37**
- Partial, S corporation as shareholder (prior law), **7:14**
- Sale or exchange, redemption of S corporation stock, **2:34**
- Shareholder agreements, redemption agreement, **18:5**

SECTION 303

- Estate planning, postmortem, **19:61**
- Redemption of stock to pay death taxes treated as exchange, **12:10**
- Shareholder agreements, redemption agreement, **18:5**

SECTION 304

- Sale of stock, S corporation as shareholder (prior law), **7:14**

SECTION 305

- Converted C corporation distributions to which Section 1368 applies, **10:27**
- single-class-of-stock requirement, **10:47**

INDEX

SECTION 306(a)(2)

Distributions to shareholders, distributions to which Section 1368 applies, **10:27**

SECTION 311

Excess passive investment income
definition generally, **8:54**
sales and exchanges of stock or securities, **8:69**

Property distributions, gain recognition rule, **10:7**

SECTION 311(b)

Distributions, complete liquidation, **10:11**

Property distributions
depreciated property, **10:9**
gain recognition rule applicability, **10:7**
gain recognition rule consequences, **10:8**

SECTION 311(b)(1)(A)

Property distributions
gain recognition rule applicability, **10:7**

SECTION 312

Earnings and profits
distributions to S corporation, **10:17**
reorganization of S corporations, **10:23**

SECTION 316

Excess passive investment income, dividends, **8:60**

SECTION 318

Compensation, fringe benefits, **11:22**
Executive compensation
nonstatutory stock option plans, **11:32**
nonvoting stock, **11:28**

SECTION 318(a)(4)

Executive compensation
nonstatutory stock option plans, **11:32**

SECTION 331

Excess passive investment income, sales and exchanges of stock or securities, **8:56**

SECTION 332

Liquidations
distributions, **14:12**
gain or loss, **14:2**
Stock acquisitions
built-in gains tax, **15:46**

SECTION 336

Distributions
complete liquidation, **10:11**
elections under Section 336(e), **15:53**
nonliquidating distributions of property, **10:10**

SECTION 338

Acquisition election, **15:52**
Election by S corporation, Generally, **15:52**
Exception to pro rata daily allocation rule, **16:25**
QSUB election, **21:13, 21:14**

SECTION 338(h)(10)

Election for asset sale treatment, **15:52**

SECTION 351

Basis in stock, transfer of property to S corporation, **5:28**
Boot, formation of entity, **2:12**
Control requirement
recognition of gain or loss, **2:10**
stock issued in exchange for services, **2:13**
Exchange of property for stock and securities, practice tips, **5:25**
Income on incorporating transfers, disadvantages of debt, **5:21**
Investment tax credit recapture, transfers of property by shareholders to S corporation, **5:26**
Pass-through losses. See index heading
PASS-THROUGH LOSSES, LIMITATIONS ON
SHAREHOLDER USE OF
Receipt of interest in entity for services, **2:13**
Recognition of gain or loss in general, formation of entity, **2:9**
Transfers of property to S corporation
basis in stock, **5:28**
basis of property received by corporation, **5:31**
general rule of nonrecognition, **5:22**

SECTION 351—Cont'd

Transfers of property to S corporation
—Cont'd
taxable sale of property to corporation, **5:29**
transfer of property, **5:23**

SECTION 355

Affiliated group limitation (prior law),
corporate division to avoid limitation, **3:11**
Divisive D reorganizations, **13:38**
Liquidations, division of corporations,
2:35

SECTION 355 TRANSACTIONS

S corporation use, **13:20**

SECTION 356

Characterization of boot distribution in
A reorganization, **13:14**
Tax treatment of boot in divisive D reorganization, **13:45**

SECTION 356(a)(2)

Distributions to shareholders, Section
1368 application, **10:27**

SECTION 361(a)

Gain or loss recognition on exchange by
target corporation, assets for stock
or securities of acquiring corporation,
13:1

SECTION 368

Nonrecognition treatment of corporate
reorganizations, **13:1**

SECTION 368(a)(1)(D)

LIFO recapture tax, installment payments, **13:43**

SECTION 381

Carryover of tax attributes, B
reorganizations, **13:22**
Transfers to another S corporation,
16:47

SECTION 385 REGULATIONS

Debt as a second class of stock, **3:76**

SECTION 409A

Incentive stock option plans, **11:33**
Nonqualified deferred compensation,
11:44

SECTION 409A—Cont'd

Nonstatutory stock option plans, **11:32**
Phantom stock plans, **11:39**
Restricted stock, **11:29**
Stock appreciation rights, **11:38**

SECTION 415

Impact of section 415 on S corporation
ESOPs, **20:74**

SECTION 421

Executive compensation, incentive stock
options plans, **11:33**

SECTION 421(a)

Executive compensation, incentive stock
options plans, **11:33**

SECTION 422A

Executive compensation, incentive stock
options plans, **11:43**

SECTION 422A(a)(2)

Executive compensation, incentive stock
options plans, **11:33**

SECTION 444

Taxable year
converted C corporation, **8:5**
permitted year, **4:1**

SECTION 444 ELECTION

Generally, **4:12**
Adjusted highest Section 1 tax rate
determination, **4:32**
Amount of applicable payments for base
year determination, **4:29**
Annual tax return requirement, **4:42**
Applicable percentage determination,
4:33
Assessment and collection of required
payments, **4:39**
Back-up
adoption of taxable year, **5:37**
business purpose relationship, **4:11**
practice tips, **4:10**
Business purpose, **4:11**
Calendar year
exception to general rule, **4:2**
practice tips, **4:10**
Computation of required payments
liability, **4:25**

INDEX

SECTION 444 ELECTION—Cont'd

- Corporation's base year determination, **4:26**
- Corporation's net income for base year determination, **4:27**
- Deferral ratio determination, **4:28**
- Due date for election, **4:20**
- Due date for required payments, **4:36**
- Electing S corporation status, designation of permitted taxable year, **6:6**
- Execution of election, **4:18**
- Existing corporations
 - exception to required payments liability, **4:23**
 - permissible fiscal year, **4:16**
- Fiscal year election, **17:16**
- Form for election, **4:17**
- Net base year income determination, **4:31**
- Net required payment balance determination, **4:34**
- Newly organized corporations
 - generally, **4:15**
 - exception to required payments liability, **4:22**
- Organization of S corporation
 - adoption of taxable year, **5:37**
 - change in taxable year, **5:38**
 - taxable year choice, **5:36**
- Partnership of S corporations, **20:43**
- Penalties for failure to make required payments, **4:41**
- Prior effective election, **4:13**
- Required payments
 - computation of liability, **4:25**
 - determination, **4:35**
 - liability, **4:21**
 - treatment, **4:38**
- Shareholder consent, **17:16**
- Special rule permitting recognition of short taxable year income to be spread over 4-year period, **4:47**
- Termination, liquidation, **14:22**
- Tiered structure member, **4:14**
- Transmittal of election, **4:19**

SECTION 446(b)

- Nonrecognition treatment on transfer of property to S corporation, exception, **5:27**

SECTION 448(a)(3)

- Corporate income determination and realization, taxable income and method of accounting, **7:11**

SECTION 453

- Installment sale application, **7:15**

SECTION 453A

- Converted C corporation, installment obligations, **8:13**
- Interest payment provisions, S corporation as shareholder, **7:48**

SECTION 461(i)(3)

- Corporate income determination and realization, taxable income and method of accounting, **7:11**

SECTION 461(l)

- Pass-through losses, limitations on shareholder use of, **9:80, 9:85**

SECTION 464

- Farm-related deductions, S corporation special treatment, **7:46**

SECTION 465

- At risk rules, applicability to business entities, **2:27**
- Built-in gains tax, taxable income, **8:40**
- Converted C corporation
 - computation of income, **8:16**
 - other Subchapter C attributes, **8:26**
- Excess passive investment income, taxable income, **8:71**
- Pass-through losses. See index heading PASS-THROUGH LOSSES, LIMITATIONS ON SHAREHOLDER USE OF
- Qualified production activities, **7:40 (repealed)**

SECTION 467

- Excess passive investment income, definition generally, **8:54**

SECTION 469

- Built-in gains tax, taxable income, **8:40**
- Compensation, recharacterization under PAL rules, **11:21**
- Converted C corporation
 - computation of income, **8:16**
 - other Subchapter C attributes, **8:26**

SECTION 469—Cont'd

Excess passive investment income, taxable income, **8:71**

Pass-through losses, limitations on shareholder use of, **9:85**

Qualified production activities, **7:40**
(repealed)

SECTION 469(j)(2)

Built-in gains tax, taxable income, **8:40**

SECTION 481(a)

Corporate income determination and realization, taxable income and method of accounting, **7:11**

SECTION 481(b)

Corporate income determination and realization, taxable income and method of accounting, **7:11**

SECTION 482

Excess passive investment income, definition generally, **8:54**

Nonrecognition treatment on transfer of property to S corporation, exception, **5:27**

Shifting income between shareholder and corporation, S corporation as shareholder, **7:48**

SECTION 483

Excess passive investment income definition generally, **8:54**
interest, **8:61**

SECTION 542(d)(1)

Interest, excess passive investment income, **8:61**

SECTION 543(a)(3)

Excess passive investment income, royalties, **8:68**

SECTION 543(d)

Excess passive investment income, royalties, **8:68**

SECTION 551

Excess passive investment income, undistributed foreign personal holding income, **8:60**

SECTION 565

Excess passive investment income, consent dividends, **8:60**

SECTION 613A(c)

Converted C corporations, **20:20**

Termination of S election, effect, **20:21**

Transfer of stock, effect, **20:23**

SECTION 613A(c)(13)

Oil and gas depletion of S corporations, **20:14**

SECTION 613A(c)(13)(B)

Adjustments to basis, **20:18**

Determination of depletion allowance, **20:14**

SECTION 613(c)(13)(B)

Accumulated adjustments account computation, **10:20**

SECTION 617

Mineral exploration expenditures shareholder's election to expense, **7:35**

tax elections at shareholder level, **7:76**

SECTION 617(b)

Mineral exploration expenditures, S corporation special treatment, **7:35**

SECTION 617(d)

Mineral exploration expenditures, shareholder's basis in stock, **7:35**

SECTION 617(h)

Mineral exploration expenditures, foreign properties, **7:35**

SECTION 643(b)

Qualified Subchapter S trusts, current distribution requirement, **3:24**

Trusts as S corporation shareholders, QSST distribution of income, **19:20**

SECTION 663(b)(2)

Trusts as S corporation shareholders, QSST distribution of income, **19:20**

SECTION 663(c)

Qualified Subchapter S trusts, separate share rule, **3:24**

INDEX

SECTION 663(c)—Cont'd

Trusts as S corporation shareholders,
QSST single income beneficiary,
3:4

SECTION 671 THROUGH 677

Trusts as S corporation shareholders,
grantor trusts, **19:17**

SECTION 675

Irrevocable trusts, estate planning, **19:50**

SECTION 677(b)

Trusts as S corporation shareholders,
QSST single income beneficiary,
3:4

SECTION 678 TRUSTS

Consent to S election by shareholders,
6:30

Death of shareholder, effect on basis in
stock and assets, **19:5**

Deferral entity, Section 444 election,
4:14

Estates

deemed shareholders, **19:3**

stock transfer, **19:11**

Permissible and impermissible
shareholders, requirements for
permissible shareholder, **3:22**

QSST election by current income bene-
ficiary
due date, **6:55**

effective date, **6:54**

necessity of election, **6:50**

Shareholder number limitation, **3:45**

SECTION 678(c)

Trusts as S corporation shareholders,
QSST single income beneficiary,
3:4

SECTION 704(c)

Allocation of tax items among partners,
2:24

SECTION 704(d)

Charitable contributions, basis limita-
tion, **7:32**

SECTION 704(e)

Family partnership rules, **2:24**

IRS power to reallocate tax items, **7:73**

SECTION 706(d)(2)

Allocation of tax items among partners,
2:24

SECTION 707(a)

Compensation, fringe benefits, **11:22**

SECTION 707(a)(2)(B)

Sale of contributed property to partner-
ship, **2:12**

SECTION 707(b)

Limitation on deductions and losses, S
corporation special treatment, **7:25**

SECTION 707(b)(1)

Compensation, timing considerations,
11:4

SECTION 707(c)

Compensation, fringe benefits, **11:22**

SECTION 721

Control requirement, recognition of gain
or loss, **2:10**

Functional equivalent of reorganization,
S corporation advantage vs partner-
ships, **2:60**

Recognition of gain or loss in general,
formation of entity, **2:9**

SECTION 724

Determination of character of tax item,
2:16

SECTION 731

Functional equivalent of reorganization,
S corporation advantage vs partner-
ships, **2:60**

SECTION 743

Stock acquisitions, basis adjustment,
12:3, 15:14

SECTION 751 TREATMENT

Absence of, S corporation advantage vs
partnership, **2:63**

SECTION 751(a)

Gain recognized on sale of partnership
interest, S corporation advantage vs
partnership, **2:63**

SECTION 751(b)

Distributions of cash, **2:25**

SECTION 751(b)—Cont'd

Gain or loss recognition, S corporation advantage vs partnership, **2:63**

SECTION 752(b)

Distributions of cash, **2:25**
Redemption of partnership interest, **2:34**

SECTION 754

Election
adjustment to basis, **2:37**
estate planning considerations, **2:38**
Election to increase basis of partnership assets, partnership of S corporations, **20:39**
Stock acquisitions, basis adjustment, **12:3**

SECTION 936

Possessions tax credit corporations, ineligible corporations, **3:3**

SECTION 1014

Shareholder agreements
cross-purchase agreement, **18:3**
redemption agreement, **18:5**

SECTION 1031

Built-in gains tax
like kind exchanges, **8:37**
planning considerations, **8:50**
Corporate income determination and realization, nonrecognition provisions applicability, **19:50**

SECTION 1032

Corporate income determination, issuance of stock for property, **7:13**
Recognition of gain or loss in general, formation of entity, **2:9**

SECTION 1033

Corporate income determination, nonrecognition provisions applicability, **19:50**

SECTION 1221

Excess passive investment income, sales of capital assets, **8:55**

SECTION 1222

Excess passive investment income, sales of capital assets, **8:55**

SECTION 1231 ASSETS

Capital gains tax, shareholder pass-through effect, **8:89**
Excess passive investment income planning considerations, **8:81**
sales of capital assets, **8:55**
Gain character determination, S corporation special treatment, **7:37**

SECTION 1231 GAINS AND LOSSES

S corporation special treatment, **7:38**
Separately and nonseparately stated items, **7:65**

SECTION 1231(c)

Gains and losses, S corporation special treatment, **7:38**

SECTION 1235

Capital gain and loss, patent disposition, **7:36**

SECTION 1239 (FORMER)

Capital gain and loss, S corporation special treatment, **7:36**

SECTION 1244

Capital gain and loss, S corporation special treatment, **7:36**
IRS analysis, applied for bad debts, **7:53**
Liquidating distribution of property, **2:35**
Loss treatment of small business stock redemption, **12:11**
sale, **12:2**
Worthless stock, nonbusiness bad debt deduction, **7:54**

SECTION 1244 STOCK

Generally, **5:32**
Computation of ordinary loss, **5:35**
Definition, **5:33**
Eligible shareholders, **5:34**
Practice tips, computation of ordinary loss, **5:35**
Worthless stock
deduction permitted, **7:54**
disadvantages of debt, **5:21**

SECTION 1250 PROPERTY

Converted C corporation, sale, **8:20**

SECTION 1254

Cost reapportionment rules, **20:23**

INDEX

SECTION 1254—Cont'd

- Recapture rules, **20:23**
- Recharacterization of gain on disposition
 - converted C corporations, **20:20**
 - effect of S election, **20:21**

SECTION 1256

- Regulated futures contracts, market-to-market rules, **7:48**

SECTION 1256(e)(3)(B)

- Syndicate
 - corporate income determination, **7:11**
 - organization of S corporation, **5:39**
 - selection of accounting method, **2:20**

