

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**

redemption distributions, **10:21**

Unused losses

carryforward, **13:13**

AAA—Cont'd

Unused losses—Cont'd
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**
adoption, **5:40**
change, **5:41**
taxable year choice, **5:36**

Reserve method, banks, ineligible corporation, **3:4**

ACCOUNTING METHOD—Cont'd

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**

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**

ACCUMULATED ADJUSTMENTS ACCOUNT—Cont'd

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**

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**

INDEX

ACCUMULATED ADJUSTMENTS

ACCOUNT—Cont'd

- 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**
- 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**

ACCUMULATED ADJUSTMENTS

ACCOUNT—Cont'd

- Shareholder agreements—Cont'd
 - 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**
- 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**

ACCUMULATED EARNINGS AND PROFITS—Cont'd

- Distributions—Cont'd
 - 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**
 - 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**

ACCUMULATED EARNINGS AND PROFITS—Cont'd

- 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**
 - 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**

INDEX

ACQUIRING CORPORATIONS

—Cont'd

- 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**
- 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**

ACQUISITION INDEBTEDNESS

—Cont'd

- 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**

ADJUSTED BASIS—Cont'd

- 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**
 - 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**
- 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**

INDEX

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 sub-
sidiary, **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**

AGENTS—Cont'd

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 limita-
tion, **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, ser-
vice 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**

ALLOCATIONS—Cont'd

- Asset acquisitions—Cont'd
 - 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**
- Multiple distributions exceeding AAA redemptions, **10:37**
- transfers of stock, **10:35**
- Partnership interest, exchange for services, **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**

ALLOCATIONS—Cont'd

- 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 exploration expenditures recapture, **7:35**
- Section 1366(e) impact, stock ownership, **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**

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**

INDEX

ALTERNATIVE MINIMUM TAX

—Cont'd

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**

APPRECIATED PROPERTY—Cont'd

- 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**
 - 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**
- 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**

INDEX

ASSETS—Cont'd

- 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**

ASSOCIATIONS—Cont'd

- 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**
- 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, **20:98**
- S corporation conducting real estate activities, **20:80**
- 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**

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**

B REORGANIZATIONS—Cont'd

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**

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**

INDEX

BANKRUPTCY—Cont'd

- 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**
- 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**

BASIS—Cont'd

- 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**
 - 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**

BASIS—Cont'd

- 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**
- 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**

BASIS—Cont'd

- Stock—Cont'd
 - 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**
 - 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**

INDEX

BASIS STEP-UP—Cont'd

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 requirement, **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 shareholders, **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**

BENEFICIARIES—Cont'd

Estates—Cont'd

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**

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**

BONDS—Cont'd

Excess passive investment income, sales and exchanges of stock or securities—Cont'd
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**
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**

INDEX

BUILT-IN GAINS—Cont'd

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, designation 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**

BUSINESS PURPOSE—Cont'd

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**

BYPASS ELECTION—Cont'd

- Built-in gains tax—Cont'd
 - 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**
- 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**

BYPASS ELECTION—Cont'd

- Disproportionate distributions of cash—Cont'd
 - 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**
 - 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**

INDEX

BYPASS ELECTION—Cont'd

- 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**
- 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**

C REORGANIZATIONS—Cont'd

- 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**
 - 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**

CALENDAR YEAR—Cont'd

- Taxable year—Cont'd
- 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**
- 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**

CAPITAL GAINS—Cont'd

- 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**
- 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**

INDEX

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**
- 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**

CAPITALIZATION—Cont'd

- Debt—Cont'd
 - overview, **5:1**
 - second class of stock, **5:13**
- Deductibility of interest, **5:18**
- 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**

CARRYOVERS—Cont'd

- Corporate losses, S corporation advantage vs C corporations, **2:42**
- Net operating losses, S corporation special treatment, **7:20**
- 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**

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**

INDEX

CHARITABLE CONTRIBUTIONS

—Cont'd

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**

CHOICE OF ENTITY—Cont'd

S corporation advantages vs partnerships/LLCs—Cont'd

reorganization treatment, **2:60**

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

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**

CLASSES OF STOCK—Cont'd

- Deferred compensation plans, **18:15**
- 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**

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**

INDEX

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**

shareholder without stock basis, **11:12**

COMPENSATION—Cont'd

- 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, **20:84**
- 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, **20:91**
- 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**
 - 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**

