

Ac 553 week 6 essay



**ASSIGN
BUSTER**

21-2 – What are the eligibility requirements that a corporation must meet in order to qualify under Subchapter S? In order to qualify under subchapter S, a corporation must be a small business corporation, and additionally, must be a domestic corporation with less than 100 shareholders, must include only eligible shareholders, must have only one class of stock, and must not be an ineligible corporation. 21-13 – What limits are placed on the selection of a tax year of an S corporation? How do these limits differ from those applicable to C corporations and partnerships?

An S Corp is required to use a tax year ending on December 31st, or any other tax year for which it establishes a business purpose to the satisfaction of the Internal Revenue Service Code Section 1378(b). C Corps can use any tax year they wish, as long as the tax year ends on the last day of a given month. A partnership is similar to an S Corp, and must use a tax year ending with the calendar year. 21-26 – Durrabusiness is organized as a regular C corporation in 1986. At the beginning of the present year, Durrabusiness elects to be an S corporation.

Will the election cause a recapture of the general business investment credit taken on any property purchased while a C corporation? Durrabusiness electing to become an S corporation will not cause a recapture of the general business investment credit. The reason for this is that the S Corporation does not sell any of the property purchased while a C Corporation. Since there is no sale or disposition of the property, there is no recapture. 21-53 – Several individuals form Lang Corporation on May 1, 2011.

The corporation begins acquiring assets on June 1, 2011, and begins business on August 1, 2011. What is the latest date that Lang can file Form 2553 requesting S corporation status? The latest day that Lang can file Form 2553 requesting S corporation status is two months and 15 days after the beginning of the tax year the election is to take effect, or at any time during the tax year preceding the tax year it is to take effect. There are exceptions to this rule for instances when there is no prior tax year is less than 2.5 months.

? 1-63 – A shareholder purchases 30 percent of the stock of an S corporation two-thirds of the way through the year for \$20,000. The S corporation incurs an operating loss of \$300,000 for the year. What is the amount that the shareholder may deduct on his personal income tax return, assuming the at-risk and passive activity rules do not apply? The loss from the S Corp that will be reported on the K-1 will be $\$300K \times \frac{122}{365} \times 30\%$, or \$30,082. The maximum that he will be able to deduct on the tax return, however is \$20,000, and the balance will have to be carried forward.