SECTION 1272

- Excess passive investment income, definition generally, **8:54**

SECTION 1274

- Excess passive investment income
 - definition generally, **8:54**
 - interest, **8:61**

SECTION 1341

- Claim of right doctrine, S corporation special treatment, **7:49**

SECTION 1361

- Executive compensation, restricted stock plans, **11:29**
- Trusts as S corporation shareholders, QSST single income beneficiary, **3:4**

SECTION 1361(b)

- Shareholder agreements, termination of S corporation status, **18:18**

SECTION 1361(b)(1)(D)

- Disproportionate distributions, **10:47**
- Executive compensation, junior stock plans, **11:30**

SECTION 1361(c)(2)

- Trusts as S corporation shareholders, grantor trusts, **19:17**

SECTION 1361(c)(2)(A)(i)

- Trusts as S corporation shareholders, QTIP trusts, **19:42**

SECTION 1361(c)(2)(A)(ii)

- Family attribution rules, shareholder number limitation, **3:37**
- Trusts as S corporation shareholders
 - QSST single income beneficiary, **3:4**
 - QTIP trusts, **19:42**

SECTION 1361(c)(5)

- Corporation repayment of shareholder debt, treated as equity, **10:54**
- Straight debt safe harbor
 - capitalization, **2:15**
 - debt as second class of stock, **5:13**

SECTION 1361(c)(6)

- Prior law exception to affiliated group limitation (prior law), inactive subsidiary, **3:8**

SECTION 1361(d)(2)

- QSST election by current income beneficiary
 - affirmative refusal to consent, **6:62**
 - errors and omissions, **6:60**
 - revocation of election, **6:63**
 - separate written statement, **6:53**

SECTION 1362(d)(3)

- Distributions of accumulated E&P, election to treat distributions as dividends, **10:40**

SECTION 1362(f)

- Estates, termination of S election, **19:10**
- Shareholder agreements, termination of S corporation status, **18:18**

SECTION 1362(g)

- Shareholder agreements, reelecting S corporation status, **18:19**
- Stock acquisitions, five-year no reelection rule, **15:46**

SECTION 1363(b)

- AAA computation, **10:20**
- S election consequences, **7:5, 7:52**

SECTION 1363(b)(2)

- AAA computation, **10:20**

SECTION 1363(b)(4)

- Corporate-level preference items under Section 291, S corporation special treatment, **7:23**

SECTION 1363(b)(4)—Cont'd

Pass through of tax items, **2:23**

SECTION 1363(c)(1)

Tax elections at shareholder level, **7:76**

SECTION 1363(c)(2)(A)

Sale of mining property, mineral exploration expenditures recapture, **7:35**

SECTION 1363(d)

AAA computation, **10:20**

SECTION 1363(d)(3)

Distributions by corporations with accumulated E&P differentiating Subchapter C and S, **10:43**
elimination of Subchapter S E&P, **10:42**

SECTION 1366

Built-in gains tax, shareholder pass-through effect, **8:47**
Character of property contributed by a shareholder, **2:16**
Compensation, Keogh plans, **19:62**

SECTION 1366(a)

Asset acquisitions
acquiring corporation S status maintenance, **15:28**
selling corporation S status maintenance, **15:30**
Compensation
individual retirement accounts, **11:26**
self-employment taxes, **11:9**
General business credits, general allocation rules, **7:82**
Mineral exploration expenditures, shareholder's basis in stock, **7:35**
Section 444 election required payments liability, base year, **4:27**
Self-employment tax, income allocated to shareholder, **7:89**

SECTION 1366(a)(1)

Distributions to shareholders, transfers of shares before end of year, **10:32**
Timing of pass through of tax items, **7:67**

SECTION 1366(a)(1)(A)

Separately and nonseparately stated items, **7:65**

SECTION 1366(b)

Bad debt deduction, **7:53**
Gain character determination, S corporation special treatment, **7:37**

SECTION 1366(c)(2)(A)

Separately and nonseparately stated items, **7:65**

SECTION 1366(d)(1)

Discharge of indebtedness, corporate income determination and realization, **7:9**
Election to close books on transfer of shares, **7:71**
Pass-through losses, limitations on shareholder use of, **9:36**
Suspension of S corporation losses, **12:4**

SECTION 1366(D)(2)

Pass-through losses, limitations on shareholder use of, **9:28**

SECTION 1366(e)

Below-market debt, **5:19**
Compensation, reallocation of income among family members, **11:6**
Family reallocation rules, **2:24**
Family S corporation, reallocation of tax items, **19:63**
IRS power to reallocate tax items, **7:73**
Organization of S corporation, stock, **5:10**

SECTION 1366(e)(3)

IRS power to reallocate tax items, **7:73**

SECTION 1367

Accumulated adjustments account computation of AAA, **10:20**
distributions effect on AAA, **10:21**
Declaration of distribution effect, **10:45**
Mineral exploration expenditures, amortization of foreign Section 617 expenditures, **7:35**
Pass-through losses. See index heading
PASS-THROUGH LOSSES, LIMITATIONS ON
SHAREHOLDER USE OF

INDEX

SECTION 1367(a)(1)(C)

Shareholder's stock basis increased by excess percentage depletion, **20:17**

SECTION 1367(a)(2)(E)

Accumulated adjustments account computation, **10:20**

SECTION 1367(B)(2)(A)

Pass-through losses, limitations on shareholder use of, **9:19**

SECTION 1367(B)(2)(B)

Pass-through losses, limitations on shareholder use of, **9:20**

SECTION 1367(b)(2)(D)

Distributions, information required on Schedules of Form 1120-S, **10:56**

SECTION 1368

Alternative minimum tax, **7:44**

Declaration of distribution effect, **10:45**

Distribution before B reorganization, **13:25**

Distribution treatment of stock redemptions, **12:11**

Distributions to shareholders corporation without accumulated E&P, **10:28**

distributions to which Section 1368 applies, **10:27**

Executive compensation, below-market loans, **11:40**

Noncash property distribution taxation, **10:46**

Post-A reorganization distributions, **13:14**

Shareholder agreements, redemption agreement, **18:5**

SECTION 1368(b)(1)

Distributions to shareholders, differing bases in stock, **10:29**

SECTION 1368(c)

Accumulated adjustments account, transfer or issuance of shares, **10:24**

SECTION 1368(c)(2)

Accumulated adjustments account generally, **10:13**
adjustments for distributions, **10:14**

SECTION 1368(e)

Refunds obtained, revocation of election, **8:62**

SECTION 1368(e)(1)(A)

AAA computation, **10:20**

SECTION 1368(e)(3)

Distributions, election to bypass AAA, **10:57**

Distributions by corporations with accumulated E&P, election to treat distributions as dividends, **10:40**

Excess passive investment income, planning considerations, **8:81**

Shareholder agreements, election to treat distributions as dividends, **18:26**

SECTION 1371(a)(1)

Transactions with stock of another corporation, S corporation as shareholder, **7:15**

SECTION 1371(a)(2)

Stock acquisitions differences from partnerships and C corporations, **15:2**

SECTION 1371(b)

Accumulated adjustments account computation, **10:20**

Converted C corporation, carryovers, **8:23**

SECTION 1371(b)(1)

Corporate tax attributes from C corporation taxable year not used in S corporation taxable year, **13:9**

SECTION 1371(c)(1)

Accumulated earnings and profits, **10:13**

SECTION 1371(c)(2)

Accumulated earnings and profits adjustments for corporate transactions, **10:15**

SECTION 1371(d)(3)

Accumulated earnings and profits investment tax credit recapture, **10:16**

SECTION 1371(e)(2)

Election for post-termination transition period, distributions treated as dividends, **16:51**

SECTION 1371(e)(2)—Cont'd

Form for election, **16:68**

SECTION 1372

Executive compensation
incentive stock options plans, **11:33**
nonstatutory stock option plans, **11:32**
nonvoting stock, **11:28**

SECTION 1372 (FORMER)

Prior law exception to affiliated group
limitation, foreign income limita-
tion, **3:9**

SECTION 1374

Amount of pass through of tax items,
7:68

Asset acquisitions
corporate-level taxes on built-in gain,
15:25
corporate-level taxes on selling S
corporation, **15:27**

Built-in gains tax
American Recovery and Reinvest-
ment Act, temporary reduction in
recognition period provided by
(prior law), **8:34**
impact of tax, **8:48**
planning considerations, **8:50**
purpose and scope of tax, **8:30**
tax rate, **8:45**

Capital gains tax
duration of exposure, **8:84**
impact of tax under, **8:90**
purpose and scope of tax, **8:82**

Converted C corporation
computation of income, **8:16**
loss carryforwards, **8:25**
other Subchapter C attributes, **8:26**

Excess passive investment income
impact of tax, **8:78**
planning considerations, **8:81**

Liquidations, **14:14**
Stock acquisitions, built-in gains tax,
15:46

SECTION 1374 (FORMER)

A reorganizations, S corporation
liability, **13:15**
Built-in gains tax, transitional rules,
8:49
C reorganizations, **13:35**

SECTION 1374 (FORMER)—Cont'd

Capital gains tax
amount of tax, **8:87**
duration of exposure, **8:84**
impact of tax under Section 1375,
8:90
purpose and scope of tax, **8:82**
shareholder pass-through effect, **8:89**
Divisive D reorganizations, **13:48**
Property distributions, gain recognition
rule consequences, **10:8**

SECTION 1374(d)(2)(A)(i)

Built-in gains tax
net recognized built-in gain, **8:42**
planning considerations, **8:50**

SECTION 1374(d)(2)(A)(ii)

Built-in gains tax
net recognized built-in gain, **8:42**

SECTION 1375

Asset acquisitions
assets that generate passive income,
15:22
corporate-level taxes on built-in gain,
15:25
corporate-level taxes on selling S
corporation, **15:27**
passive income generating assets,
15:26

Corporate level tax on excess passive
income, **20:78**

Shareholder agreements, election to treat
distributions as dividends, **18:26**

Stock acquisitions, excess net passive
income tax, **15:47**

SECTION 1375 (CURRENT)

Accumulated earnings and profits gener-
ally, **10:13**

Amount of pass through of tax items,
7:68

Built-in gains tax
impact of tax, **8:48**
planning considerations, **8:50**

Converted C corporation
computation of income, **8:16**
other Subchapter C attributes, **8:26**

Distributions by corporations with
accumulated E&P, election to treat
distributions as dividends, **10:40**

INDEX

SECTION 1375 (CURRENT)—Cont'd

Excess passive investment income
credits offsetting tax, **8:76**
dividends, **8:60**
effect on shareholder pass-through,
8:77
excess net passive income, **8:73**
impact of tax under Section 1374,
8:78
passive investment income defined
generally, **8:58**
planning considerations, **8:81**
purpose and scope of tax, **8:51**
tax rate, **8:75**
termination of S election, **8:80**
waiver of tax, **7:27**
Prior law exception to affiliated group
limitation, passive income limita-
tion, **3:9**

SECTION 1375(b)(4)

Built-in gains tax, impact of tax, **8:48**
Excess passive investment income,
impact of tax under Section 1374,
8:78

SECTION 1375(d) (FORMER)

Distributions of earnings and profits,
1:15
Distributions of previously taxed
income, **1:14**
Distributions of undistributed taxable
income, **1:13**

SECTION 1375(f) (FORMER)

Distributions of earnings and profits,
1:15
Distributions of undistributed taxable
income, **1:13**

SECTION 1377(a)

Election to close books on transfer of
shares, **7:71**

SECTION 1377(a)(1)

Asset acquisitions, selling corporation S
status maintenance, **15:30**
Pass through and allocation of tax
credits, **7:78**
Timing of pass through of tax items,
7:67

SECTION 1377(a)(2)

Distributions to shareholders, transfers
of shares before end of year, **10:32**
Election to close S corporation's books
on date of redemption of stock,
12:11
Election to close S corporation's books
on stock sale, **12:2**
Estates
allocation of income or loss, **19:6**
carryover of unused losses, **19:7**
Multiple distributions exceeding AAA,
transfers of stock, **10:35**
Shareholder agreements, allocation on
termination of shareholder's inter-
est, **18:22**
Timing of pass through of tax items,
election to close the books, **7:68**

SECTION 1378 (FORMER)

Capital gain tax, **1:9**
Taxable year, grandfather rules, **1:25**

SECTION 1401

Compensation, self-employment taxes,
11:9
Self-employment tax, income allocated
to shareholder, **7:89**

SECTION 1402

Self-employment tax, income allocated
to shareholder, **7:89**

SECTION 1563

Controlled group of corporations, affi-
liated group limitation (prior law),
3:7

SECTION 1563(a)(2)

Brother-sister controlled group, affi-
liated group limitation (prior law),
3:7

SECTION 2503(c)

Trusts as S corporation shareholders,
QSST distribution of income, **19:20**

SECTION 2518

Qualified disclaimers, use by estates,
19:58

SECTION 2703

Valuation of stock, **19:53**

SECTION 3402

Compensation, employment taxes and wage withholding, **11:7**

SECTION 6037(c)

Shareholder consistency rule, **18:10**

SECTION 6042(d)

Distributions, filing forms, **10:55**

SECTION 6166

Deferral of estate taxes, **19:56**

Estates

conversion of corporation to S status, **19:13**

direct shareholders, **19:2**

shareholder death effect on S election, **19:9**

SECTION 6621(a)(2)

Interest, back-up Section 444 election, **4:45**

SECTION 6653

Section 444 election required payments liability, penalties for failure to make timely payments, **4:41**

SECTION 6661(b)(2)(C)(ii)

Tax shelter

choice of accounting method, **5:39**

corporate income determination and realization, **7:11**

SECTION 7519

Back-up Section 444 election, **4:45**

Business purpose, relationship with Section 444 election, **4:11**

Organization of S corporation

change in taxable year, **5:38**

taxable year choice, **5:36**

Section 444 election required payments liability, treatment of required payments, **4:38**

Taxable year, permitted year, **4:1**

Termination of Section 444 election, failure to file annual tax return, **4:43**

SECTION 7519(b)

Computation of Section 444 election required payment liability, **4:25**

SECTION 7701

Partnership with corporate general partner, **2:5**

SECTION 7701(a)(3)

Association taxable as corporation, **2:4**

SECTION 7701(e)(1)

S election consequences, status as pass-through entity, **7:3**

SECTION 7701(e)(2)

S election consequences, status as pass-through entity, **7:3**

SECTION 7872

Excess passive investment income

definition generally, **8:54**

interest, **8:61**

SECTION 7872(a)(1)

Executive compensation, below-market loans, **11:40**

SECTION 7872(c)(1)(B)

Executive compensation, below-market loans, **11:40**

SECTION 7872(c)(1)(C)

Executive compensation, below-market loans, **11:40**

SECURITIES

Built-in gains tax, impact of tax, **8:48**

Business interest limitation, **9:89**

Excess passive investment income

sales and exchanges, **8:56**

special rules, **8:69**

Excess passive investment income tax, passive investment income defined, **8:58**