INDEX

CONSENT—Cont'd

- 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**
 - 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**

CONSENT—Cont'd

- Shareholder consent to S election—Cont'd
 - 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**

**CONSOLIDATED AUDIT AND
REFUND PROCEDURES (PRIOR
LAW)—Cont'd**

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 corpora-
 tion, **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, defi-
 nition generally, **8:54**

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 limita-
 tion on deductions and losses, **7:25**

CONTROL REQUIREMENTS

Section 351
 exchange of property for stock and
 securities, **5:25**
 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 characteriza-
 tion, **13:41**
 S status election, **13:40**

INDEX

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 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**

CONVERTED C CORPORATION

—Cont'd

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**

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**

CONVERTED C CORPORATION

—Cont'd

- S election impact—Cont'd
- 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, **20:100**
- Single-class-of-stock regulations, **3:75**
- Special allocations or preferential distributions, **20:46**
- Venture capital S corporations, **20:88**

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**
- 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**

CORPORATE DISBURSEMENTS

—Cont'd

- 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**
- 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**

INDEX

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 treat-
ment, **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**

CORPORATE-LEVEL TAXES

—Cont'd

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**
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**

CORPORATE-LEVEL TAXES

—Cont'd

- Excess passive investment income tax
 - Cont'd
 - 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**
 - S corporation previously C corporation, S corporation disadvantage vs partnership, **2:68**
 - State taxes, S corporation disadvantage vs partnership, **2:71**
 - 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**

CORPORATIONS—Cont'd

- 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**

INDEX

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**
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**

CREDITS—Cont'd

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, **20:98**
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**
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**

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 elec-
tion, **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 securi-
ties, **8:69**

DEALER IN OPTIONS

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

**DEALER IN STOCK AND
SECURITIES**

Excess passive investment income, sales
and exchanges of stock or securi-
ties, **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**
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 securi-
ties

generally, **8:56**

special rules, **8:69**

Executive compensation, convertible
debenture plans, **11:34**

INDEX

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**
 - 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**

DEBT—Cont'd

- 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**
- 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**

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**

DEDUCTIONS—Cont'd

- 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, corporation 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**
 - 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 development, **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 disadvantage vs C corporations, **2:51**
- Gas drilling and development, election to deduct, **17:10**

INDEX

DEDUCTIONS—Cont'd

- 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**
- 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, **20:99**
- 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**

DEDUCTIONS—Cont'd

- 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**

DEEMED OWNERS—Cont'd

Trusts as S corporation shareholders
—Cont'd
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**

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**

DEFINITIONS—Cont'd

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**
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**

INDEX

DEFINITIONS—Cont'd

- 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
- 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**

DEFINITIONS—Cont'd

- 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**
- 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**

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**

DISBURSEMENT METHOD—Cont'd

- General discretion—Cont'd
 - 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**
- 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, **20:104**
- Short form, **20:103**

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**

INDEX

DISPOSITIONS—Cont'd

- 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**
- 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**
- 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**

DISTRIBUTIONS—Cont'd

- Assets acquisitions
 - acquiring S corporation, **15:35**
 - post-termination transition period, **15:32**
 - selling corporation, **15:36**
- 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**

DISTRIBUTIONS—Cont'd

- Corporations with accumulated E&P
 - Cont'd
 - tax-exempt income and related expenses, **10:38**
 - timing of distributions, **10:36**
 - transfers of stock, **10:35**
- 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**

INDEX

DISTRIBUTIONS—Cont'd

- 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**
- 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**

DISTRIBUTIONS—Cont'd

- Pass through of tax items to estate or trust, **7:74**
- Post-termination transition period, dividend treatment election, **10:52, 16:51**
- 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**

DISTRIBUTIONS—Cont'd

- S corporation consequences—Cont'd
 - gain recognition rule consequences, **10:8**
 - property distributions subject to gain recognition rule, **10:7**
 - Section 336(e), **10:10**
- 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**

DISTRIBUTIONS—Cont'd

- Subchapter S Revision Act of 1982
 - Cont'd
 - corporations with no accumulated E&P, **1:30**
- Suspended losses carried forward, taxation of distributions when, **10:31**
- Taxable dividend treatment, **12:11**
- 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**

INDEX

DIVIDEND DECLARATION DATE

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

DIVIDENDS

Accumulated adjustments account
distributions effect, **10:21**
purposes, **10:18**
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

