2021 NATIONAL INCOME TAX WORKBOOK

CHAPTER 5: CHOICE OF ENTITY

Land Grant University Tax Education Foundation

LEARNING OBJECTIVES

P. 201

- ✓Understand the default and elective classifications
- ✓Know the key characteristics of different business entity types
- ✓Understand how the choice of entity may affect the use of losses
- ✓Know which entity type will maximize QBI – Depends on level of income
- ✓Identify the fringe benefits that are excluded from income of a partner or S corp shareholder
- ✓Know the income tax filing obligations for all entity types
- ✓Understand when multiple entities can or MUST be aggregated

INTRODUCTION

P. 201

- ➢TCJA of 2017 --- Corp tax rate 21% flat tax rate
- ➢No QBI on C corp distributions
- ➢S corp, partnership, & LLC's – NO entity level tax
- ➢S corp shareholders – NO SE tax on net income (but on compensation)

ENTITY CLASSIFICATION

DEFAULT ENTITY CLASSIFICATION P. 202

- I.R.C Authorizes only 2 entities
- I.R.C. 7701(a)(2): Partnership
- I.R.C. 7701(a)(3): Corporation
- Unincorporated, multiple owners = Partnership
- Can change tax status without changing business form, (LLC).
- Treas. Reg. 301.7701-3(b)(1): Elect corporate status
- I.R.C. 1361(a): C corp unless S election is made
- Single-member LLC: Disregarded entity

FIGURE 5.1 – CLASSIFICATION OF DOMESTIC BUSINESS ENTITIES P. 202

FIGURE 5.1
Classification of Domestic Business Entities

State Law	Federal Tax Default	Federal Tax Elections*
Sole proprietorship	Income reported by owner	None
Commercial corporation	C corporation	S corporation
Professional corporation	C corporation	S corporation
General partnership	Partnership	C corporation or S corporation
Limited partnership	Partnership	C corporation or S corporation
Limited liability partnership	Partnership	C corporation or S corporation
Limited liability limited partnership	Partnership	C corporation or S corporation
SMLLC	Disregarded entity	C corporation or S corporation
LLC—multimember	Partnership	C corporation or S corporation

*Treas. Reg. § 301.7701-3

LLC CLASSIFICATION CHANGES P. 203

- Form 8832 (Entity Classification Election) – Electing C corp status
- Form 2553 (Election by a Small Business Corporation) – Electing S corp status

LLC TO CORPORATION P. 203

- LLC owner contributes assets & liabilities – receives corporate stock
- I.R.C. 351 – no gain or loss recognized
  - Immediately after exchange, control of corp
- Practitioner Note – Limit on Elections
  - 60-month limitation
  - Unless 50% ownership change
  - Exception – newly formed eligible entity, effective date of formation

LLC OWNERSHIP CHANGES P. 203

- SMLLC to MMLLC = Partnership
- MMLLC to SMLLC = Termination of Partnership, Final Return, Disregarded entity
- Cross-Reference
  - Spousal LLC that is community property
  - Choose to treat as SMLLC, or MMLLC, treated as Partnership
  - 2019 Tax Workbook, Pages 136-137

SMLLC TO MMLLC P. 203

1. Sale of an interest
2. Gift of an interest
3. Death of a member & distribution of the member's interest to multiple heirs
4. Divorce of spouses (Rev. Proc. 2002-69, 2002-2 C.B. 831)
5. Relocation of spouses (Rev. Proc. 2002-69)
6. Distribution of an interest from an entity to multiple shareholders, partners, members, or beneficiaries

MMLLC TO SMLLC P. 203

1. Sale of all LLC interests
2. Gift of all LLC interests
3. Redemption of LLC interests
4. Death of a member
5. Relocation of spouses to a community property state
6. Divorce award of an interest to one spouse in non-community property state
7. Merger of members of an LLC
8. Purchase of the interests of all but one owner under I.R.C. 736 retirement of a partner provisions

CORPORATION CLASSIFICATION CHANGES P. 204

- Form 2553, change C-Corp to S-Corp
- § 1362 – Revocation of S election, S-Corp to C-Corp
- Otherwise, must change business form to change tax status, i.e., Partnership
- Cross-Reference: S Corp Eligibility
  - I.R.C. 1361, eligibility requirements & I.R.C. 1362, file S-Corp Election, Form 2553
  - Domestic corp
  - 100 shareholder limit (with attribution)
  - One class of stock
  - Not an ineligible entity

ENTITY TYPES

PRACTITIONER NOTE – OTHER NON-TAX FACTORS P. 205

- Liability protection
- Step-up basis, appreciated property at death
- Sale of owner's Interest
- Allowable type & number of owners
- Partnership audit regime, if eligible, can elect out