Income on incorporating transfers, Section 351, **5:21**

Laws, accrual method of accounting, **5:39**

Transfers of property to S corporation definition of property, **5:23**

general rule of nonrecognition, **5:22**

SECURITY SERVICES

Excess passive investment income, real property rents (prior law), **8:64**

SELF-EMPLOYED INDIVIDUAL

Compensation, Keogh plans, **19:62**

INDEX

SELF-EMPLOYED INDIVIDUAL

—Cont'd

Health insurance costs, **11:22**

SELF-EMPLOYMENT TAX

Compensation, **11:9**

Income allocated to S corporation shareholder, **7:89**

S corporation advantages vs partnerships/ LLCs, **2:64**

Withholding requirements, **17:30**

SEPARATE MAINTENANCE

Decree, shareholder number limitation, **3:37**

SEPARATE SHARE RULE

QSST election by current income beneficiary, necessity of election, **6:50**

Qualified Subchapter S trusts, **3:24**

SEPARATE STATEMENT OF SHAREHOLDER CONSENT

Due date of consent, **6:43**

Form, **6:79**

Form for consent, **6:42**

Transmittal and proof of filing, **6:46**

SEPARATE TAXABLE YEARS

S status termination, mid-year, **16:21**

Tax returns, **16:26**

SEPARATE TRUSTS

Trusts as S corporation shareholders

QSST multiple trust owners, **19:23**

QSST single income beneficiary, **3:4**

SEPARATE WRITTEN STATEMENT

QSST election by current income beneficiary

Form 2553, **6:52**

information required, **6:53**

SEPARATELY COMPUTED TAX ITEMS

Allocation among shareholders, **7:70**

Election to close books on transfer of shares, **7:71**

SEPARATELY STATED INCOME

Distributions to shareholders, corporation without accumulated E&P, **10:28**

SEPARATELY STATED TAX ITEMS

Allocation of tax items among shareholders, pro rata share, **7:70**

Pass through of tax items to shareholders, **7:65**

Pass-through losses, limitations on shareholder use of, **9:10, 9:12**

SEPARATION AGREEMENT

Shareholder number limitation, **3:37**

SERVICE CENTER

Electing S corporation status
transmittal and proof of filing
shareholders consent, **6:46**

QSST election by current income beneficiary

affirmative refusal to consent, **6:62**

transmittal and proof of filing, **6:56**

Section 444 election

transmittal of election, **4:19**

transmittal of required payments, **4:37**

SERVICE FEES

Excess passive investment income,
distinguished from rents, **8:67**

SERVICES

Cash compensation, general effects, **11:2**

Compensation paid in property, S corporation special treatment, **7:26**

Interest in partnership of S corporations received in exchange

generally, **20:30**

property contributed in addition to services, **20:47**

Pass-through losses. See index heading
PASS-THROUGH LOSSES, LIMITATIONS ON
SHAREHOLDER USE OF

Receipt of interest in entity for, **2:13**

Section 1244 stock, shares issued for, **5:33**

Significant services

personal property rents (prior law), **8:65**

provider of property services (prior law), **8:66**

real property rents (prior law), **8:64**

rents generally, **8:63**

Transfer of property to S corporation,
definition of property, **5:23**

SERVICES—Cont'd

Venture capital S corporation, **20:92**

SETTLEMENT AGREEMENTS

Audit procedures, deficiency procedures (prior law), **17:47**

SHAM TRANSACTIONS

Partnership of S corporations, **20:42**

SHARE-BY-SHARE BASIS

Pass-through losses, limitations on shareholder use of, **9:13**

SHAREHOLDER AGREEMENTS

Allocation of tax items

termination of S corporation status, **18:21**

termination of shareholder's interest in S corporation, **18:22**

Buy-sell procedures

generally, **18:2**

cross-purchase agreement, **18:3**

life insurance effect on cross purchase agreement, **18:4**

life insurance effect on redemption agreement, **18:6**

redemption agreement, **18:5**

termination of employment, provisions relating to, **18:7**

Converted C corporation

amount and timing, **18:23**

appreciated property, **18:25**

election to treat as taxable dividends, **18:26**

single-class-of-stock requirement, **18:24, 18:26**

Cross-purchase agreement, **18:3**

Distributions to shareholders, disproportionate, **10:47**

Electing S corporation status, **18:8**

Election to close books on transfer of shares, **7:71**

Estates

fiduciary considerations when conversion to S status, **19:15**

required for deferred estate taxes, **19:56**

Generation skipping trust exemption, impact of shareholder agreement on, **18:28**

Overview, **18:1**

SHAREHOLDER AGREEMENTS

—Cont'd

Preserving S corporation status generally, **18:9**

QSST shareholder, preserving S corporation status, **18:12**

Revocation of QSST election, **6:63**

S corporation startup, **20:86**

S corporation status

reelecting S corporation status, **18:19**

revoking S corporation status, **18:17**

termination of S corporation status, **18:18**

Sample agreement, **18:29**

Shareholder number limitation, preserving S corporation status, **18:11**

Single-class-of-stock requirement, preserving S corporation status, **18:15**

Stock acquisitions, retention of S status, **15:4**

Transfers

creditors, **18:15**

permissible shareholders, **18:10**

SHAREHOLDER CONSENT

Accumulated adjustments account

bypassing, **17:20**

bypassing PTI, **17:20**

post-termination transition period, **17:23**

Corporation books closing

generally, **17:22**

electing S corporation status, **18:8**

reelecting S corporation status, **18:19**

revoking S corporation status, **18:17**

S election

administrative powers of personal representatives, **19:16**

consent to S election by estate, **19:14**

converted C corporation, **8:7**

due date, **6:43**

effect of consent, **6:48**

errors and omissions, **6:47**

estates, **6:29**

estates as direct shareholders, **19:2**

expedited procedure for seeking relief for late consents, **6:45**

extension to file consent, **6:44**

form for consent, **6:42**

INDEX

SHAREHOLDER CONSENT—Cont'd

- S election—Cont'd
 - identity of shareholders, **6:25 et seq.**
 - incorporators, **6:37**
 - joint owners, **6:26**
 - minors, **6:28**
 - multiple capacities, **6:41**
 - nonvoting shares, **6:33**
 - power of attorney, **6:40**
 - restricted stock, **6:35**
 - revocation of consent, **6:49**
 - separate statement of shareholder consent, **6:79**
 - single member limited liability companies, **6:31**
 - split interests, **6:34**
 - spouses, **6:27**
 - stock options, **6:36**
 - stock warrants, **6:37**
 - subscribers, **6:39**
 - tax-exempt entities, **6:32**
 - time shareholders determined, **6:24**
 - transmittal and proof of filing, **6:46**
 - trusts, **6:30**
- S status, **17:17**
- S status revocation, **17:18**
- Shareholder agreements
 - allocation on termination of shareholder's interest, **18:22**
 - closing of corporation books, **18:21**
- Shareholder consent to S election
 - administrative powers of personal representatives, **19:16**
 - consent to S election by estate, **19:14**
 - converted C corporation, **8:7**
 - estates as direct shareholders, **19:2**
- Trusts as S corporation shareholders, QSST successive income beneficiaries, **19:23**

SHAREHOLDER CONSENTS TO RESCISSION OF REVOCATION OF S STATUS

- Filing requirements, **16:11**
- Form, **16:11**

SHAREHOLDER CONSENTS TO REVOCATION OF S STATUS

- Execution, **16:8**
- Filing with IRS, **16:13**

SHAREHOLDER CONSENTS TO REVOCATION OF S STATUS—Cont'd

- Form, **16:66**
- Information required, **16:7**
- Stock ownership requirements, **16:8**

SHAREHOLDER ELECTIONS

- See also index headings ELECTION FOR INCOME TAX TREATMENT; ELECTION FOR S STATUS; ELECTION TO CLOSE CORPORATION BOOKS; ELECTION TO REVOKE S STATUS; ELECTIONS
- Generally, **17:24**
- Alternative minimum tax, **17:27**
- Foreign taxes, **17:26**
- Mining exploration expenses, **17:25**

SHAREHOLDER NUMBER LIMITATION

- As direct shareholders, **19:2**
- Asset acquisitions, acquiring corporation S election effect, **15:20**
- Constraints on exceeding, **3:47**
- Electing small business trusts, **3:37, 3:45**
- Estates, **3:37, 3:43**
- Executive compensation
 - nonstatutory stock option plans, **11:32**
 - nonvoting stock, **11:28**
- Husband and wife, **3:36, 3:37, 3:43**
- Jointly held stock, **3:41**
- Maximum number, **3:35**
- Phantom stock alternative to partnership of S corporations, **20:45**
- Qualifying families, generally, **3:37**
- Research and development activities, **20:101**
- Rules for determining, **3:36**
- Shareholder agreements, preserving S corporation status, **18:11**
- Split interests, **3:44**
- Tax-exempt entities, **3:46**
- Trusts, **3:45**
- Venture capital S corporations, **20:91**

SHAREHOLDER-EMPLOYEE

- Compensation
 - recharacterization of salary as distributions, **11:19**
 - timing considerations, **11:4**

SHAREHOLDER-LEVEL ACCOUNT

Accumulated adjustments account,
nature, **10:19**

SHAREHOLDERS

A reorganizations
boot received characterization, **13:14**
deduction of unused S corporation
losses, **13:13**
Accumulated adjustments account, **12:7**
Acquiring C corporation, post-termina-
tion transition period distributions,
treatment of, **13:10**
Acquisition debt interest, deduction after
S termination, **16:35**
Adjusted basis
contribution of encumbered property,
2:11
discharge of indebtedness, **7:9**
Adjustments after inadvertent termina-
tion
generally, **16:60**
Agreements
election to close books on transfer of
shares, **7:71**
revocation of QSST election, **6:63**
At risk rules, applicability, **2:27, 9:44**
B reorganizations, deduction of unused
losses, **13:24**
Basis in stock
inclusion of liabilities, **2:26**
mineral exploration expenditures,
7:35
post-termination transition period
distribution limitation, **16:50**
S corporation disadvantage vs
partnership, **2:66**
share-by-share maintenance, **10:29**
Basis of debt
capitalization of S corporation, **5:14**
Beneficiaries of deceased shareholder,
ineligible shareholders, **19:57**
Boot received in divisive D reorganiza-
tion, **13:45**
Built-in gains tax, shareholder pass-
through effect, **8:47**
C reorganizations, unused losses carry-
over, **13:33**
Capital gains tax, shareholder pass-
through effect, **8:89**

SHAREHOLDERS—Cont'd

Charitable contributions, S corporation
special treatment, **7:32**
Compensation
fringe benefits, **11:22**
reasonableness, **11:5**
timing considerations, **11:4**
Compensation by loss corporation
without C history
shareholder with stock basis, **11:13**
shareholder without stock basis, **11:14**
Compensation by profitable corporation
with C history, **11:15, 11:16**
Compensation by profitable corporation
without C history
shareholder with stock basis, **11:11**
shareholder without stock basis, **11:12**
Compensation paid in property, S
corporation special treatment, **7:26**
Consent to election to close books
form, **16:67**
S status termination, **16:23**
Consent to election to treat post-
termination transition period
distributions as taxable dividends,
16:51
Consent to revocation of S status, **16:7**
Consent to S election
due date, **6:43**
effect, **6:48**
errors and omissions, **6:47**
estates, **6:29**
expedited procedure for seeking relief
for late consents, **6:45**
form for, **6:42**
identity of shareholders, **6:25 et seq.**
incorporators, **6:37**
joint owners, **6:26**
minors, **6:28**
multiple capacities, **6:41**
nonvoting shares, **6:33**
powers of attorney, **6:40**
restricted stock, **6:35**
revocation, **6:49**
separate statement of shareholder
consent, **6:79**
split interests, **6:34**
spouses, **6:27**
stock options, **6:36**
stock warrants, **6:37**

INDEX

SHAREHOLDERS—Cont'd

- Consent to S election—Cont'd
 - subscribers, **6:39**
 - tax-exempt entities, **6:32**
 - time shareholders determined, **6:24**
 - transmittal and proof of filing, **6:46**
 - trusts, **6:30**
- Contribution of property
 - character of contributed property, **2:16**
 - encumbered property, **2:11**
- Corporate losses, S corporation
 - advantage vs C corporation, **2:42**
- Credit for research and development expenditures, **20:99**
- Debt
 - discharge of indebtedness, **5:17**
 - second class of stock, **5:13**
- Debt contributed to S corporation to increase stock basis, **16:52**
- Declaration of distribution effect, **10:45**
- Deductions, interest on debt, **5:20**
- Deemed distributions
 - S corporation advantage vs partnership, **2:61**
- Discharge of indebtedness, corporate income determination and realization, **7:9**
- Disproportionate distributions of earnings, second class of stock and other concerns, **10:47**
- Distributions, liquidations, **2:35**
- Distributions by corporations with accumulated E&P
 - generally, **10:30**
 - alternatives to cash distributions, **10:41**
 - election to treat distributions as dividends, **10:40**
 - elimination of Subchapter S E&P, **10:42**
 - multiple distributions that exceed AAA, **10:34**
 - redemptions, **10:37**
 - Subchapter C and S accumulated E&P, **10:43**
 - tax-exempt income and related expenses, **10:38**
 - timing of distributions, **10:36**
 - transfers of stock, **10:35**

SHAREHOLDERS—Cont'd

- Distributions by corporations with no accumulated E&P
 - generally, **10:28**
 - differing bases in stock, **10:29**
 - timing of adjustments to basis, **10:30**
 - transfers of shares before end of year, **10:32**
- Domestic manufacturing deduction, **7:40 (repealed)**
- Elections, ratable deduction of research or experimental expenditures, **20:100**
- Eligibility
 - charitable lead trusts, **19:40**
 - charitable remainder trusts, **19:40**
 - grantor trusts, **19:17**
 - sprinkling trusts, **19:40**
 - voting trusts, **19:39**
- Eligibility limitations
 - comparison of entities, **2:4**
 - prior to Subchapter S Revision Act of 1982, **1:5**
 - Subchapter S Revision Act of 1982, **1:19**
- Estate planning considerations, **2:38**
- Excess passive investment income, effect of pass through, **8:77**
- Executive compensation
 - annual bonus plans, **11:36**
 - incentive stock options plans, **11:33**
 - nonstatutory stock option plans, **11:32**
 - nonstock incentive programs, **11:35**
- Form for consent to rescind revocation of S status, **16:11**
- Form for consent to revoke S status
 - generally, **16:66**
 - execution, **16:8**
 - filing with IRS, **16:13**
- Former S corporation, nondividend treatment of distributions, **13:10**
- Fringe benefits
 - S corporation compared to C corporation, **2:51**
 - S corporation special treatment, **7:24**
- Gain or loss recognition on sale of stock, **12:2**
- Home-related deductions, S corporation special treatment, **7:27**

SHAREHOLDERS—Cont'd

- Impermissible, S status termination, **16:56**
- Ineligible
 - estates with ineligible beneficiaries generally, **19:57**
 - disclaimer use, **19:58**
 - sales to eligible beneficiaries, **19:60**
 - stock received in C reorganization, **13:27**
- Insolvency, advantages of debt, **5:20**
- Investment credit recapture
 - partial liquidations, **12:24**
 - redemptions, **12:13**
- Limitation on number
 - partnership of S corporations, **20:33**
 - S corporation disadvantage, **2:68**
- Limitations, maintenance of S status, **20:51**
- Limited liability companies, **3:17, 6:31**
- Liquidation
 - basis of property received, **14:18**
 - carryover of unused losses, **14:20**
 - gains and losses, **14:17**
- Loans to corporation
 - capitalization, **2:15**
- Loss allocations, disadvantages of debt, **5:21**
- Loss deductions on redemption of stock, **12:12**
- Loss deductions on sale of stock, **12:4**
- Management, S corporation advantage re limited partnership, **2:58**
- Merger of S corporations, AAA distributions, **13:10**
- Mineral exploration expenditures, election to expense under Section 617, **7:35**
- Minority, intentional termination of S status, **16:19**
- Newly owned stock, **16:24**
- Noncash property distribution, taxation to shareholders, **10:46**
- Number of permissible shareholders
 - constraints on exceeding number of shareholders limitation, **3:47**
 - estates, **3:37, 3:43**
 - husband and wife, **3:37**
 - jointly held stock, **3:41**
 - maximum number, **3:35**