DIVIDENDS—Cont'd

Distributions—Cont'd
shareholder agreements—Cont'd
election to treat distributions as
dividends, **18:26**
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 qualify-
ing 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**

DIVIDENDS—Cont'd

- Tax
 - distribution in redemption of stock, **12:11**
 - 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**

DIVORCE—Cont'd

- Shareholder agreements, S corporation shareholder, **18:16**
- 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, **20:87**

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**

INDEX

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**

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**
- Qualifications of trusts, **3:26**

ELECTING SMALL BUSINESS TRUSTS (ESBTs)—Cont'd

- 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**
 - effect of consent, **6:48**
 - errors and omissions, **6:47**

ELECTION FOR S STATUS—Cont'd

- Consent by shareholders—Cont'd
 - 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**
 - nonrecognition provisions, **7:7**
 - other items of income, **7:17**
 - overview, **7:6**

ELECTION FOR S STATUS—Cont'd

- Corporate income realization and determination—Cont'd
 - 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**
 - due date, **6:55**
 - effect of election, **6:61**
 - effective date, **6:54**
 - errors and omissions, **6:60**

ELECTION FOR S STATUS—Cont'd

- Election by QSST current income beneficiary—Cont'd
 - 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**
- Fringe benefits, **7:24, 7:29**
- G reorganizations, **13:51**
- Golden parachute payments, **7:61**
- Hobby losses, **7:30**
- Home-related deductions, **7:27**

ELECTION FOR S STATUS—Cont'd

- 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 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

INDEX

ELECTION FOR S STATUS—Cont'd

Pass through of tax items to shareholders—Cont'd

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**

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**

ELECTION FOR S STATUS—Cont'd

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**

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**

ELECTION FOR S STATUS—Cont'd

Special treatment—Cont'd
 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**
 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**

ELECTION FOR S STATUS—Cont'd

Tax elections—Cont'd
 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**
 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**

INDEX

ELECTION OF INCOME TAX

TREATMENT—Cont'd

- 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**

ELECTION TO CLOSE

CORPORATION BOOKS—Cont'd

- 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, **20:99**
- 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**
 - 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**

ELECTIONS—Cont'd

- Close books on termination of stock interest—Cont'd
 - 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, **20:98**
- 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**
 - 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**

ELECTIONS—Cont'd

- Post-termination transition period distributions—Cont'd
 - 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, **20:99**
- 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**
- 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**

INDEX

ELECTIONS—Cont'd

Section 444—Cont'd
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**
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**
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**

ELIGIBILITY TO ATTAIN S STATUS

—Cont'd

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**

INDEX

ESOPs—Cont'd

- 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**
- 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**

ESTATE PLANNING—Cont'd

- Postmortem planning—Cont'd
 - 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**

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**

ESTATES—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
- 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 conver-
sion 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**
- 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**

INDEX

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**
- 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**

EXECUTORS—Cont'd

- 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**

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**

**EXTENSION TO FILE S ELECTION
—Cont'd**

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**

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 conse-
quences 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, plan-
ning 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

FAIR MARKET VALUE—Cont'd

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 prop-
erty, **10:9**

FAMILY

Compensation, reallocation of income,
11:6

Definitions

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

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**

INDEX

FAMILY S CORPORATION—Cont'd

Estate planning—Cont'd
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**

FEEES

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**

FILING—Cont'd

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**

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 tax-
able year, **8:5**
Electing S corporation status, designa-
tion 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**

FISCAL YEAR—Cont'd

- 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**
 - 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**

FIVE-YEAR WAITING PERIOD

—Cont'd

- 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
 - general considerations in operating abroad, **20:58**
 - mismatching characterization, **20:59**
 - planning techniques, other pass-through techniques, **20:57**
- Investment in, **20:54**
- 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**

INDEX

FOREIGN LOSS RECAPTURE

—Cont'd

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

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**

Tax treaties, S corporation shareholders, **20:60 to 20:61**

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

FOREIGN TAX CREDIT

Carrybacks, unused taxes, **20:54**

FOREIGN TAX CREDIT—Cont'd

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**

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 election, **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 corporation 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 taxable 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 procedure, **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 beneficiary, use of Form 2553, **6:52**
 Section 444 election, form, **4:17**
 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, **20:104**
 Short form, **20:103**