SINGLE-MEMBER LLC (SMLLC) P. 205

- Disregarded entity
- Assets, liabilities, income, & deductions belong to owner
- Schedule C, E, F
- Subject to SE tax
- (QBI) eligible, depends on above, below, or within income Phase-In Range
- Cross-Reference – Practice of Law, be careful
- Practitioner Note – EIN Required
  - For employment taxes
  - For excise tax

PARTNERSHIPS PP. 205-206

- MMLLC
- Economic relationship characterized as a partnership
- I.R.C. 761(a)
- Includes: Defined Broadly
  - Syndicate
  - Group
  - Pool
  - Joint venture
  - Not otherwise classified as corporation, trust, or estate

PARTNERSHIPS PP. 206

- Partner – member in syndicate, group, pool, joint venture, or organization
- Partnership – For Federal Tax Law
  - Broader scope
  - Doesn't have to organize under State Law
- Cross-Reference – Electing out of Subchapter K
  - Treas. Reg. 1.761-2
  - Qualified Joint Venture – married members & file MFJ
  - 2017 Tax Workbook, Pages 238-244

PARTNERSHIPS P. 206

- Pass through to partners/member; Conduit
  - Income
  - Gain/loss
  - Deductions
  - Credits

Partners taxed on distributive share, Tax Based on K-1 information
  - Income & SE Tax
  - Even if no amounts distributed

- I.R.C. 704(b) – more flexibility in allocations, if partnership agreement & Economic Effect
- I.R.C. 704(c) –built-in gains/losses, Report Item M & N, Partners K-1
- Rev. Rul. 69-184, 1969-1 C.B. 256 – Partners DO NOT receive wages
- Partners receive guaranteed payments – Reduce QBI, or Distributions, Do Not Reduce QBI

C CORPORATIONS P. 206

- 21% Flat Tax-Tax Decrease or Tax Increase
- Qualified dividends taxed at shareholder level
  - 0%, 15%, 20%
  - 3.8% NIIT (net investment income tax)
- Cross-Reference - C Corp vs. Pass-through
  - Corp w/ No Dividends Lower tax rate in growth stage
  - Corp that Retains earnings < partnership or S corp
  - If distribute earnings, Combined Corp & Ind tax rate > partnership or S-Corp
  - Corporation fringe benefits usually better; HRA
  - 2018 Tax Workbook, pages 458-480

S-CORPORATION P. 207

- I.R.C. 1363(a) – S-Corp, no tax on earnings
- Pass through items
  - Income
  - Loss
  - Deduction
  - Credits
- Reasonable compensation to shareholders, Required
  - Service providers
  - No SE tax on distributions

Exceptions:

Built-in gains (BIG) tax – if formerly C Corp

Excess net Passive Income

FIGURE 5.2

P. 208

FIGURE 5.2
Comparison of Business Entities

Item	Partnerships	S Corporations	C Corporations	Disregarded Entity
Entity classification	Default status for multimember LLC	Elective status for multimember LLC or SMLLC if qualified for S corporation status and filing Form 2553	Elective status for multimember LLC or SMLLC filing Form 8832	Default status for SMLLC
Maximum number of equity interests	No maximum number	Maximum 100 shareholders (family members may be treated as one shareholder for this purpose)	No limitation	One
Classes of equity interests	No limitation	One class of stock (voting rights are disregarded in making this determination)	No limitation	N/A
Ineligible entities	Generally, partnerships with equity interests that are publicly traded; banks and certain insurance companies must use the corporate form	Foreign corporations; financial institutions using reserve method of accounting; insurance companies; domestic international sales corporations (DISCs) and former DISCs	None	N/A
Eligible owners	All persons and entities eligible to be partners	Individuals, estates, certain trusts, charities, and qualified retirement plans	All persons eligible	Individual
Foreign taxpayers	Eligible to be a partner; certain income subject to withholding tax	Ineligible to be a shareholder	Eligible to be a shareholder; dividends subject to withholding tax with possible reduced treaty rate	Eligible
Tax-exempt taxpayers	Eligible to be a partner; income subject to generally applicable unrelated business income tax	Tax-exempt taxpayers (other than charities and qualified retirement plans) ineligible to be a shareholder; all items of income and loss of charities and qualified retirement plans (other than ESOPs) included in unrelated business taxable income; items of income and loss of ESOPs not included in unrelated business taxable income	Eligible to be a shareholder; dividend generally not subject to unrelated business income tax	Eligible to be an owner; income subject to generally applicable unrelated business income tax
Trusts	Eligible to be a partner; usual trust taxation rules apply	Only grantor trusts, testamentary trusts, qualified subchapter S trusts, and electing small business trusts eligible as shareholders; special taxation rules apply	Eligible to be a shareholder; usual trust taxation rules apply	Eligible