SHAREHOLDERS—Cont'd

- Number of permissible shareholders
 - Cont'd
 - rules for determining, **3:36**
 - split interests, **3:44**
 - trusts, **3:45**
- Option to dissolve corporation, domestic corporation requirement, **3:2**
- Partial liquidation of S corporation
 - allocation of S corporation tax items, **12:26**
 - carryover of losses, **12:23**
 - gain or loss recognition, **12:22**
 - recapture of investment tax credits, **12:25**
- Partnership of S corporations
 - basis of ownership interest, **20:36**
 - capital gains on sale of stock, **20:32**
 - gain recognition on sale of partnership interest, **20:39**
 - limitation on owners, **20:35**
 - limited liability, **20:27**
 - management, **20:27**
 - passive loss rules, **20:28**
 - separate basis in blocks of shares, **20:40**
 - stock basis increases, **20:36**
 - tax-free exchange of stock, **20:32**
 - unitary basis rule, **20:40**
- Pass through of tax items
 - allocation among shareholders, **7:70**
 - allocation in year of termination, **7:72**
 - amount, **7:68**
 - built-in gains tax effect, **8:47**
 - capital gains tax effect, **8:89**
 - character, **7:69**
 - election to close books, **7:71**
 - estates, **7:74**
 - excess passive investment income, **8:77**
 - IRS power to reallocate, **7:73**
 - overview, **7:63**
 - ownership of shares for purposes of allocating S corporation tax items, determining, **7:64**
 - separately stated items, **7:65**
 - timing, **7:67**
 - trusts, **7:74**
- Pass through of tax items in S short year, **16:22**

INDEX

SHAREHOLDERS—Cont'd

- Passive loss rules, S corporation advantage, **2:59**
- Pass-through losses. See index heading PASS-THROUGH LOSSES, LIMITATIONS ON SHAREHOLDER USE OF
- Permissible and impermissible charitable organizations, **3:32**
- corporations, **3:15**
- deemed shareholder treatment, **16:60**
- electing small business trust, **3:26**
- employee benefit plans, qualified, **3:29**
- ESOPs, **3:28**
- estates, **3:18**
- grantor trusts, **3:21**
- inadvertent termination, **16:56**
- indian tribes, **3:33**
- individual retirement accounts, **3:30**
- individuals, **3:12**
- limited liability companies, **3:17**
- nonresident aliens, **3:13**
- partnerships, **3:16**
- qualification as an S corporation, **3:1**
- qualified Subchapter S trusts, **3:24**
- refusal to consent to QSST election, **6:62**
- S status termination, **16:13**
- Section 678 trusts, **3:22**
- split interests, **3:19**
- tax-exempt entities, **3:27**
- temporarily ineligible shareholder, **3:34**
- testamentary trusts, **3:23**
- trusts, **3:20**
- voting trusts, **3:25**
- Personal deductions, S corporation special treatment, **7:29**
- Post-termination transition period distributions, **16:50**
- Previously taxed income account, S termination effect, **16:39**
- Prohibited, S status termination, **16:56**
- QSST election by current income beneficiary, transfer of stock to new shareholders, **6:50**
- Real estate activities, refinancing proceeds loan, **20:77**
- Recapture of investment credits, redemption of stock, **12:13**

SHAREHOLDERS—Cont'd

- Receipt of investment credit property in redemption of stock, investment credit recapture, **12:13**
- Redemptions of stock
 - allocation of tax items, effect on, **12:16**
 - character of gain or loss, **12:11**
- Reorganization, tax-free transfers of interest in entity, **2:36**
- Reorganization of corporation
 - allocation of income and loss items, **13:12**
 - basis of property received, **13:1**
 - carryover of unused losses, **13:13**
 - gain or loss recognition, **13:1**
- Repayment of shareholder debt
 - treated as debt, **10:53**
 - treated as equity, **10:54**
- Research and experimental expenditures deduction, **20:100**
- Revocation of S status
 - generally, **16:2**
 - stock ownership requirements, **16:8**
- S corporations used in oil and gas activities
 - allocation of depletable basis, **20:18**
 - at risk rules, **20:25**
 - basis limitation not applicable, **20:15**
 - decrease in stock basis, **20:16**
 - depletion allowance, **20:14**
 - intangible drilling and development cost recapture, **20:24**
 - oil and gas depletion allowance recapture, **20:23**
 - passive loss rules, **20:25**
 - proven property transferred to S corporation, **20:19**
 - reallocation of depletable basis, **20:18**
 - stock basis increases, **20:17**
 - stock transfer, **20:23**
 - termination of S status effect, **20:21**
 - working interest exception, **20:25**
- S corporations used in syndications
 - appreciated property transferred to corporation, **20:9**
 - number of investors, **20:3**
 - restriction on transfer of shares, **20:11**
 - shareholder participation in management, **20:7**

SHAREHOLDERS—Cont'd

- S corporations used in syndications
 - Cont'd
 - types of investors, **20:4**
- S corporations used in venture capital activities
 - limitations, **20:91**
 - losses pass through, **20:89**
- S election by corporation
 - information on form for election, **6:3**
 - revocation of election, **6:23**
- Section 111, converted C corporation, **8:22**
- Section 111 application, **7:8**
- Section 1244 stock
 - generally, **5:32**
 - eligible, **5:34**
- Special treatment of losses
 - generally, **12:2**
 - redemption of stock, **12:11**
 - sale of stock, **12:4**
- Split-off transactions, shift of income or loss, **13:44**
- Startup S corporation, tax rate considerations, **20:84**
- Stock acquisition after S election, consent by shareholders, **6:24**
- Suspension of losses, **12:4**
- Target corporations, revocation of S election of acquiring corporation, **13:7**
- Tax benefit rule application, **7:8**
- Tax items allocation, **12:6**
- Taxable sales of property to corporation, **5:29**
- Tax-free return of basis, **16:50**
- Termination of interest in corporation, election to close books
 - redemption of stock, **12:16**
 - sale of stock, **12:6**
- Termination of S status, losses
 - suspended by basis limitation deductible, **16:52**
- Termination of stock interest
 - adjusting AAA, election to close books, **10:32**
 - election to close corporate books, **7:71**
 - forms for election to close books, **7:92**

SHAREHOLDERS—Cont'd

- Transfer of property to S corporation
 - basis of stock, **5:28**
 - control immediately after exchange, **5:25**
 - exceptions to shareholder nonrecognition, **5:27**
 - investment tax credit recapture, **5:26**
 - nonrecognition general rule, **5:22**
 - taxable sale to corporation, **5:29**
 - transfer in exchange for stock and securities, **5:24**
 - transfer of property, **5:23**
- Wage withholding, compensation, **7:90**

SHAREHOLDER'S ESTIMATED TAX PAYMENT

- Generally, **17:32**

SHARES

- Accumulated adjustments account, transfer or issuance of shares, **10:24**
- Basis, share-by-share maintenance, **10:29**
- Consent to S election by shareholders
 - form, **6:42**
 - nonvoting, **6:33**
- Distributions to shareholders, transfers of shares before end of year, **10:32**
- Issuance of additional, oil and gas property depletion, **20:18**
- Redeem shareholder's interest, oil and gas property depletion, **20:18**
- S election by corporation
 - form for election, **6:3**
 - revocation of election, **6:23**

SHOPPING CENTERS

- Excess passive investment income, real property rents (prior law), **8:64**

SHORT TAXABLE YEAR

- Built in gains tax, temporary reduction in recognition period provided by American Recovery and Reinvestment Act (prior law), **8:34**
- Capital gains tax, duration of exposure, **8:84**
- Estates, termination of S election, **19:10**
- S election by corporation
 - allocation in year of termination, **7:72**

INDEX

SHORT TAXABLE YEAR—Cont'd

- S election by corporation—Cont'd
 - due date of election, **6:7**
 - election by former member of affiliated group, **6:12**
 - last taxable year, **8:7**
- Shareholder agreements, allocation on termination of S status, **18:21**

SHORT-TERM CAPITAL ASSETS

- Built-in gains tax, transitional rules, **8:49**

SHORT-TERM CAPITAL GAINS

- Distributions to shareholders, corporation without accumulated E&P, **10:28**
- Redemption of stock, **12:11**
- Sale of S corporation stock, **12:2**

SHORT-TERM CAPITAL LOSSES

- Redemption of stock, **12:11**
- Sale of S corporation stock, **12:2**

SHORT-TERM OBLIGATIONS

- Original issue discount rules exception, **7:48**

SIGNATURE

- Consent to S election by shareholders, form, **6:42**
- Electing S corporation status
 - execution of election form, **6:4**

SIGNIFICANT SERVICES

- Excess passive investment income
 - personal property rents (prior law), **8:65**
 - provider of property services (prior law), **8:66**
 - real property rents (prior law), **8:64**
 - rents generally, **8:63**

SIMPLE TRUSTS

- Trusts as S corporation shareholders, QSST distribution of income, **19:20**

SINGLE CLASS OF STOCK

- Generally, **3:48**
- Advantages of debt, **5:20**
- Affiliated group limitation (prior law), affiliated group membership tests, **3:7**
- Below market loans, effect, **3:55**

SINGLE CLASS OF STOCK—Cont'd

- Compensation
 - reasonableness of, **11:5**
 - restricted stock plans, **11:29**
- Converted C corporation, class of stock issues, **8:2**
- Death of officer-shareholder, redemption of stock on, **11:28**
- Debt as a second class
 - generally, **3:75**
 - Section 385 regulations, **3:76**
 - TARP program, debt issued under, **3:77**
- Deferred compensation plans, **18:15**
- Distributions
 - accounting for ownership changes, **3:57**
 - corporation without accumulated E&P, **10:28**
 - disproportionate, **10:47**
 - timing differences, **3:52**
 - value, **3:50**
- Executive compensation
 - annual bonus plans, **11:36**
 - below-market loans, **11:40**
 - convertible debenture plans, **11:34**
 - junior stock plans, **11:30**
 - nonstatutory stock option plans, **11:32**
 - nonvoting stock, **11:28**
 - stock appreciation rights, **11:38**
- Family S corporation, problems, **19:64**
- Fringe benefits variations, **3:54**
- Golden parachute compensation agreements, **11:43**
- Nonstatutory stock options, **11:32**
- Options, **3:59**
- Organization of S corporation, **5:4**
- Partnership of S corporations, validity of organization, **20:42**
- Preemptive rights, **5:7**
- Qualification as an S corporation, overview, **3:1**
- Shareholder agreements
 - distributions effect, **18:24**
 - preserving S corporation status, **18:15**
- State tax paid by corporation, **3:55, 3:56**
- Stock acquisitions
 - conversion of an acquired C corporation, **15:3**

SINGLE CLASS OF STOCK—Cont'd

- Stock acquisitions—Cont'd
 - differences from partnerships and C corporations, **15:2**
- Unreasonable compensation, effect on, **3:53**
- Weighted average ownership percentages, **3:55, 3:56**

SINGLE INCOME BENEFICIARY REQUIREMENT

- Qualified Subchapter S trusts, **3:24**

SIXTY-DAY OR TWO-YEAR RULE

- Estates, deemed shareholders, **19:3**

SMALL BUSINESS CORPORATIONS

- Audit and refund procedures, **17:40**
- Converted c corporation, qualified small business stock implications, **8:29**
- Eligibility
 - attainment of S corporation status, **3:1**
 - comparison of business entities, **2:4**
- Estates, shareholder death effect on S election, **19:9**
- Loss of status as result of merger, **13:7**
- Risk of loss of tax-favored status, **2:29**
- S corporation election, **1:21**
- Section 1244 stock, worthless stock deduction, **7:54**
- Shareholder agreements
 - preserving S corporation status, **18:9**
 - termination of S corporation status, **18:18**
- Violation of requirements
 - S status termination, **16:56**
 - waiver, **16:56**

SMALL BUSINESS INVESTMENT COMPANIES

- Venture capital S corporations, **20:97**

SMALL BUSINESS JOB PROTECTION ACT OF 1996

- Generally, **App. 2**
- Affiliated group limitation (prior law), **3:7 to 3:14**
- Affiliated groups (current law), background, **21:1**
- C corporations as subsidiaries
 - background, **21:1**

SMALL BUSINESS JOB

PROTECTION ACT OF 1996—Cont'd

- Election for S status
 - generally, **6:40**
 - re-election for former S corporation, **16:34**
 - tax-exempt entities, **6:32**
- Income in respect of a decedent, **19:8**
- Ineligible corporations, **3:3**
- Invalid election, waiver by Service, **6:44**
- Permissible shareholders
 - charitable organizations, **3:32**
 - ESOPs, **3:28**
 - financial institutions, **3:4**
 - individual retirement accounts, **3:30**
 - limited liability company, **3:17**
 - qualified employee benefit trusts, **3:29**
 - qualified S corporation subsidiary, **3:15**
 - tax-exempt entities, **3:27**
- Qualified subchapter S subsidiaries
 - background, **21:1**
- Re-election of S status, former S corporation, **16:34**
- Terminated S corporations, **3:80**
- Waiver of invalid election, **6:44**

SMALL S CORPORATION

- Consolidated audit and refund procedures (prior law), **17:51**
- Definition (prior law), **17:51**

SNOW REMOVAL

- Excess passive investment income, real property rents (prior law), **8:64**

SOIL CONSERVATION EXPENDITURES

- Farm-related deductions, gross income limitation, **7:46**

SOLE PROPRIETORSHIPS

- Taxation of, **1:1, 11:9**

SPECIAL ADJUSTMENTS

- Built-in gains
 - calculating excess recognized, **8:39**
 - taxable income calculation, **8:40**

SPECIAL ALLOCATIONS

- Allocation of pass-through items, **7:70**

INDEX

SPECIAL ALLOCATIONS—Cont'd

- Disproportionate allocation of tax items, partnership of S corporations, **2:2**
- Mineral exploration expenditures, S corporation special treatment, **7:35**
- Organization of S corporation, **5:11**
- Partnerships of S corporations
 - alternatives to, **20:46**
 - special allocations and preferential distributions, **20:26**
- Phantom stock, **20:46**
- S corporations used in syndications, **20:5**
- Straight debt, **20:46**
- Venture capital S corporations, **20:89**

SPECIAL ELECTION

- QSST election by current income beneficiary, necessity of election, **6:50**

SPECIFIED CUMULATIVE RETURN

- Liquidation preferences, shareholder agreements, **3:74**

SPIN-OFFS

- Accumulated adjustments account effect, **13:42**
- Affiliated group limitation (prior law), administrative exception, **3:9**
- Boot received by shareholders, **13:45**
- Controlled corporation in divisive D reorganization, **13:40**
- Investment tax credit recapture, **13:46**
- QSUBs, **13:40, 13:47**
- Temporarily ineligible shareholder, newly organized corporation, **3:34**

SPLIT INTERESTS

- Consent to S election by shareholders, **6:34**
- Permissible and impermissible shareholders, **3:19**
- Shareholder number limitation, **3:44**

SPLIT-OFFS

- Boot received by shareholders, **13:45**
- ITC recapture, **13:46**

SPLIT-UPS

- Accumulated adjustments account, effect on, **13:42**
- Boot received by shareholders, **13:45**

SPOUSE

- Compensation, reallocation of income among family members, **11:6**
- Consent to S election by shareholders, **6:27**
- Executive compensation, nonvoting stock, **11:28**
- Number of permissible shareholders decedent's estate, **3:37, 3:43**
 - estate of minor, incompetent, or person under disability, **3:37, 3:43**
 - married individuals, **3:37**
 - tax-exempt entities, **3:46**
 - trusts, **3:45**

SPRINKLING TRUSTS

- Trusts as S corporation shareholders, ineligible shareholder, **19:40**

START-UP BUSINESSES

- S corporation used
 - generally, **20:82 to 20:86**
 - compensation of employees, **20:85**
 - formation, **20:83**
 - fringe benefits availability, **20:85**
 - shareholder agreement, **20:86**
 - start-up losses pass-through, **20:82**
 - tax rate considerations, **20:85**

START-UP EXPENSES

- Amortization election, **17:16**

STATE AND LOCAL TAXES

- Corporate division to avoid affiliated group limitation (prior law), business purpose under Section 355, **3:11**
- Deduction, S corporation special treatment, **7:41**

STATE LAWS

- Converted C corporation, treatment as S corporation, **8:6**
- Dissolution under state law, effect on S status, **3:83**
- Distributions to shareholders, disproportionate, **10:47**
- Eligibility to attain S status, impact of issuance of unauthorized shares, **3:66**