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**

INDEX

FORMATION OF ENTITY—Cont'd

- Recognition of gain or loss—Cont'd
 - 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**
 - 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**

FORMS—Cont'd

- 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**
- Guaranteed payments, **11:22**
- Health insurance premiums, **11:23**
- Medical reimbursement plans, shareholder participation, **11:23**
- S corporation as startup business, **20:84**
- 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, **20:91**

FUTURES CONTRACTS

- Regulated, market-to-market rules, **7:48**
- Unrealized appreciation, S corporation as shareholder, **7:17**

FUTURES CONTRACTS—Cont'd

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**

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 prop-
erty, **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**

GAIN—Cont'd

Excess passive investment income
passive investment income defined

generally, **8:58**

sales and exchanges of stock or secu-
rities, **8:69**

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

Income from corporate distributions,
appreciated property, **7:12**

Income on incorporating transfers, dis-
advantages 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 conse-
quences, **15:52**

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 sell-
ing 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**

INDEX

GAIN OR LOSS—Cont'd

- Formation of entity—Cont'd
 - 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**
- 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**

GAIN OR LOSS—Cont'd

- 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**
- 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**

GRANTOR TRUSTS—Cont'd

- 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**

INDEX

GROSS RECEIPTS—Cont'd

- 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**

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**

HUSBAND AND WIFE—Cont'd

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**
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**

INADVERTENT TERMINATION OF S STATUS—Cont'd

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**

INDEX

INCOME—Cont'd

- 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**
- 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**

INCOME—Cont'd

- 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**
 - 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**
 - 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 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**

INDEX

INELIGIBLE CORPORATIONS

—Cont'd

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**

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**

INSTALLMENT SALES—Cont'd

Stock or securities, application of Section 453(k), **7:16**

INSTALLMENTS

See also index heading ESTIMATED TAX PAYMENTS

Estimated tax payments, **14:10**

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**

INTANGIBLE DRILLING COSTS

—Cont'd

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 prop-
erty, **5:23**

Debt used to acquire shares, S corpora-
tion 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**

INTEREST—Cont'd

Excess passive investment income

—Cont'd

gross receipts defined generally, **8:54**
special rules, **8:61**

Income, below-market debt, **5:19**

Nonqualified deferred compensation,
11:44

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 treat-
ment, **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 limita-
tions 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**

INDEX

INTERNATIONAL TRANSACTIONS

—Cont'd

- Export incentives, **20:62**
- International operation of S corporation
export incentives, **20:62**

INVENTORY

- Built-in gains tax
 - excluded assets, **8:36**
 - net unrealized built-in gain, **8:32**
- 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 limita-
tions, **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 limita-
tions, **15:9**

INVESTMENT INTEREST

- Acquisition debt interest on S termina-
tion, **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

INVESTMENT INTEREST

LIMITATION—Cont'd

SHAREHOLDER USE OF

INVESTMENT INTEREST RULES

- C corporation, stock, **2:18**
- Discharge of indebtedness, corporate
income determination and realiza-
tion, **7:9**
- Interest on acquisition debt, portfolio
assets, **2:18**
- S corporation advantage vs C corpora-
tion, **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, redemp-
tion 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 recogni-
tion 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**

INVESTMENT TAX CREDITS

—Cont'd

- 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, **20:102**
 - long form, **20:104**
 - short form, **20:103**
- 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, **20:101**

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**

INDEX

KIDDIE TAX—Cont'd

- Recapture—Cont'd
 - 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**

LENDING OR FINANCE BUSINESS

—Cont'd

- Excess passive investment income
 - Cont'd
- 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**

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**

LIFE TENANTS—Cont'd

- Split interests—Cont'd
 - 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**
- 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**

LIMITED LIABILITY COMPANIES —Cont'd

- 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**
- 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**

INDEX

LIQUIDATING DISTRIBUTIONS

—Cont'd

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**

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**

LIQUIDATIONS—Cont'd

Investment tax credits—Cont'd
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**

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**

LIQUIDATIONS—Cont'd

- 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**
- 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**

LOANS—Cont'd

- 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**
- 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**

INDEX

LOSS CARRYOVERS—Cont'd

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**

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**

LOSSES—Cont'd

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**

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**

LOSSES—Cont'd

- 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**
- 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 **DISSOLUTION OF MARRIAGE**
- remarriage of surviving spouse while estate open
 - generally, **3:37**
 - decedent'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**