FIGURE 5.2

P. 209

FIGURE 5.2 (continued)
Comparison of Business Entities

Item	Partnerships	S Corporations	C Corporations	Disregarded Entity
Allocation of income and losses	Allocation in accordance with partnership agreement if allocation is in accordance with each partner's interest in the partnership, or the allocation has substantial economic effect	Pro rata among shares on a daily basis	Not applicable (income and losses do not pass through)	All to owner
Limitation on losses	Losses limited to basis in partnership interest, which includes partner's share of partnership debt; subject to amount at risk, passive activity loss, and excess business loss limits	Losses limited to basis in stock and indebtedness of corporation to shareholder; no inclusion of corporate debt in shareholder basis; subject to amount at risk, passive activity loss, and excess business loss limits	Losses deductible against corporate income; NOLs generally can be carried forward; capital losses generally can be carried back 3 years and forward 5 years	Subject to amount at risk, passive activity loss, and excess business loss limits
Contributions of unencumbered property to entity	Tax-free; built-in gain or loss allocated to contributing partner	Tax-free if contributors are in control of the corporation after the exchange; no special rules allocating built-in gain or loss to contributor	Tax-free if contributors are in control of the corporation after the exchange	N/A
Distributions of property (liquidating or otherwise)	Generally tax-free; carryover or substituted basis to partner; partnership may elect to make basis adjustment in partnership property to reflect adjustments to distributee partner	Any gain in distributed property is recognized by the corporation and allocated to the shareholders; FMV basis to the shareholder	Any gain in distributed property taxable to the corporation; shareholder taxed if amount of distribution exceeds stock basis	All business property treated as property of owner
Transfer of equity interests	Gain treated as ordinary income to extent of ordinary income on assets held by partnership; partnership may elect to adjust basis of its assets with respect to transferee partner to reflect purchase price	Gain treated as capital; no adjustments to basis of corporate property	Gain treated as capital	Fully taxable as asset sale, unless contributed to partnership or controlled corporation
Termination of entity	Termination if not more than one owner, or ceases to carry on any business or investment	No provision	No provision	Generally, nontaxable

FIGURE 5.2

P. 210

FIGURE 5.2 (continued)
Comparison of Business Entities

Item	Partnerships	S Corporations	C Corporations	Disregarded Entity
Treatment of C corporation converting to partnership or S corporation	Corporation must liquidate and gain or loss is recognized to corporation and shareholders	Generally, no taxation upon election; corporate tax is imposed on built-in gain if assets sold during 5-year period after election effective; distribution of subchapter C earnings and profits taxable as a dividend; special rules applicable to a corporation with accumulated earnings and excess net passive investment income	N/A	N/A
Treatment of disregarded entity or partnership converting to C corporation or S corporation	Tax-free if transferors are in control of the corporation after the exchange; possible exception where contributed property is subject to debt	N/A	N/A	Tax-free if transferor is in control of the corporation after the exchange; possible exception where contributed property is subject to debt
Mergers and other reorganizations with corporations	Not eligible to engage in tax-free reorganization with corporation	Eligible party to a tax-free corporate reorganization	Eligible party to a tax-free corporate reorganization	Not eligible to engage in tax-free reorganization with corporation
Corporate tax rules of subchapter C	Rules inapplicable	Rules generally applicable, with certain exceptions	Rules applicable	Rules inapplicable
Wholly owned corporate subsidiary	Corporation treated as separate entity	Parent corporation may elect to treat wholly owned subsidiary as disregarded entity	Not subject to tax on dividends or liquidating distributions paid between wholly owned subsidiaries; may be eligible to file consolidated returns	Corporation treated as separate entity
Federal income tax rates	All income is allocated to owners and taxed at their rates	All income that exceeds reasonable compensation to owner employees is allocated to owners and taxed at their rates	All income that exceeds reasonable compensation to owner employees is taxed at a flat 21% rate	All income is taxed to the individual owner
Application of employment and SE taxes	Except in certain cases involving a limited partner, each partner's share of net business income is net earnings from SE	Amounts paid as reasonable compensation to a shareholder-employee are wages subject to employment tax; no amount of shareholder's share of S corporation income is net earnings from SE	Amounts paid as compensation are wages subject to employment tax; no amounts are net earnings from SE	Net business income is net earnings from SE