STATE LAWS—Cont'd

- Incorporation
 - differences among states, **5:3**
 - domestic incorporation requirement, **5:2**
- Re-election of S status following administrative dissolution, **3:83**
- Securities, accrual method of accounting, **5:39**

STATE TAXES

- Corporate level tax, S corporation disadvantage vs partnership, **2:72**
- Distributions to shareholders, disproportionate, **10:47**
- Multi-state business considerations, **2:31**
- Single-class-of-stock requirement, effect of corporate payments, **3:56**

STATUTE OF LIMITATIONS

- Audit and refund procedures, **17:42, 17:43, 17:53**
- Section 444 election required payments, refunds, **4:44**
- Shareholders' tax liability, **17:36**
- Subchapter S status, statute of limitations with respect to loss of, **17:43**

STATUTORY MERGERS OR CONSOLIDATIONS

- Generally, **13:6**
- See also index headings A REORGANIZATIONS; MERGERS
- A reorganizations, **13:6**
- S election effect, **13:7**

STEP TRANSACTION DOCTRINE

- QSST election. See index heading QSST ELECTION
- QSUB election, **21:6**
- Stock acquisitions, taxable acquisition by or of an S corporation, applicability to liquidation of acquired subsidiary, **15:51**

STEP-DOWN BASIS

- Property distributions, depreciated property, **10:9**

STEP-UP BASIS

- Family S corporation problems, **19:64**
- Stock acquisitions, effect on S stock purchaser, **15:14**

STOCK

- See also index heading REDEMPTIONS OF STOCK
- Accumulated adjustments account, redemptions effect on AAA, **10:22**
- Allocation of tax items
 - redemptions, **12:16**
 - sale, **12:6**
- Appreciated, impact of built-in gains tax, **8:48**
- Basis
 - accumulated adjustments account computation, **10:20**
 - adjustment to basis in corporate assets on sale of stock, **12:3**
 - differing bases in stock, **10:29**
 - election to treat distributions as dividends, **10:40**
 - multiple distributions that exceed AAA, **10:34**
 - practice tip when losses exceed basis, **7:9**
 - prior to Subchapter S Revision Act of 1982, **1:16**
 - recharacterization of distributions as salary, **11:20**
 - Subchapter S Revision Act of 1982, **1:31**
- Basis adjustments, post-termination transition period, **16:54**
- Beneficial owner, permissible and impermissible shareholders, **3:12**
- Classes, eligibility requirement, **3:48**
- Common, voting rights, **5:5**
- Compensation
 - disbursement method general discretion, **11:10**
 - individual retirement accounts, **11:26**
 - timing considerations, **11:4**
- Compensation by profitable corporation without C history
 - shareholder with stock basis, **11:11**
 - shareholder without stock basis, **11:12**
- Corporate division to avoid affiliated group limitation (prior law), retention by shareholders of stock of former subsidiary, **3:11**
- Discharge of indebtedness, corporate income determination and realization, **7:9**

INDEX

STOCK—Cont'd

- Disposition
 - qualifying for election to close books generally, **7:71**
 - example form, **7:84**
 - Section 1244 stock computation of ordinary loss, **5:35**
- Distributions to shareholders
 - disproportionate, **10:47**
 - distributions to which Section 1368 applies, **10:27**
 - timing differences, **3:52**
 - transfers of shares before end of year, **10:32**
- Estates, administrative powers of personal representatives, **19:16**
- Excess passive investment income, special rules, **8:57**
- Exchange for services, **2:13**
- Executive compensation
 - convertible debenture plans, **11:34**
 - junior stock plans, **11:30**
 - nonstock incentive programs, **11:35**
 - nonvoting stock, **11:28**
 - performance unit plans, **11:37**
 - phantom stock plans, **11:39**
- Issuance of additional, oil and gas property depletion, **20:18**
- Medicare tax, applicability to sales of stock, **12:10**
- Mixed-fund investments in S corporation electing qualified opportunity fund status, **3:79**
- Multiple distributions exceeding AAA generally, **10:34**
 - transfers of stock, **10:35**
- Noncash compensation, **11:3**
- Noncash property distribution taxation, **10:46**
- Nonvoting, transfers of property to S corporation in exchange for, **5:24**
- Options
 - allocation of tax items, **2:24**
 - consent to S election by shareholders, **6:35**
 - disproportionate distributions of cash, **2:25**
 - exchange for services, **2:13**
 - organization of S corporation, **5:11**

STOCK—Cont'd

- Ownership
 - affiliated group membership tests, **3:7**
 - impact of Section 1366(e), **5:10**
 - investment tax credit recapture, **7:81**
- Partial liquidations, redemptions, **12:21**
- Pass through of tax items to shareholders, special problems, **7:74**
- Preferred stock, authorized but unissued, **3:48**
- Private placement, S corporations used in, **20:2**
- Property distributions, gain recognition rule applicability, **10:7**
- Property in exchange for, corporate income determination, **7:13**
- QSST election by current income beneficiary
 - due date, **6:55**
 - effective date, **6:54**
- Received by shareholder in reorganization
 - basis, **13:1**
 - holding period, **13:1**
- Restrictions
 - consent to S election by shareholders, **6:34**
 - issuance and transfer, **5:9**
- Rights, transfers to S corporation in exchange for, **5:24**
- S corporations
 - adjustments to basis, **12:2, 12:3**
 - gain or loss recognition on sale, **12:2**
 - redemptions characterized as distribution or exchange, **12:10**
 - redemptions effect on AAA, **12:20**
 - sale effect on AAA, **12:7**
 - special treatment of losses on redemption, **12:11**
 - special treatment of losses on sale, **12:2**
- Sales or exchanges
 - generally, **12:2 et seq.**
 - AAA effect, **12:7**
 - accumulated earnings and profits effect, **12:7**
 - adjustment to basis in corporate assets on sale of stock, **12:3**
 - allocation of tax items, **12:6**

STOCK—Cont'd

- Sales or exchanges—Cont'd
 - estate planning
 - inter vivos, **19:46**
 - postmortem, **19:60**
 - excess passive investment income, **8:56**
 - installment sale application, **7:16**
 - Medicare tax, applicability to sales of stock, **12:10**
 - passive investment income defined
 - generally
 - generally, **8:58**
 - special rules, **8:69**
 - recapture rules, **12:8, 12:10, 12:18**
 - redemption, **12:10**
 - Section 965 net tax liability on
 - transfer or redemption of shares, triggering payment of, **12:9, 12:19**
 - Section 1244 stock, **5:32**
 - Section 1244 stock, computation of ordinary loss, **5:35**
 - Shareholder agreements, transfers to creditors, **18:14**
 - Single class requirement violated, S status termination, **16:56**
 - Single-class-of-stock requirement
 - debt as a second class
 - generally, **3:75**
 - TARP program, debt issued under, **3:77**
 - eligibility requirement, **3:48**
 - organization of S corporation, **5:4**
 - partnership membership, validity, **20:42**
 - S corporation disadvantage vs C corporation, **2:48**
 - Testamentary trust, transfer of stock, **3:21**
 - Transactions with stock of another corporation, S corporation as shareholder, **7:15**
 - Transfer of property to S corporation
 - definition of property, **5:23**
 - general rule of nonrecognition, **5:22**
 - Transfer to shareholders, avoiding affiliated group limitation (prior law), **3:11**

STOCK—Cont'd

- Transfers
 - election to close books, **7:71**
 - inadvertent termination, **16:57**
 - S status termination, **16:56**
- Trust, estate of owner, **3:21**
- Valuation of stock, Section 2703, **19:53**
- Value, affiliated group membership tests, **3:7**
- Voting, transfers to S corporation in exchange for, **5:24**
- Warrants
 - consent to S election by shareholders, **6:37**
 - transfers of property to S corporation in exchange for, **5:24**

STOCK ACQUISITIONS

- Acquisitions of Undivided Interests in S Corporation Assets, **15:38**
- Conversion of an acquired C corporation, Generally, **15:3**
- Differences from partnerships and C corporations, **15:2**
- Oil and gas property, adjustments to basis, **20:18**
- Overview, **15:1**
- Retaining S status
 - AAA balance, **15:10**
 - allocation of acquired S corporations tax items, **15:12**
 - at risk rules, **15:7**
 - basis limitation, **15:6**
 - basis step-up, **15:14**
 - character of gain on sale, **15:15**
 - distributions pre and post-acquisition, **15:13**
 - distributions to selling shareholders, **15:16**
 - interest deductions from acquisition indebtedness, **15:5**
 - passive loss rules, **15:8**
 - redemption effects, **15:18**
 - redemption of stock, effect of, **15:11**
 - retention of S status, **15:4**
 - stock acquisitions, investment interest limitation, business interests limitations, **15:9**
- Taxable, triggering asset acquisitions where some shareholders wish to sell and others do not, **15:54**

INDEX

STOCK ACQUISITIONS—Cont'd

- Taxable acquisition by or of an S corporation
 - acquisition debt, **15:41**
 - built-in gain tax, **15:46**
 - excess net passive income tax, **15:47**
 - five-year no reelection rule, **15:44**
 - liquidation of acquired corporation, **15:49**
 - liquidation of subsidiary, **15:52**
 - nature of assets acquired, **15:43**
 - numerical shareholder limitation, **15:42**
 - step transaction doctrine, applicability to liquidation of acquired subsidiary, **15:51**
 - target corporation, effect on S status of, **15:45**
 - transfer stock to ineligible shareholders, **15:39**

STOCK APPRECIATION RIGHTS

- Executive compensation
 - nonstock incentive programs, **11:38**
 - phantom stock plans, **11:39**

STOCK CERTIFICATES

- Shareholder agreements, transfers to permissible shareholders, **18:10**

STOCK DISTRIBUTIONS

- Accumulated earnings and profits, adjustments for corporate transactions, **10:15**
- Distributions to shareholders, Section 1368 application, **10:27**

STOCK DIVIDENDS

- Distributions where accumulated E&P, alternatives to cash distributions, **10:41**

STOCK OPTIONS

- Allocation of tax items, **2:24**
- Consent to S election by shareholders, **6:35**
- Disproportionate distributions of cash, **2:25**
- Exchange for services, **2:13**
- Executive compensation
 - nonstatutory stock option plans, **11:32**
 - phantom stock plans, **11:39**
 - stock appreciation rights, **11:38**

STOCK OPTIONS—Cont'd

- Incentive stock options, noncash compensation general effects, **11:3**
- Noncash compensation, **11:3**
- Nonstatutory stock options, **11:32**
- Organization of S corporation, **5:11**
- Property distributions, gain recognition rule applicability, **10:7**
- Shareholder agreements, transfers to permissible shareholders, **18:10**
- Single stock of stock requirement, **3:59**

STOCK PURCHASE AGREEMENT

- Targeted S corporation shareholders, quality and nature of consideration, **15:52**

STOCK REDEMPTIONS

- See index heading REDEMPTIONS OF STOCK
- Interest on debt used to finance redemption, **12:14**

STOCK RIGHTS

- Excess passive investment income, sales and exchanges of stock
 - generally, **8:56**
 - special rules, **8:69**

STOCK WARRANTS

- Consent to S election by shareholders, **6:37**
- Excess passive investment income, sales and exchanges of stock
 - generally, **8:56**
 - special rules, **8:69**
- Executive compensation, nonstatutory stock option plans, **11:32**
- Transfers of property to S corporation in exchange for, **5:24**

STRAIGHT DEBT SAFE HARBOR

- Allocation of tax items, **2:24**
- Capitalization, **2:15**
- Converted C corporation, single-class-of-stock requirement, **1:20**
- Corporation repays shareholder debt, treated as equity, **10:54**
- Debt as second class of stock, **5:13**
- Debt of target corporation in violation of, **13:7**
- Debt reclassification, disadvantages of debt, **5:21**
- Disproportionate distribution, **20:46**

STRAIGHT DEBT SAFE HARBOR

—Cont'd

- Distributions, disproportionate distributions of cash, **2:25**
- Evidence of indebtedness, **5:16**
- Requirements, debt as second class of stock, **3:75**
- Special allocation or disproportionate distribution, **20:46**

SUBCHAPTER C

- Accumulated earnings and profits adjustments for corporate transactions, **10:15**
- adjustments for distributions, **10:14**
- Application to S corporations, **13:1**
- Converted C corporation
 - C corporation attributes, **8:23**
 - loss carryovers, **8:25**
 - other attributes, **8:26**
- Discharge of indebtedness, net operating loss carryovers, **7:9**
- Distributions overview, **10:1**
- Excess passive investment income planning considerations, **8:81**
- Subchapter C earnings and profits, **8:52**
- waiver of tax, **7:27**
- Losses or credits, immediate S election tax consequences, **7:4**
- Multiple distributions exceeding AAA generally, **10:34**
- redemptions, **10:37**
- S corporation's repayment of shareholder debt, treated as equity, **10:54**
- Stock acquisitions overview, **15:1**
- Transactions with stock of another corporation, S corporation as shareholder, **7:15**

SUBCHAPTER C EARNINGS AND PROFITS

- Accumulated adjustments account purposes, **10:18**
- Distributions, information required on Schedules of Form 1120-S, **10:56**
- Distributions by corporations with accumulated E&P
 - differentiating Subchapter C and S, **10:43**

SUBCHAPTER C EARNINGS AND PROFITS—Cont'd

- Distributions by corporations with accumulated E&P—Cont'd
 - election to treat distributions as dividends, **10:40**
- Elections affecting only, **10:43**
- Estates, shareholder death effect on S election, **19:9**

SUBCHAPTER C TAXES

- Accumulated adjustments account, computation of AAA, **10:20**

SUBCHAPTER K

- Allocation of tax items among partners, **2:24**
- Family reallocation rules, IRS power to reallocate tax items, **7:73**
- S election impact overview, **7:1**
- Stock acquisitions overview, **15:1**

SUBCHAPTER S

- Accumulated E&P, adjustments for distributions, **10:14**
- Allocation of tax items among shareholders, **2:24**
- Compensation, fringe benefits, **11:22**
- Distributions overview, **10:1**
- Elements prior to Subchapter S Revision Act of 1982
 - basis, **1:16**
 - capital gain, **1:9**
 - corporate eligibility limitations, **1:6**
 - deemed dividends, **1:12**
 - distributions of cash, **1:12**
 - distributions of earnings and profits, **1:15**
 - distributions of previously taxed income, **1:14**
 - distributions of undistributed taxable income, **1:13**
 - election, **1:7**
 - income, **1:8**
 - losses, **1:10**
 - revocation, **1:8**
 - shareholder eligibility limitations, **1:5**
 - taxable year, **1:11**
 - termination of S election, **1:8**
- Family reallocation rules, IRS power to reallocate tax items, **7:73**

INDEX

SUBCHAPTER S—Cont'd

- Preenactment developments
 - Eisenhower administration 1956 proposal, **1:1**
 - Treasury Department 1946 proposal, **1:2**
- Purposes, **1:3**
- S election impact overview, **7:1**
- Statute of limitations with respect to loss of Subchapter S status, **17:43**
- Stock acquisitions overview, **15:1**
- Transactions with stock of another corporation, S corporation as shareholder, **7:15**

SUBCHAPTER S DISTRIBUTION RULES

- Divisive D reorganizations, **13:45**

SUBCHAPTER S EARNINGS AND PROFITS

- Accumulated adjustments account purposes, **10:18**
- Distributions, information required on Schedules of Form 1120-S, **10:56**
- Distributions by corporations with accumulated E&P
 - generally, **10:30**
 - differentiating Subchapter C and S, **10:43**
- Elimination of Subchapter S E&P, **10:42**

SUBCHAPTER S ELECTION

- Irrevocable elections, purchase of shares, **6:26**

SUBCHAPTER S ELIGIBILITY REQUIREMENTS

- Executive compensation
 - nonstock incentive programs, **11:35**
 - stock appreciation rights, **11:38**