INDEX

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 corporation 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**

MERGERS—Cont'd

Subsidiaries of S corporations, merger transactions, **21:15**
Tax-free transfer of interest in entity, **2:36**

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 extraction, **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

- 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**

MONEY OR CASH—Cont'd

- Property distributions, gain recognition
rule applicability, **10:7**
- 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**

INDEX

MUTUAL SAVINGS BANKS

Ineligible corporations, **3:3, 11:38**

N

NAKED SAR

Executive compensation, stock appreciation rights, **3:4**

NAME

Consent to S election by shareholders, form, **6:42**

Election by corporation, form, **6:3**

QSST election by current income beneficiary
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 interest, **20:43**

NEGLIGENCE

Subchapter S status, statute of limitations 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, planning 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**

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**
computation of built-in gains tax, **8:42**
deductions offsetting, **8:44**
Converted C corporation, loss carryforwards, **8:25**

NET RECOGNIZED BUILT-IN GAIN

—Cont'd

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 bene-
ficiary, Form 2553, **6:52**

Section 444 election
deferral entities alternative de mini-
mis 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**

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

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**

INDEX

NONPERMITTED TAXABLE YEAR

S status termination, **16:14**

NON-PRO RATA DISTRIBUTIONS

Distributions by corporations with accumulated E&P, **10:30**

Distributions to shareholders, corporation 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 issuance 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 securities, **5:24**

taxable sale of property to corporation, **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**

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**

NONRESIDENT ALIENS—Cont'd

Permissible and impermissible shareholders—Cont'd

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**

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**

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**

NOTICE OF REVOCATION OF S STATUS—Cont'd

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**

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**

INDEX

OIL AND GAS—Cont'd

- S corporation oil and gas activities
 - Cont'd
 - 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 termination, 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 beneficiary, **6:60**
- Subchapter S status, statute of limitations 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**
- 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**
- 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**

ORDINARY INCOME—Cont'd

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**

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**

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**

INDEX

OWNERSHIP TAX YEAR TEST

—Cont'd

- Fiscal year—Cont'd
 - 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**
- 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 computa-
tion, **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
 - natural business year test, **4:5**
- Single-class-of-stock requirement, valid-
ity 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

PARTNERSHIP OF S

CORPORATIONS—Cont'd

- 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**
- 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**

PARTNERSHIPS—Cont'd

- 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**
- 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**

INDEX

PARTNERSHIPS—Cont'd

- S corporations as partners—Cont'd
 - liquidating distributions, **20:41**
 - management by shareholders, **20:27**
 - passive loss rules, **20:28**
 - reorganizations, **20:32**
 - research and development activities, **20:100**
 - 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, **20:88**
- 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**
- 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, **20:98**

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**
- 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, **20:80**

PASSIVE ACTIVITY LOSS RULES

—Cont'd

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**

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**

PASSIVE INVESTMENT INCOME

—Cont'd

Tax on excess passive investment income—Cont'd

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**

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**

INDEX

PASS-THROUGH LOSSES—Cont'd

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**

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**

PASS-THROUGH LOSSES, LIMITATIONS ON SHAREHOLDER USE OF —Cont'd

At risk limitation—Cont'd

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 hav-
ing interest other than as credi-
tor, **9:51**

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**

**PASS-THROUGH LOSSES,
LIMITATIONS ON
SHAREHOLDER USE OF
—Cont'd**

Basis limitation—Cont'd
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**
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**

**PASS-THROUGH LOSSES,
LIMITATIONS ON
SHAREHOLDER USE OF
—Cont'd**

Basis limitation—Cont'd
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**
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 reductions, **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 adjustments 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**

**PASS-THROUGH LOSSES,
LIMITATIONS ON
SHAREHOLDER USE OF
—Cont'd**

- Basis limitation—Cont'd
 - 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**
- 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 deduction, **9:80**
 - double counting of business interest income and floor plan financing interest expense not allowed, **9:84**
 - exceptions to business interest deduction rules, **9:77**
 - passive loss rules, **9:83**
 - regulations affecting the deduction of business interest, **9:79**
 - section 163(j), treatment of S corporation 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 corporations, **9:78**

