

TAX QUOTE

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?
3. Assume the same facts as the previous question, except that SCo distributes \$10,000 to each A and 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). An example of a nondeductible expense may be fines and penalties.
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 all SCo's income is earned ratably throughout the year, except that the stock sales occur 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.