SUBCHAPTER S ITEMS

- Consistency requirement, **18:10**
- Consolidated audit and refund procedures, applicability (prior law)
 - generally, **17:49**
 - consistency requirement (prior law), **17:50**
- Definition (prior law), **17:49**
- Negligence penalty (prior law), **17:50**

SUBCHAPTER S REVISION ACT OF 1982

- Generally, **App. 2**
- Accumulated adjustments account
 - nature, **10:19**
 - purposes, **10:18**
- Accumulated earnings and profits, **10:13**
- Basis
 - debt, **1:32**
 - stock, **1:31**
- Built-in gains, corporate-level tax, **1:26**
- Depletion, oil and gas, **7:34**
- Distributions
 - corporations with accumulated E&P, **1:29**
 - corporations with no accumulated E&P, **1:30**
 - information required on schedules of Form 1120-S, **10:56**
 - nonliquidating distributions of property, **10:6**
 - S corporation with accumulated E&P overview, **10:3**
- Distributions by corporations with accumulated E&P
 - generally, **10:30**
 - differentiating Subchapter C and S, **10:43**
 - distributions of PTI, **10:39**
 - election to treat distributions as dividends, **10:40**
 - elimination of Subchapter S E&P, **10:42**
- Elections, **1:21**
- Eligibility
 - corporate limitations, **1:20**
 - shareholder limitations, **1:19**
- Excess passive investment income tax, purpose and scope of tax, **8:51**
- Gain character determination, S corporation special treatment, **7:37**
- Income, **1:24**
- LIFO recapture, corporate level tax, **1:28**
- Losses, **1:24**
- Passive income, corporate-level tax, **1:27**
- Reasons for change in statute, **1:18**
- Revocations, **1:23**
- Taxable year, **1:25**

SUBCHAPTER S REVISION ACT OF 1982—Cont'd

Termination of S election, **1:8**

SUBPART A OF THE INTERNAL REVENUE CODE

Property distributions, gain recognition rule applicability, **10:7**

SUBPART E OF THE INTERNAL REVENUE CODE

Irrevocable trusts, estate planning, **19:50**

Trusts as S corporation shareholders
death of QSST beneficiary, **19:24**
grantor trusts, **19:17**
QSSTs, **19:19**

SUBSCRIBERS

Consent to S election by shareholders, **6:39**

SUBSIDIARY CORPORATIONS

Generally, **21:1 to 21:20**

Acquired S corporation, special rules for, **21:12**

Affiliated group limitation (prior law)
activities inconsistent with entity status, **3:10**

affiliated group membership tests, **3:7**

inactive subsidiary exception, **3:8**

momentary ownership involving spinoffs, **3:9**

shams, **3:10**

transfer of stock to shareholders, **3:11**

Background, **21:1**

C corporation subsidiaries, **21:2**

Carry over of Subchapter S attributes, **21:17**

Carryover issues, Subcapter C, **21:8**

Consolidated return issues, **21:7**

Coordination of QSUB election with Section 338, **21:13**

Employment taxes and wage withholding, ownership of qualified subchapter S subsidiary or other disregarded entity, **11:8**

Foreign subsidiaries, using S corporations in international transactions, **20:55**

Insolvent subsidiaries, **21:9**

SUBSIDIARY CORPORATIONS

—Cont'd

Liabilities in excess of basis, QSUB elections for subsidiaries having, **21:10**

Liquidations, after acquisition, **15:50**

Merger transactions, **21:15**

Nonentity for tax purposes, treatment of QSUB as, **21:4**

Partially-owned subsidiaries, acquisitions of, **21:11**

Pass-through status, using QSUB elections to accelerate, **21:19**

QSSS elections, chain of ownership, **21:2**

QSUB election

generally, **21:3, 21:5**

acquired S corporation, special rules for, **21:12**

carryover issues, Subcapter C, **21:8**

consolidated return issues, **21:7**

coordination of QSUB election with Section 338, **21:13**

insolvent subsidiaries, **21:9**

liabilities in excess of basis, QSUB elections for subsidiaries having, **21:10**

partially-owned subsidiaries, acquisitions of, **21:11**

pass-through status, using QSUB elections to accelerate, **21:19**

relief from invalid QSUB election, **21:3**

Section 338, **21:13, 21:14**

step transaction doctrine, **21:6**

Qualified Subchapter S subsidiaries, **21:3**

Sales of QSUB stock, **21:16**

Section 269(b), applicability of, **21:20**

Section 338, QSUB election, **21:13, 21:14**

State law purposes, treatment of QSUBs for, **21:18**

Step transaction doctrine, **21:6**

Stock acquisitions, liquidation tax consequences, **15:52**

Termination of QSUB status, **9:88, 21:16**

Upper-tier subsidiaries, proposed regulations, **21:2**

INDEX

SUBSIDIARY EARNINGS

- C corporation, foreign corporation voting stock, **20:54**
- Taxation, corporate and shareholder level, **20:54**

SUBSTANTIAL AMOUNTS OF STOCK

- Multiple distributions exceeding AAA, transfers of stock, **10:35**

SUBSTANTIAL INTEREST IN TRADE OR BUSINESS

- Investment tax credit recapture, requirements for avoiding on property transfer, **5:26**

SUBSTANTIAL TRANSFERS OF STOCK

- Accumulated adjustments account allocating for, **10:24**
- closed books election, **10:32**
- Allocating corporate items, **12:6**
- Shareholder gain or loss, **12:2**

SUCCESSIVE INCOME BENEFICIARIES

- Shareholder agreements, shares held by QSST, **18:12**
- Trusts as S corporation shareholders QSST, **19:23**
- special problems, **19:44**

SUCCESSOR CORPORATIONS

- Characteristics
 - controlled corporation in divisive D reorganization, **13:40**
 - prior termination of S corporation status, **3:80**
- Five-year waiting period applicable, acquiring C corporation in C reorganization, **13:28**

SUCCESSOR INCOME BENEFICIARY

- QSST election, affirmative refusal to consent, **6:62**

SUPERFUND TAX

- Generally, **16:28**

SURETIES

- Pass-through losses, limitations on shareholder use of, **9:17**

SURVIVING SPOUSE

- Trusts as S corporation shareholders
 - marital trusts, **19:41**
 - QTIP trusts, **19:42**

SUSPENDED LOSSES

- At risk limitation, increases during post-termination period, **16:53**
- Basis limitation
 - generally, **16:52**
 - effect on distributions, **10:28**
- Carried forward, taxation of distributions when suspended losses are, **10:31**
- Effect on distributions, **10:28**
- Increases during post-termination period, **16:53**
- Pass-through losses. See index heading PASS-THROUGH LOSSES, LIMITATIONS ON SHAREHOLDER USE OF
- S status termination
 - generally, **16:42**
 - shareholder deduction, **16:52**
 - survival through post-termination transition period, **16:41**

SYNDICATE

- Corporate income determination, **7:11**
- Original issue discount rules, hedging transaction exception, **7:48**
- Regulated futures contract, market-to-market rules, **7:48**
- Section 1256(e)(3)(B)
 - organization of S corporation, **5:39**
 - selection of accounting method, **2:20**

SYNDICATIONS

- S corporations used in
 - generally, **20:2 to 20:12**
 - accrual of expenses to shareholders, **20:10**
 - disclosure of tax issues to investors, **20:12**
 - formation, **20:9**
 - limitation on number of investors, **20:3**
 - pass-through tax status, **20:6**
 - promoter's receipt of unrestricted stock, **20:9**
 - restriction on transfer of shares, **20:11**

T**TABLES**Choice of entity, comparison table, **20:7****TAINTED CORPORATION**

Built-in gains tax

corporations subject to tax, **8:31**excluded assets, **8:36****TANGIBLE PERSONAL PROPERTY**Section 179, expensed property, **7:39****TARGET CORPORATIONS**

A reorganizations

accumulated adjustments account,
13:10allocation of tax items, **13:12**appreciated property distributed,
13:14boot receipt by shareholders, **13:14**deduction of unused losses, **13:13**distribution of property not permitted
to be received, **13:14**distributions prior to reorganization,
13:14forward triangular mergers, **13:17**reverse triangular mergers, **13:18**S status termination, **13:12**

B reorganizations

allocation of tax items, **13:23, 13:32**distributions, **13:34**distributions prior to reorganization,
13:25liquidation following reorganization,
13:27S election termination, **13:20, 13:27**tax-free distributions after reorganiza-
tion, **13:25**Boot received in reorganization, **13:1**C corporations, AAA of acquiring S
corporation effect, **13:10**Gain or loss recognition on reorganiza-
tiongenerally, **13:1**selling target corporation, **15:52**Liquidation to avoid S election termina-
tiongenerally, **13:20**liquidation within 30 days of acquir-
ing (prior law), **3:9****TARGET CORPORATIONS—Cont'd**Reorganization effect on S status,
purchase of assets, **15:52**

S corporation

generally, **13:7**election, **15:52**Second class of stock issues, nonprorata
portion of consideration, **15:52**Taxable stock acquisitions by or of an S
corporation, effect on S status of
target corporation, **15:45****TARGETED JOBS CREDIT**Alternative minimum tax, **7:45**Election, **17:14**Other general business credits, **7:82****TAX ADVICE**Miscellaneous itemized deductions, S
corporation special treatment, **7:47****TAX ATTRIBUTES**Carryover in merger, **13:9**S termination effect, **16:37****TAX AVOIDANCE PURPOSES**Double taxation, avoidance of, **2:41**Double taxation on distribution of
appreciated property, avoidance of,
2:31Liquidation, recognition of losses, **14:3**Synthetic equity, **20:70****TAX BENEFIT RULE**Corporate income determination, **7:8**Nonrecognition treatment on transfer of
property, exception, **5:27**S election effect, **7:8****TAX BENEFITS RECOVERY**

Built-in gains tax

net unrealized built-in gain, **8:32**recognition events, **8:35****TAX CODE OF 1939**Compensation, fringe benefits, **11:22****TAX CODE OF 1954**Compensation, fringe benefits, **11:22****TAX COMPLIANCE**Options to improve, **App. 9**

INDEX

TAX CONSIDERATIONS FOR FISCAL YEAR

Facts and circumstances test, **4:9**

TAX COURT

Affiliated group limitation (prior law),
administrative exception, **3:9**

Compensation

fringe benefits, **11:22**

reallocation of income among family
members, **11:6**

Excess passive investment income,
provider of significant services
(prior law), **8:66**

Fringe benefits, **11:22**

TAX CREDITS

Alcohol fuels, election, **17:14**

Allocation in year of reorganization

A reorganizations, **13:12**

B reorganizations, **13:23**

C reorganizations, **13:32**

divisive D reorganizations, **13:44**

Allocation in year of sale of stock, **12:6**
Built-in gains tax, credits offsetting tax,
8:46

Capital gains tax, credits offsetting tax,
8:88

Claim of right doctrine, repayment of
cash or property, **7:49**

Clinical drug testing, **7:85**

Collateral adjustments, required by
certain pass through credits, **7:79**

Estates

allocation of income or loss, **19:6**

carryover of unused losses, **19:7**

Excess passive investment income tax,
computation of tax, **8:75**

Foreign taxes

pass through and allocation, **7:86**

S corporation special treatment, **7:31**

tax elections at shareholder level,
7:76

Fuel production from nonconventional
source, **7:84**

Gasoline and fuels, **7:87**

General business credits

generally, **7:80**

investment tax credits, **7:81**

limitation on use, **7:83**

other business tax credits, **7:82**

TAX CREDITS—Cont'd

Income shifting, estate planning, **19:49**

Overview of pass through and alloca-
tion, **7:77**

Pass through and allocation, **7:78**

Recapture, **2:14**

Research and development expenditures,
20:99

S election consequences

status as pass-through entity, **7:3**

subchapter C years, **7:4**

Section 444 election required payments
liability, base year, **4:27**

Separately and nonseparately stated
items, **7:65**

Shareholder agreements

allocation on termination of interest,
18:22

distributions amount and timing,
18:23

life insurance effect, redemption
agreement, **18:6**

Targeted jobs, **7:45, 17:14**

Timing of pass-through items, **7:67**

TAX DEFERRED INCOME

Pass-through losses, limitations on
shareholder use of, **9:10**

TAX DEFICIENCIES

Interest with respect to, **7:33**

TAX FREE REORGANIZATIONS

Pass-through losses, limitations on
shareholder use of, **9:5, 9:36**

TAX INVESTMENT ACCOUNT

Pass-through losses, limitations on
shareholder use of, **9:2**

TAX ITEMS

Allocation in S termination year, **16:22**

Allocation in year of reorganization

A reorganizations, **13:12**

B reorganizations, **13:23**

C reorganizations, **13:32**

divisive D reorganizations, **13:44**

Allocations

partial liquidations, **12:26**

redemption of stock, **12:16**

sale of stock, **12:6**

**TAX LEGISLATION ENACTED IN
THE 108TH CONGRESS (2005)**

General explanation, **App. 7**

TAX MATTERS PARTNER

Generally, **17:33**

TAX MATTERS PERSON

Audit procedures (prior law), **17:52**

TAX PLANNING

Estate planning, inter vivos sale of stock, **19:46**

Generation skipping tax, transfer tax, **19:38**

Inter vivos planning, estate planning, **19:45**

TAX PREFERENCE ITEMS

Alternative minimum tax, **7:44**

Research and experimental costs, **20:100**

S corporation special treatment, **7:45**

S election consequences, status as pass-through entity, **7:3**

Shareholder election, **17:27**

TAX RATES

Built-in gains tax
applicability of tax, **8:45**
planning considerations, **8:50**

C corporation planning technique,
reduced rates on income, **2:21**

Excess passive investment income,
computation of tax, **8:75**

S corporation advantage vs C corporation, **2:40**

Shareholder agreements, distributions
amount and timing, **18:23**

TAX REFORM ACT OF 1984

Generally, **App. 2**

Corporate-level preference items under
Section 291, S corporation special
treatment, **7:23, App. 2**

TAX REFORM ACT OF 1986

Accumulated earnings and profit, adjustments for distributions, **10:14**

Advantages of S revocation reduced, **16:2**

Built-in gains tax, purpose and scope of tax, **8:30**

TAX REFORM ACT OF 1986—Cont'd

Corporate-level tax on built-in gains, **1:26**

Distributions, nonliquidating distributions of property, **10:6**

Trusts as S corporation shareholders,
QSST single income beneficiary, **3:4**

TAX RETURNS

Annual tax return requirement, permitted taxable years, **4:42**

C corporation, administration of entity, **2:32**

C short taxable year, **16:26**

Corporate, **17:34, 17:35**

Decedent's final income tax return, timing of pass through of tax items, **7:67**

Fiscal year, Section 444 election, **4:12**

Form 1120-S, S corporation, **2:32**

Information returns, administration of entity, **2:32**

Multi-state business, multiple return filing requirements, **2:31**

Partnership of S corporations,
administration of entity, **2:32**

S short taxable year, **16:26**

Schedule K-1, **2:32, 17:34**

TAX SHELTER

Accounting method, **16:30**

Accrual method of accounting, **2:19**

Converted C corporation, accounting method, **8:19**

Corporate income determination, **7:11**

Organization of S corporation, choice of accounting method, **5:39**

Tax and information returns, **17:34**

TAX TREATIES

Business profits, taxable, **20:52**

One level of taxation, effect of S corporation, **20:52**

U.S. citizens resident in foreign countries who own S corporations, **20:53**

U.S. income tax network, **20:52**

TAXABLE INCOME

Accumulated adjustments account purposes, **10:18**

INDEX

TAXABLE INCOME—Cont'd

- Accumulated earnings and profits, lack of other adjustments, **10:17**
- Built-in gains tax, applicability, **8:40**
- Capital gains tax
 - amount of tax, **8:87**
 - excess net capital gain, **8:85**
- Compensation by profitable corporation
 - with C history, **11:16**
 - without C history, **11:12**
- Corporate income determination, **7:11**
- Distributions, information required on schedules of Form 1120-S, **10:56**
- Distributions where accumulated E&P, **10:30**
- Earnings and profits, distributions to S corporation, **10:17**
- Excess capital gains tax, **8:86**
- Excess passive investment income
 - definition generally, **8:54**
 - determination, **8:71**
 - excess net passive income limitation, **8:74**
 - planning considerations, **8:81**
 - termination of S election, **8:80**
- S election consequences, determination and realization, **7:5**
- Shareholders with different taxable years, **10:44**
- Tax preference items, S corporation special treatment, **7:45**