**PASS-THROUGH LOSSES,
LIMITATIONS ON
SHAREHOLDER USE OF
—Cont'd**

- Business interest limitation—Cont'd
 - termination of qualified subchapter S subsidiary status, effect on business 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 "Passive activities, limitations on losses from," under this index heading
- Co-maker, effect of shareholder as, **9:17, 9:39**
- 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 heading
- 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**

**PASS-THROUGH LOSSES,
LIMITATIONS ON
SHAREHOLDER USE OF
—Cont'd**

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**
 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**

**PASS-THROUGH LOSSES,
LIMITATIONS ON
SHAREHOLDER USE OF
—Cont'd**

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**
 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**

**PASS-THROUGH LOSSES,
LIMITATIONS ON
SHAREHOLDER USE OF
—Cont'd**

Indebtedness of S corporation to shareholder, basis attributable to —Cont'd
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**
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**

**PASS-THROUGH LOSSES,
LIMITATIONS ON
SHAREHOLDER USE OF
—Cont'd**

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**
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

**PASS-THROUGH LOSSES,
LIMITATIONS ON
SHAREHOLDER USE OF
—Cont'd**

- Original basis—Cont'd
 - 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**
- 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**

**PASS-THROUGH LOSSES,
LIMITATIONS ON
SHAREHOLDER USE OF
—Cont'd**

- Post-termination transition period
 - Cont'd
 - 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**
- 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**

INDEX

PASS-THROUGH LOSSES, LIMITATIONS ON SHAREHOLDER USE OF —Cont'd

- 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**
- 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**

PASS-THROUGH OF TAX ITEMS TO SHAREHOLDERS—Cont'd

- 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**

PENALTIES—Cont'd

- 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**

PER-DAY, PER-SHARE

ALLOCATION RULE—Cont'd

- 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**

INDEX

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**
- 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**
 - 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, **20:91**

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**

PRACTICE TIPS—Cont'd

- Discharge of indebtedness, corporate income determination, **7:9**
- Distributions to shareholders, differing bases in stock, **10:29**
- 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**

INDEX

PREFERRED STOCK

- Organization of S corporation, economic rights, **5:6**
- 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 securi-
ties

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 agree-
ments, **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 treat-
ment, **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**

definition, **5:23**

INDEX

PROPERTY—Cont'd

- Transfers to S corporation—Cont'd
 - 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 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**
- 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**
- 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**

INDEX

QUALIFIED SUBCHAPTER S TRUSTS (QSSTs)—Cont'd

Distributions—Cont'd
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**

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**

QUALIFIED SUBCHAPTER S TRUSTS (QSSTs)—Cont'd

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, **20:80**

Corporate level tax on excess passive income, **20:78**

Gain recognition on incorporation, **20:79**

Nonrecourse debt, **20:76**

PAL rules, **20:80**

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**
- 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**
 - 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**

INDEX

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**
 - 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**

REDEMPTION OF STOCK—Cont'd

- Partial liquidations—Cont'd
 - 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**

RE-ELECTION OF S STATUS—Cont'd

- 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**

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**

INDEX

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**

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**

REORGANIZATIONS—Cont'd

- 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, **20:89**

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**

REQUIRED PAYMENTS—Cont'd

- Section 444 election—Cont'd
 - 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**
- Of revocation of s status
 - filing requirements, **16:11**
 - form, **16:11**

RESEARCH AND DEVELOPMENT ACTIVITIES

- S corporation conducting
 - generally, **20:97 to 20:101**
 - credits, **20:98**
 - deductions, **20:99**
 - joint ventures, **20:101**
 - shareholder limitations, **20:100**

RESEARCH AND DEVELOPMENT EXPENDITURES

- Credits, pass through to shareholders, **20:98**
- Deductions, **20:99**

RESEARCH AND EXPERIMENTAL EXPENDITURES

- Tax preference items, S corporation special treatment, **7:45**

RESEARCH CREDIT

- General business credit limitation, **7:83**

INDEX

RESEARCH CREDIT—Cont'd

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, corporation 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 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

RETURNS—Cont'd

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**

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**

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**
- 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**
 - 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**

INDEX

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**

S ELECTION—Cont'd

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**

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**

S SHORT TAXABLE YEAR—Cont'd

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**

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**

SALE OR EXCHANGE—Cont'd

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**

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**

INDEX

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**

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

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, **20:97**

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 experi-
mental expenditures by sharehold-
ers, **20:99**

