

Our new Constitution is now established, everything seems to promise it will be durable; but, in this world, nothing is certain except death and taxes.

Benjamin Franklin

1. A and B form a Delaware corporation, SCo.
 - (a) If they want SCo to be treated as an S corporation, who makes the election? §1362(a).
 - (b) Can they elect to treat SCo as a partnership?
 - (c) If they want to terminate their S election, how can they do it? §1362(d)(1) and (2).
2. SCo, an S corporation, is owned by A (200 shares with a \$10,000 basis) and B (100 shares with a \$5,000 basis) through the entire year. During the current year, SCo has the following income and expenses:
 - Business income: \$100,000
 - Tax-exempt interest: 1,000
 - Salaries: 50,000
 - Depreciation: 10,000
 - Property taxes: 5,000
 - Supplies: 5,000
 - LTCG from the sale of stock: 10,000
 - STCG from the sale of stock: 5,000
 - Charitable contribution: 10,000
 - (a) How will SCo, A, and B report these transactions?
 - (b) What will A's basis be in his SCo shares at year end if SCo does not make any distributions during the year?
3. Assume the same facts as the previous question, except that SCo distributes \$10,000 to A and \$5,000 to B during the year.
 - (a) What effect does the distribution have on A's basis in SCo? §1367(a)(2)

- (b) Explain the rationale of §1367(a)(2)(D). Examples nondeductible expense may be fines and penalties under §162(f).
- 4. Assume that A's outside basis in SCo is \$10,000, and SCo incurs an operating loss of \$30,000, of which \$20,000 is allocated to A.
 - (a) What amount of the loss can A take into account? §1366(d)(1).
 - (b) If A cannot use a portion of the SCo loss, what happens to the loss? §1366(d)(2).
- 5. A's sells his interest in SCo to U.S. individual C on June 30th. Assume that SCo's operating income is earned ratably throughout the year, except that SCo sells for a gain shares of some companies it owns and recognizes income after C becomes a shareholder.
 - (a) What are two basic ways to allocate SCo's tax items throughout the year?
 - (b) What is the default rule for allocating tax items? §1377(a)(1).
 - (c) Under what circumstances can the default rule be changed? §1377(a)(2).
- 6. Assume A borrows \$10,000 from a bank.
 - (a) If A contributes the \$10,000 to the capital of SCo, what effect does this have on A's basis in SCo?
 - (b) If SCo borrows \$10,000, what effect does this have on A's basis?
 - (c) What are some of the tax consequences of the difference?
- 7. Briefly describe the *S Corp compensation* gambit.
- 8. Can an LLC make an S Corp election? Reg. §301.7701-3(c)(1)(v)(C).