TAXABLE INCOME LIMITATION

- Converted C corporation, Sections 1374 and 1375, **8:26**

TAXABLE LOSSES

- Compensation by loss corporation with C history
 - shareholder with stock basis, **11:17**
 - shareholder without stock basis, **11:18**
- Compensation by loss corporation without C history
 - shareholder with stock basis, **11:13**
 - shareholder without stock basis, **11:14**

TAXABLE YEARS

- See also index headings C SHORT TAXABLE YEAR; S SHORT TAXABLE YEAR
- Allocation in year of termination, **7:72**

TAXABLE YEARS—Cont'd

- Built-in gains tax, planning considerations, **8:50**
- Calendar year
 - Section 444 election required payments liability, **4:21**
 - selection of taxable year, **2:19**
- Capital gains tax, duration of exposure, **8:84**
- Change of
 - facts and circumstances test, **4:10**
 - natural business year test procedure, **4:6**
 - organization of S corporation, **5:38**
 - Section 444 election by existing corporations, **4:16**
 - termination of Section 444 election, **4:43**
- Closing of the books method of allocation, pass through/allocation of tax credits, **7:78**
- Compensation, timing considerations, **11:4**
- Consent to S election by shareholders
 - due date, **6:43**
 - form for consent, **6:42**
- Converted C corporation, timing of and eligibility for S election, **8:7**
- Distributions to shareholders
 - disproportionate, **10:47**
 - timing of adjustments to basis, **10:30**
- Electing S corporation status
 - designation of permitted taxable year, **6:6**
 - due date of election, **6:7**
 - effective date of election, **6:5**
 - eligible corporation, **6:2**
 - form, **6:3**
- Estates
 - assigning items in year of termination, **19:10**
 - consent to S election by estate, **19:14**
 - fiduciary considerations, converting to S status, **19:15**
 - S corporation existing at shareholder death, **19:4**
- Excess passive investment income, Subchapter C earnings and profits, **8:52**

TAXABLE YEARS—Cont'd

- Fiscal year
 - facts and circumstances test
 - generally, **4:9**
 - procedure, **4:10**
 - natural business year test
 - generally, **4:5**
 - procedure, **4:6**
 - ownership tax year test
 - generally, **4:8**
 - procedure, **4:8**
- S corporation disadvantage vs C corporation, **2:50**
- Net operating losses, S corporation special treatment, **7:20**
- Organization of S corporation
 - adoption of taxable year, **5:37**
 - change in taxable year, **5:38**
 - taxable year choice, **5:36**
- Partnership of S corporations, **20:43**
- Permitted, **4:1**
- Prior to Subchapter S Revision Act of 1982, **1:11**
- QSST election by current income beneficiary, effective date, **6:54**
- Qualification as an S corporation overview, **3:1**
- Retention of, Section 444 election by existing corporations, **4:16**
- Section 444 election, required payments liability, **4:21**
- Selection of, **2:19**
- Separation at termination of S election, **12:6**
- Shareholder agreements
 - allocation at termination of interest, **18:22**
 - distributions amount and timing, **18:23**
 - electing S corporation status, **18:8**
- Shareholders with different taxable years, **10:44**
- Short
 - allocation in year of termination, **7:72**
 - due date of S election, **6:7**
 - S election by former affiliated member, **6:12**
- State and local taxes, **7:66**
- Stock acquisitions, allocation of acquired tax items, **15:12**

TAXABLE YEARS—Cont'd

- Subchapter S Revision Act of 1982, **1:25**
- Termination on merger or consolidation, **13:7**
- Treatment as two separate years, redemption terminating interest, **12:16**

TAX-EXEMPT ENTITIES

- Electing S status, **6:32**
- Number of shareholders, rules, **3:46**
- Permissible S corporation shareholder, **3:32**

TAX-EXEMPT INCOME

- Accumulated adjustments account computation, **10:20**
- Distributions, information required on schedules of Form 1120-S, **10:56**
- Distributions by corporations with accumulated E&P, tax-exempt income and related expenses, **10:38**

TAX-FREE DISTRIBUTION OF CASH

- Shareholder agreements, distributions after termination of S status, **18:26**

TAX-FREE DISTRIBUTIONS

- Accumulated earnings and profits, adjustments for corporate transactions, **10:15**
- Partnership of S corporations, **20:38**
- Pass-through losses, limitations on shareholder use of, **9:19, 9:20**

TAX-FREE EXCHANGES

- Built-in gains tax, planning considerations, **8:50**

TAX-FREE RETURN OF BASIS

- Post-termination transition period distributions, **16:50**

TAX-FREE TRANSFERS

- Excess passive investment income, special rules, **8:57**
- Interest in entity, **2:36**

TAXPAYER IDENTIFICATION NUMBER

- Consent to S election by shareholders, form, **6:42**
- Election by corporation, form, **6:3**

INDEX

TAXPAYER IDENTIFICATION

NUMBER—Cont'd

- QSST election by current income beneficiary
- affirmative refusal to consent, **6:62**
- revocation of election, **6:63**
- separate written statement, **6:53**

TECHNICAL AMENDMENTS ACT OF 1958

- Purposes of Subchapter S, **1:3**

TECHNICAL AND MISCELLANEOUS REVENUE ACT OF 1988

- Generally, **App. 2**

TECHNICAL CORRECTIONS ACT OF 1982

- Generally, **App. 2**

TEMPORARILY INELIGIBLE SHAREHOLDER

- Permissible and impermissible shareholders
- inadvertent termination, **3:34**
- spinoff of newly organized corporation, **3:34**

TENANCY BY THE ENTIRETY

- Husband and wife, number of permissible shareholders, **3:37**
- Permissible and impermissible shareholders, individuals, **3:12**

TENANCY IN COMMON

- Husband and wife, number of permissible shareholders, **3:37**
- Permissible and impermissible shareholders, individuals, **3:12**

TERM OF YEARS

- Qualified Subchapter S trusts, lifetime trust termination, **3:24**
- Split interests, permissible and impermissible shareholders, **3:19**

TERMINATION OF EMPLOYMENT

- Buy-sell procedures, provisions in shareholders agreements relating to termination of employment, **18:7**
- Executive compensation, phantom stock plans, **11:39**

TERMINATION OF INCOME INTEREST

- Trusts as S corporation shareholders, QSST, **19:23**

TERMINATION OF INCOME INTEREST REQUIREMENT

- QSST, **3:24**

TERMINATION OF PARTNERSHIP

- Constructive termination, S corporation advantage, **2:62**

TERMINATION OF S STATUS

- Generally, **16:1 et seq.**
- Accumulated adjustments account carry-over, **16:40**
- Acquisition debt interest deduction, **16:35**
- Administrative dissolution, **16:1**
- Allocation of items between years, **16:22**
- Asset acquisitions
 - allocation of acquiror's tax items, **15:29**
 - allocation of seller's tax items, **15:31**
- post-termination transition period, **16:49**
- second class of stock, **15:21**
- At risk problems, **9:60**
- Bankruptcy of corporation, **3:84**
- Built-in gains tax, transition rules, **8:49**
- C short taxable year
 - generally, **16:22**
 - estimated tax liability, **16:27**
 - tax return due, **16:26**
- Carryover of suspended losses
 - at risk limitation, **16:42**
 - basis limitation, **16:41**
 - PAL limitation, **7:82**
- Compensation, individual retirement accounts, **11:26**
- Debt
 - reclassification, **5:21**
 - second class of stock, **5:13**
- Deferred COD income (prior law), **16:36**
- Distributions by corporations with accumulated E&P, election to treat distributions as dividends, **10:40**

TERMINATION OF S STATUS**—Cont'd**

Distributions from eligible terminated S Corporations, **15:34**
 Domestic corporation, **16:56**
 Earnings and profits carryover, **16:38**
 Effect of termination, generally, **16:20 to 16:46**
 Effective date, **16:18**
 Electing S corporation status, revocation of shareholders consent, **6:49**
 Electing small business trusts (ESBTs), **18:13**
 Election to close books
 generally, **16:23**
 form, **16:67**
 Eligibility to attain S corporation status, prior termination of S corporation status, **3:80**
 Estates
 administrative powers, personal representatives, **19:16**
 shareholder death, **19:10**
 shareholder death effect on S election, **19:9**
 stock transfer, **19:11**
 Estates with ineligible beneficiaries
 generally, **19:57**
 disclaimer use, **19:58**
 sales to eligible beneficiaries, **19:60**
 Estimated tax, **17:33**
 Excess passive investment income, **8:80**
 Excessive passive investment income, **16:15**
 Executive compensation
 nonstatutory stock option plans, **11:32**
 rabbi trusts, **11:41**
 F reorganizations, **13:50**
 Fiduciary obligation to maintain S corporation status, **18:20**
 Foreign losses recapture, **16:32**
 G reorganizations, **13:51**
 Impermissible number of shareholders, **16:56**
 Inadvertent
 generally, **16:57**
 late filing of QSST election, **16:50**
 temporarily ineligible shareholder, **3:24**

TERMINATION OF S STATUS**—Cont'd**

Inadvertent—Cont'd
 waiver by Service
 generally, **16:56**
 procedure for requesting, **16:62**
 Ineligible corporation, change in business, **16:56**
 Ineligible shareholders, **15:45**
 Intentional, **16:19**
 Investment tax credit recapture, **16:33**
 Merger or consolidation, **13:7**
 Mid-year, **16:21**
 Minority shareholders, **16:19**
 Nonpermitted taxable year used, **16:14**
 Notification of IRS, **16:56**
 Numerical shareholder limitation, **15:42**
 Other considerations, generally, **3:85**
 Percentage depletion effect (prior law), **16:31**
 Post-termination entity classification of associations, **16:44**
 Post-termination transition period
 generally, **16:47**
 accounting, **16:54**
 accumulated adjustments account
 generally, **16:40**
 adjustments, **16:54**
 election to bypass, **17:8**
 purposes of AAA, **10:18**
 shareholder consent, **17:23**
 asset acquisitions
 generally, **16:49**
 distributions, **15:32**
 losses, **15:34**
 defined, **16:48**
 distributions
 generally, **10:52, 16:50, 16:55**
 dividend treatment
 generally, **16:51**
 form for election, **16:68**
 distributions to acquiring corporation shareholders, **13:10**
 earnings and profits adjustments, **16:54**
 losses suspended by basis limitation, survival of
 generally, **16:41**
 shareholder deduction, **16:52**

TERMINATION OF S STATUS

—Cont'd

- Post-termination transition period
 - Cont'd
 - pass-through losses. See index heading PASS-THROUGH LOSSES, LIMITATIONS ON SHAREHOLDER USE OF
 - shareholder agreements, distributions after termination, **18:26**
 - stock basis adjustments, **16:54**
 - suspended losses carryover, **16:52**
 - tax-free cash distributions by acquiring S corporation
 - A reorganizations, **13:14**
 - B reorganizations, **13:25**
 - tax-free return of basis, **16:50**
 - transfers to another S corporation, **16:47**
- Previously taxed income account, **16:39**
- Prior to Subchapter S Revision Act of 1982, retroactivity, **1:8**
- Prohibited shareholders, **16:56**
- Proven oil and gas properties, **20:21**
- QSST election by current income beneficiary
 - affirmative refusal to consent, **6:62**
 - necessity of election, **6:50**
 - revocation of election, **6:63**
 - untimely filed, simplified procedure for relief, **16:63**
- Reconsolidation of consolidated group, **16:45**
- Re-election after merger, **13:8**
- Re-election of S status, **16:34**
- Rescission, use of to avoid termination consequences, **16:64**
- Restrictions on issuance and transfer of stock, **5:9**
- Revocation of S status
 - generally, **16:2 et seq.**
 - effective date, **16:3**
 - execution of, **16:5**
 - extension of time to file, **16:10**
 - form for request, **16:65**
 - information required, **16:4**
 - rescission, **16:11**
- S corporation attributes, **16:37**
- S short taxable year
 - generally, **16:22**
 - tax return due, **16:26**

TERMINATION OF S STATUS

—Cont'd

- Sale of corporation stock, general consequences, **2:33**
- Sale of S corporation stock, **12:5**
- Separate taxable years, **16:21**
- Shareholder agreements
 - preserving S corporation status, **18:9**
 - QSST shareholder, **18:12**
 - reelecting S corporation status, **18:19**
 - revoking S corporation status, **18:17**
 - S corporation status termination, **18:18**
 - shareholder number limitation, **18:11**
 - transfers to permissible shareholders, **18:10**
- Shareholder consent to revocation, **16:7**
- Single-class-of-stock violation, **16:56**
- Small business corporation requirements violated, **16:56**
- Subchapter S Revision Act of 1982, inadvertent terminations, **1:22**
- Termination of Section 444 election, **4:43**
- Timing of pass through of tax items, **7:67**
- Transfer of corporate assets treatment (prior law), **16:31**
- Transfer to another S corporation, **16:47**
- Transition period, **16:47 et seq**
- Triggering Section 965 deferred repatriation gain, **16:46**
- Voluntary revocation, **16:2**

TERMINATION OF SECTION 444 ELECTION

- Consequences, **4:43**
- Events resulting in termination, **4:43**
- Liquidation, **14:22**
- Penalties, failure to make timely payments, **4:41**
- Refunds of required payments, **4:44**

TESTAMENTARY TRUSTS

- Consent to S election by shareholders, **6:30**
- Estates
 - deemed shareholders, **19:3**
 - stock transfer, **19:11**
- Permissible and impermissible shareholders, **3:23**

TESTAMENTARY TRUSTS—Cont'd

- S status termination
 - generally, **16:56**
 - effective date, **16:18**
- Shareholder number limitation, **3:45**
- Trusts as S corporation shareholders, QTIP trusts, **19:42**

THIRD PARTIES

- Converted C corporation
 - capitalization of S corporation, **5:13**
 - debt as second class of stock, **3:75**
 - single-class-of-stock requirement, **5:14**
- Pass-through losses. See index heading PASS-THROUGH LOSSES, LIMITATIONS ON SHAREHOLDER USE OF

TIERED STRUCTURE LIMITATION

- Section 444 election
 - ineligible corporations, **4:14**
 - termination of election, **4:43**

TIME OR TIMING

- Pass-through losses. See index heading PASS-THROUGH LOSSES, LIMITATIONS ON SHAREHOLDER USE OF

TIMING DIFFERENCES

- Adjustments to E&P and taxable income, lack of other adjustments to E&P, **10:17**

TIMING OF DISTRIBUTIONS

- Disproportionate for shareholders, **10:47**

TIMING OF PASS-THROUGH ITEMS

- Shareholders, **7:67**

TRADE BRANDS

- Excess passive investment income, royalties, **8:68**

TRADE NAMES

- Transfer of property to S corporation, definition of property, **5:23**

TRADE OR BUSINESS

- Affiliated group limitation (prior law), corporate division nonrecognition requirement, **3:11**
- Basis of tangible personal property, election to deduct, **17:16**
- Compensation, Keogh plans, **19:62**

TRADE OR BUSINESS—Cont'd

- Farming, farm-related deductions, **7:46**
- Investment tax credit recapture, requirements to avoid on property transfer, **5:26**
- Organization of S corporation, choice of accounting method, **5:39**
- Personal interest, S corporation special treatment, **7:33**
- Tangible personal property, expensed property, **7:39**

TRADEMARKS

- Excess passive investment income, royalties, **8:68**

TRANSFER OF SHARES

- Accumulated adjustments account, election to close books
 - generally, **10:32**
 - allocating corporate items, **12:6**
 - shareholder gain or loss, **12:2**
- Corporation books
 - election to close, **17:7**
 - shareholder consent, **17:22**
- Election to close corporation books, **17:7**
- Pass-through losses, limitations on shareholder use of, **9:20**