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**

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**

INDEX

SECTION 174(a)

Research or experimental expenditures deduction, **20:99**

SECTION 174(b)

Election to amortize research and experimental expenditures, **20:99**

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**

SECTION 248—Cont'd

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**

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**

INDEX

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**

SECTION 351—Cont'd

Transfers of property to S corporation
—Cont'd
basis of property received by corporation, **5:31**
general rule of nonrecognition, **5:22**
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**

SECTION 409A—Cont'd

- Nonqualified deferred compensation, **11:44**
- 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**

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**

INDEX

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**
Excess passive investment income, taxable income, **8:71**

SECTION 469—Cont'd

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**

SECTION 613A(c)—Cont'd

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**
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 beneficiary
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 limitation, **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 partnership, **2:12**

INDEX

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 partnerships, **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 partnerships, **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**

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**

SECTION 754—Cont'd

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**

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**

INDEX

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**
- 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

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**

SECTION 1368—Cont'd

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**

INDEX

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**
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 limitation, **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 Reinvestment Act, temporary reduction in

SECTION 1374—Cont'd

Built-in gains tax—Cont'd
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**
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

SECTION 1375—Cont'd

- Asset acquisitions—Cont'd
 - 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 generally, **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**
- 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 limitation, **3:9**

SECTION 1375(b)(4)

- Built-in gains tax, impact of tax, **8:48**

SECTION 1375(b)(4)—Cont'd

- 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 interest, **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**

INDEX

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, affiliated group limitation (prior law), **3:7**

SECTION 1563(a)(2)

Brother-sister controlled group, affiliated 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

SECTION 6653—Cont'd

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**
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**

SEPARATE TAXABLE YEARS

—Cont'd

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**

INDEX

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**
- Venture capital S corporation, **20:91**

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**

SHAREHOLDER AGREEMENTS

—Cont'd

- Buy-sell procedures—Cont'd
 - 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**
- Preserving S corporation status
 - generally, **18:9**
- QSST shareholder, preserving S corporation status, **18:12**
- Revocation of QSST election, **6:63**
- S corporation startup, **20:85**
- 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**
 - 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 CONSENT—Cont'd

- 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**
- 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**

INDEX

SHAREHOLDER NUMBER

LIMITATION—Cont'd

- 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, **20:100**
- 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, **20:90**

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-termination 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 termination
 - 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**

SHAREHOLDERS—Cont'd

- 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 reorganization, **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**
- 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**

SHAREHOLDERS—Cont'd

- Consent to S election—Cont'd
 - 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**
 - 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, **20:98**
- 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**

SHAREHOLDERS—Cont'd

- 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**
- 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, **20:99**
- 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**

INDEX

SHAREHOLDERS—Cont'd

- Executive compensation—Cont'd
 - 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**
- 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**

SHAREHOLDERS—Cont'd

- 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**
 - 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**

SHAREHOLDERS—Cont'd

- Pass through of tax items—Cont'd
 - 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**
- 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**

SHAREHOLDERS—Cont'd

- 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**
- 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, **20:99**
- 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**

INDEX

SHAREHOLDERS—Cont'd

- S corporations used in oil and gas activities—Cont'd
 - 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**
 - types of investors, **20:4**
- S corporations used in venture capital activities
 - limitations, **20:90**
 - losses pass through, **20:88**
- 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, **20:83**
- 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**

SHAREHOLDERS—Cont'd

- 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**
- 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**
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**
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**

INDEX

SINGLE CLASS OF STOCK—Cont'd

- 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**
 - 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, **20:96**

SMALL BUSINESS JOB PROTECTION ACT OF 1996

- Generally, **App. 2**

SMALL BUSINESS JOB PROTECTION ACT OF 1996—Cont'd

- Affiliated group limitation (prior law), **3:7 to 3:14**
- Affiliated groups (current law), background, **21:1**
- C corporations as subsidiaries
 - background, **21:1**
- 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**
- 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, **20:88**

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, **20:81 to 20:85**
 - compensation of employees, **20:84**
 - formation, **20:82**
 - fringe benefits availability, **20:84**
 - shareholder agreement, **20:85**
 - start-up losses pass-through, **20:81**
 - tax rate considerations, **20:84**

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**

INDEX

STATE LAWS—Cont'd

- Eligibility to attain S status, impact of issuance of unauthorized shares, **3:66**
- 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, **2:71**
- 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**

STEP-UP BASIS—Cont'd

- 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**

STOCK—Cont'd

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

STOCK—Cont'd

- Options—Cont'd
 - organization of S corporation, **5:11**
- 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**

INDEX

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

STOCK—Cont'd

- Transfers—Cont'd
 - 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**

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**

INDEX

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**

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**

Termination of S election, **1:8**

INDEX

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, Subchapter 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**

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**

SUBSIDIARY CORPORATIONS

—Cont'd

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, 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**

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**

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**

SUSPENDED LOSSES—Cont'd

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**

INDEX

TARGET CORPORATIONS

- A reorganizations
 - accumulated adjustments account, **13:10**
 - allocation of tax items, **13:12**
 - appreciated property distributed, **13:14**
 - boot 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, **13:14**
 - forward 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, **13:25**
 - liquidation following reorganization, **13:27**
 - S election termination, **13:20, 13:27**
 - tax-free distributions after reorganization, **13:25**
- Boot received in reorganization, **13:1**
- C corporations, AAA of acquiring S corporation effect, **13:10**
- Gain or loss recognition on reorganization
 - generally, **13:1**
 - selling target corporation, **15:52**
- Liquidation to avoid S election termination
 - generally, **13:20**
 - liquidation within 30 days of acquiring (prior law), **3:9**
- 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**

TARGETED JOBS CREDIT—Cont'd

- 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, **2:31**
- Liquidation, 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**

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**
- Income shifting, estate planning, **19:49**
- Overview of pass through and allocation, **7:77**
- Pass through and allocation, **7:78**
- Recapture, **2:14**
- Research and development expenditures, **20:98**
- 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**

TAX CREDITS—Cont'd

- 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**

INDEX

TAX PREFERENCE ITEMS

- Alternative minimum tax, **7:44**
- Research and experimental costs, **20:99**
- 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**
- 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**

TAX RETURNS—Cont'd

- 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**
- Foreign tax treaties and S Corporation shareholders, **20:60 to 20:61**
- 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**
- 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**

TAXABLE INCOME—Cont'd

- 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**
- 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**

TAXABLE YEARS—Cont'd

- 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**
- 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**

INDEX

TAXABLE YEARS—Cont'd

- 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**
- 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**
- 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**

TENANCY BY THE ENTIRETY

—Cont'd

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 carryover, **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**

TERMINATION OF S STATUS

—Cont'd

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**

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**

TERMINATION OF S STATUS

—Cont'd

- 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**
 - 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**

TERMINATION OF S STATUS

—Cont'd

- Post-termination transition period
 - Cont'd
 - asset acquisitions—Cont'd
 - 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**
 - 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**

TERMINATION OF S STATUS

—Cont'd

- 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**
- 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**
- 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**

INDEX

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**
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**
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**

TRUSTEES—Cont'd

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)
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**

INDEX

TRUSTS—Cont'd

- Permissible and impermissible shareholders—Cont'd
 - 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**
- 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**

TRUSTS—Cont'd

- 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**
- 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**

UNIFORM GIFT TO MINORS ACT

—Cont'd

Estate planning, minor donees of stock,
19:51

**UNIFORM LIMITED PARTNERSHIP
ACT**

Classification of entity, corporate
characteristics, **2:5**

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, owner-
ship 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, **20:86 to 20:96**

INDEX

VENTURE CAPITAL ACTIVITIES

—Cont'd

- Classes of stock, **20:90**
- Compensation of managers, **20:91**
- Disposition of business, **20:89**
- Double taxation avoidance, **20:87**
- Multiple-company investment
 - generally, **20:92**
 - gain on property distributions, **20:94**
 - no consolidation, **20:95**
 - single level of tax, **20:93**
 - small business investment company, **20:96**
- Phantom stock, **20:91**
- Property for services, **20:91**
- Reorganizations, **20:89**
- Shareholder limitations, **20:90**
- Start-up losses pass through, **20:88**
- Taking S corporation public, **20:89**

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**

VOTING STOCK—Cont'd

- Shareholder agreements, single-class-of-stock requirement, **18:15**

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**

WITHHOLDING—Cont'd

- Salaries, **17:29**
- Self-employment tax on income, **17:30**
- 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**

WRITTEN DATA METHOD—Cont'd

- S election—Cont'd
 - 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**
- 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**
 - 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**