TRANSFER TAX

- Generation skipping, S corporation shareholders, **19:38**

TRANSFEROR S CORPORATIONS

- Divisive D reorganizations
 - appreciated property distributed by, **13:45**
 - S status termination avoided, **13:39**
 - tax-free cash distributions, **13:45**

TRANSFERS OF PROPERTY TO S CORPORATION

- Basis of property received by corporation, **5:31**
- Basis of stock, **5:28**
- Converted C corporation, computation of income (prior law), **8:17**
- Corporate nonrecognition, issuing stock, **5:30**
- Exceptions to shareholder nonrecognition, **5:27**

INDEX

TRANSFERS OF PROPERTY TO S CORPORATION—Cont'd

- Nonrecognition rule for shareholders, **5:22**
- Shareholder investment tax credit recapture, **5:26**
- Shareholder's control immediately after exchange, **5:25**
- Shareholder's transfer for stock and securities, **5:24**
- Shareholder's transfer of, **5:23**
- Taxable sale to corporation, **5:29**

TRANSITIONAL RULES

- Built-in gains tax, **8:49**
- Distributions by corporations with accumulated E&P generally, **10:30**
- distributions of PTI, **10:39**

TRANSMITTAL LETTER

- Election of S status by corporation, transmittal and proof of filing, **6:16**

TRASH REMOVAL

- Excess passive investment income, real property rents, **8:64**

TREASURER

- Electing S corporation status, execution of election form, **6:4**
- Section 444 election execution, **4:18**

TRIANGULAR C REORGANIZATIONS

- S corporation as target corporation, **13:26**

TROUBLED ASSET RELIEF PROGRAM

- Capital structure, treatment of TARP warrants, **3:60**
- Second class of stock, debt as, **3:77**

TROUBLED ASSET RELIEF PROGRAMS

- Capital structure, treatment of TARP warrants, **3:60**

TRUST AGREEMENTS

- Trusts as S corporation shareholders QSST single income beneficiary, **3:4**
- trusts taxable as associations, **19:43**

TRUST COMPANIES

- Ineligible corporations, **3:3**

TRUST CORPUS

- Qualified Subchapter S trusts, beneficiary's power to direct distribution, **3:24**
- Section 678 trusts, restriction on right to withdraw, **3:22**
- Trusts as S corporation shareholders grantor trusts, **19:17**
- QSST corpus distribution limitation, **19:22**
- QTIP trusts, **19:42**

TRUST DISTRIBUTIONS

- Contingent, timing of receipt, **3:26**

TRUST INTEREST

- Part-sale, part-gift of interest, termination of trust status, **3:26**

TRUSTEES

- Bankruptcy consent to S election by shareholders, **6:29**
- Section 444 election execution, **4:18**
- Consent to S election by shareholders, **6:30**
- Electing S corporation status, execution of election form, **6:4**
- Estates, deemed shareholders, **19:3**
- Family S corporation, tax savings potential, **19:62**
- Notice of revocation of S status execution, **16:5**
- Permissible and impermissible shareholders corporations, **3:15**
- partnerships, **3:16**
- Qualified Subchapter S trusts current distribution requirement, **3:24**
- execution of election form, **6:57**
- Shareholder agreements, shares held by QSST, **18:12**
- Trusts as S corporation shareholders QSST distribution of income, **19:20**
- sprinkling trusts, **19:40**

TRUSTS

- See also index heading QUALIFIED SUBCHAPTER S TRUSTS (QSSTS)

TRUSTS—Cont'd

- Built-in gains tax, transitional rules, **8:49**
- Compensation, reallocation of income, family members, **11:6**
- Consent to S election by shareholders, **6:30**
- Death of deemed owner
 - generally, **19:3**
 - effect on basis in stock and assets, **19:5**
 - eligible shareholders, **3:21**
- Decedent's estates, shareholder treatment, **19:3**
- Deferral entity, Section 444 election, **4:14**
- Election of beneficiary, protective election, **6:50**
- Estate of testator, two-year shareholder, **6:55**
- Estates, deemed shareholders, **19:3**
- Family S corporation
 - problems, **19:64**
 - reallocation of tax items, **19:63**
 - tax savings potential, **19:62**
- Generation skipping trust exemption, impact of shareholder agreement on, **18:28**
- Irrevocable
 - defective grantor trust, **19:50**
 - estate planning, **19:50**
 - qualifications, **19:50**
- Modification of, ineligible beneficiaries of estate, **19:59**
- Pass through of tax items to shareholders, special problems, **7:74**
- Pass-through losses. See index heading PASS-THROUGH LOSSES, LIMITATIONS ON SHAREHOLDER USE OF
- Permissible and impermissible shareholders
 - electing small business trust, **3:26**
 - grantor trusts, **3:21**
 - qualified employee benefit trusts, **3:29**
 - Section 678 trusts, **3:22**
 - types of trusts, permissible shareholders, **3:20**
- Protective election, **6:50**
- QSST election, description, ESBT election, **3:26**

TRUSTS—Cont'd

- QSST election by current beneficiary, election subsequent to S election, **6:50**
- Qualified employee benefit plans, permissible S shareholder, **3:29**
- Rabbi trusts, executive compensation, **11:41**
- S corporation shareholder
 - associations, **19:43**
 - charitable lead trusts, **19:40**
 - charitable remainder trusts, **19:40**
 - death of QSST beneficiary, **19:24**
 - grantor trusts, **19:17**
 - marital trusts, **19:41**
 - number of shareholders, rules, **3:45**
 - QSST corpus distribution limitation, **19:22**
 - QSST distribution of income, **19:20**
 - QSST election for each S corporation, **19:25**
 - QSST multiple trust owners, **19:23**
 - QSST single income beneficiary, **3:4**
 - QSST successive income beneficiaries, **19:23**
 - QSST termination of income interest, **19:23**
 - QSSTs, **19:19**
 - QTIP trusts, **19:42**
 - special problems owning S stock, **19:44**
 - sprinkling trusts, **19:40**
 - voting trusts, **19:39**
- Section 179, expensed property, **7:39**
- Section 1244 stock, eligible shareholders, **5:34**
- Shareholder agreements
 - generation skipping trust exemption, impact of shareholder agreement on, **18:28**
 - QSST, shares held by, **18:12**
- Shareholder number limitation, **3:45**
- Shareholders, generally permissible
 - generally, **3:20**
 - grantor trusts, **3:21**
 - Qualified Subchapter S Trusts, **3:24**
 - Section 678 trusts, **3:22**
 - testamentary trusts, **3:23**
 - voting trusts, **3:25**

INDEX

TRUSTS—Cont'd

- Stock held in trust, holdings of agent or custodian distinguished, **3:42**
- Testamentary
 - permissible trust shareholder, **6:55**
 - QSST election, **6:55**
- Timing of pass through of tax items, **7:67**

TWO-PERCENT SHAREHOLDERS

- Compensation, fringe benefits, **11:22**
- Defined, **11:22**
- Executive compensation
 - nonstatutory stock option plans, **11:32**
 - nonvoting stock, **11:28**
- Fringe benefits
 - recharacterization under PAL rules, **11:21**
 - S corporation special treatment, **11:20**

U

UNDERCOMPENSATED SERVICES

- Compensation, recharacterization of distributions as salary, **7:24**

UNDISTRIBUTED INCOME

- Accumulated adjustments account
 - nature of AAA, **10:19**
 - transfer or issuance of shares, **10:24**
- Distributions, information for schedules of Form 1120-S, **10:56**
- Distributions of accumulated E&P, **10:30**

UNDISTRIBUTED TAXABLE INCOME

- Deferred estate tax consequences, **19:56**
- Distribution prior to reorganization
 - A reorganizations, **13:14**
 - B reorganizations, **13:25**

UNIFORM GIFT TO MINORS ACT

- Consent to S election by shareholders, minors, **6:28**
- Estate planning, minor donees of stock, **19:51**

UNIFORM LIMITED PARTNERSHIP ACT

- Classification of entity, corporate characteristics, **2:5**

UNIFORM LIMITED PARTNERSHIP ACT—Cont'd

- Limited liability, participation in management, **2:23**

UNIFORM PARTNERSHIP ACT

- Classification of entity, corporate characteristics, **2:6**

UNINCORPORATED ASSOCIATION

- Corporate characteristics
 - classification of entity, **2:6**
 - risk of loss of tax favored status of entity, **2:29**
- Corporate tax
 - Section 11(a), **2:5**
 - Section 7701(a)(3), **2:4**
- Corporations, permissible shareholders, **3:15**
- Domestic corporation requirement, **3:2**
- Risk of loss of tax favored status of entity, **2:29**
- S corporation advantage vs partnership, **2:57**
- Trusts, permissible shareholders, **3:20**

UNITARY BASIS RULE

- Partnership of S corporations, **20:40**

UNITED STATES CITIZENS

- Qualified Subchapter S trusts, current distribution requirement, **3:24**
- Residence in foreign countries, ownership of S corporations, **20:53**

UNITED STATES POSSESSIONS CREDIT CORPORATION

- Ineligible corporations, **13:7**

UNITED STATES RESIDENT

- Qualified Subchapter S trusts, current distribution requirement, **3:24**

UNREALIZED RECEIVABLES

- Character of gain or loss, sale of contributed property, **2:16**
- Distributions, **2:25**

UNREASONABLE COMPENSATION

- Deemed distribution, **10:47**

UNSECURED NOTES

- Executive compensation, phantom stock plans, **11:39**

UNUSED LOSSES

- Carryover to acquiring corporation stock, **13:13**
- Deduction in year of reorganization
 - A reorganizations, **13:13**
 - B reorganizations, **13:24**

UPSTREAM MERGER

- Avoiding affiliated group limitation (prior law), **3:11**

USEFUL LIFE

- ITC recapture, general business credits, **7:81**

USUFRUCT FOR LIFE

- Split interests
 - consent to S election by shareholders, **6:34**
 - permissible shareholders, **3:19**
 - shareholder number limitation, **3:44**

UTILITIES

- Excess passive investment income, real property rents (prior law), **8:64**

V

VALET PARKING

- Excess passive investment income, real property rents (prior law), **8:64**

VALUATION TEST

- Built-in gains tax, transitional rules, **8:49**

VALUATIONS

- Assets transferred to S corporation, built-in gains tax, **8:32**
- Deferral of estate taxes, **19:56**
- Estate planning considerations, **19:53**

VALUE

- Property, Section 1244 stock, **5:32**
- Subsidiary stock (prior law), affiliated group membership tests, **3:7**

VENTURE CAPITAL ACTIVITIES

- Generally, **20:87 to 20:97**
- Classes of stock, **20:91**
- Compensation of managers, **20:92**
- Disposition of business, **20:90**
- Double taxation avoidance, **20:88**

VENTURE CAPITAL ACTIVITIES

—Cont'd

- Multiple-company investment
 - generally, **20:93**
 - gain on property distributions, **20:95**
 - no consolidation, **20:96**
 - single level of tax, **20:94**
 - small business investment company, **20:97**
- Phantom stock, **20:92**
- Property for services, **20:92**
- Reorganizations, **20:90**
- Shareholder limitations, **20:91**
- Start-up losses pass through, **20:89**
- Taking S corporation public, **20:90**

VESTING SCHEDULE

- Executive compensation, phantom stock plans, **11:39**

VICE PRESIDENT

- Electing S corporation status, execution of election form, **6:4**
- Section 444 election execution, **4:18**

VOTING AGREEMENTS

- Control of corporation, **2:22**

VOTING POWER

- Subsidiary stock, affiliated group membership tests (prior law), **3:7**

VOTING RIGHTS

- Converted C corporation, single-class-of-stock requirement, **1:20**
- Corporate-level eligibility limitations, single-class-of-stock requirement, **1:20**
- Executive compensation, nonstock incentive programs, **11:35**
- Family S corporation problems, **19:64**
- Organization of S corporation, stock, **5:5**

VOTING STOCK

- B reorganizations, **13:19**
- C reorganizations, **13:26**
- Control of corporation, **2:22**
- Ownership of voting stock, distributions, **20:54**
- Preemptive rights, **5:7**
- Shareholder agreements, single-class-of-stock requirement, **18:15**

INDEX

VOTING TRUSTS

- Consent to S election by shareholders, **6:30**
- Control of corporation, **2:22**
- Organization of S corporation, stock, **5:8**
- Permissible shareholders
 - for the benefit of a corporate creditor, **3:25**
 - primary purpose of power, **3:25**
- Shareholder number limitation, **3:45**
- Trusts as S corporation shareholders generally, **11:7**
- recharacterize distribution as salary, **11:20**

W

WAGES

- See index heading COMPENSATION

WAIVER

- Disproportionate distributions, **10:47**
- Excess passive investment income tax, **8:78**
- Inadvertent S status termination adjustments required by Service, **16:60**
 - applicable terminations, **16:56**
 - inadvertent requirement, **16:57**
 - procedure for requesting, **16:62**
 - relationship with re-election of S status, **16:61**
 - ruling request requirement, **16:62**

WARRANTS

- Single-class-of-stock rules, **3:59**
- Stock, transfers of property, **5:24**

WATER CONSERVATION EXPENSES

- Election to deduct, **17:16**

WILLS

- Estates, direct shareholders, **19:2**
- Trusts as S corporation shareholders, QSST single income beneficiary, **3:4**

WITHHOLDING

- Distributions, **17:31**
- Requirements, **17:29**
- Salaries, **17:29**
- Self-employment tax on income, **17:30**

WITHHOLDING—Cont'd

- Wages. See index heading COMPENSATION

WORKOUTS

- Discharge of debt, **7:10**

WORTHLESS STOCK

- Capital gain and loss, S corporation special treatment, **7:36**
- Disadvantages of debt, **5:21**
- Pass-through losses, limitations on shareholder use of, **9:25**
- Section 1244 stock, **7:54**

WRITTEN DATA METHOD

- Calendar year
 - converted C corporation taxable year, **8:5**
 - corporate income determination and realization, **7:11**
 - electing S corporation status, **6:6**
 - selection of taxable year, **2:19**
- Converted C corporation, computation of income, **8:18**
- Distributions to shareholders, timing of adjustments to basis, **10:30**
- Fiscal
 - annual bonus plans, **11:36**
 - converted C corporation taxable year, **8:5**
 - electing S corporation status, **6:6**
 - S compared to C corporation, **2:50**
- Organization of S corporation
 - adoption of taxable year, **5:37**
 - change of taxable year, **5:38**
 - choice of taxable year, **5:36**
- QSST election by current beneficiary, effective date, **6:54**
- S election
 - designation of permitted taxable year, **6:6**
 - due date of election, **6:7**
 - due date of shareholders consent, **6:43**
 - effective date of election, **6:5**
 - eligible corporation, **6:2**
 - form for consent by shareholders, **6:42**
 - form for election, **6:3**
- Stock acquisitions, allocation of acquired tax items, **15:12**

WRITTEN DATA METHOD—Cont'd

Taxable

- allocation in year of termination, **7:72**
- allocation on termination of interest, **18:22**
- built-in gains tax planning considerations, **8:50**
- capital gains tax duration of exposure, **8:84**
- closing of the books method, **7:78**
- compensation timing considerations, **11:4**
- converted C corporation S election, **8:7**
- distributions amount and timing, **18:23**
- estate taxable year election, **19:4**
- prior to Revision Act of 1982, **1:11**
- qualification as an S corporation, **3:1**

WRITTEN DATA METHOD—Cont'd

Taxable—Cont'd

- shareholder agreements, **18:8**
- shareholders different than S corporation, **10:44**
- subchapter C earnings and profits, **8:52**
- Subchapter S Revision act of 1982, **1:25**

Y

YEAR

- Basis limitation on pass through of losses, adjustments to debt basis, **20:18**

YEAR-END BONUS

- Converted C corporation, computation of income, **8:18**