FIGURE 5.2

P. 211

FIGURE 5.2 (continued)
Comparison of Business Entities

Item	Partnerships	S Corporations	C Corporations	Disregarded Entity
Treatment of earnings as investment income for purposes of the net investment income tax (NIIT)	Business income of limited partners who are not active in the business and that is not net earnings from SE is treated as investment income for the NIIT	Business income of shareholders not active in the business is treated as investment income for the NIIT	Dividends paid to individuals are treated as investment income for the NIIT	Subject to NIIT unless section 1231 gain or income subject to SE tax
Qualified business income (QBI)	QBI, W-2 wages, and qualified property passed through to eligible partners	QBI, W-2 wages, and qualified property passed through to shareholders	Not eligible for QBI deduction	QBI, W-2 wages, and qualified property used to calculate the owner's QBI deduction

LOSSES LIMITED BY BASIS

PARTNERSHIP LOSSES – DEDUCTIBLE? P. 212

- Outside basis = Member's interest
- Inside basis = Asset basis of the partnership/LLC
- Loss limitation = Outside basis
  - I.R.C. 704(d)
    - Losses up to adjusted basis
    - Carry-Over unused losses

CALCULATING BASIS (§705) P. 212

- Basis at Time of Acquisition:
- Increase by
  - Additional contributions
  - Partner's share of partnership liabilities
  - The partner's distributive share of taxable & nontaxable partnership income
- Decrease by
  - Distributions
  - Losses
  - Nondeductible expenses (not capital expenditures)

I.R.C. 752(a) & 721(a) P. 212

Change in Partner Interest

Reallocation of partnership liabilities
- Increase = treated as cash contribution

Practitioner Note - COVID RELIEF LOANS AND GRANTS
- PPP forgiven amounts = Tax exempt income
- EIDL advance = Tax exempt income
- Does not preclude increase in basis or
- Reduce tax attributes

S CORPORATION LOSSES – DEDUCTIBLE? P. 212

- Basis at the shareholder level ONLY
- I.R.C. 1366(d)(1)
  - Losses > stock basis + loan or debt basis = DISALLOWED
- Stock basis at time of acquisition
  - Increased by
    - Income
  - Decreased by
    - Deductions
    - Losses
    - Distributions

ADJUSTMENTS TO BASIS & ORDERING RULES P. 213

- Annual Event-Last Day S-Corp Year
- Immediately before disposition
- Ordering Rules
  1. Income items – income, tax-exempt, separately stated, excess depletion = Increase
  2. Distributions (NOT C Corp AE&P) = Decrease (not below zero)
  3. Non-deductible non-capital Expenses, depletion = Decrease (not below zero)
  4. Loss & deduction = Decrease (not below zero)

- Cross-Reference – Elective Ordering Rule
  - Treas. Reg. 1.1367-1(g) Deduct Item 4, Losses, before Item 3, Non-Deductible

EXAMPLE 5.1 – LOSSES GREATER THAN BASIS P. 213

- S corporation, Smithfield, Inc.
- One shareholder, Pam
- Stock basis = $30,000
- $40,000 loss
- Loss limitation = $30,000
- Carry forward = $10,000

SHAREHOLDER LOANS – INCREASE BASIS P. 213

- Loans from Shareholder Increases Basis, Debt Basis
- Treas. Reg. 1.1366-2 – Must be Bona fide indebtedness, Economic outlay by S/H
- Guaranteeing loan – NOT bona fide indebtedness
- Treas. Reg. 1.1366-2(a)(2)(ii) – If shareholder, from personal funds, Repays Corporate debt, then Increases Basis to the extent of payment.

EXAMPLE 5.2 – SHAREHOLDER GUARANTEE P. 213

- Sole shareholder, Claire
- Guaranteed $100,000 bank loan to Glacier
- Claire PERSONALLY paid $20,000 (principal) to bank for loan to Glacier
- Claire INCREASES loan basis by $20,000
- Treas. Reg. 1.1366-2(a)(2)(iii), Example 4

SELF-EMPLOYMENT TAX

P. 214

- SMLLC & general partners – SE tax on all business income
- Cross Reference, Reasonable Compensation, Col. 1, 2020 NITW PP. 135-137
- Reasonable compensation rules – S & C Corp shareholders
- IF not Reasonable, IRS can Recharacterize Distribution as Wages, PENALTIES.
- $ 10,000 SE Income
  - $1,413 SE Tax
  - $707 One-half SE Tax Deduction
- Some MMLLC Members Limited Partners, Cross Reference, Col. 2
- Proposed Regs never finalized.

QUALIFIED BUSINESS INCOME DEDUCTION

QBI DEDUCTION

P. 215

- Choice of entity – increase or decrease QBI
- QBI Depends on IF Above, Below, or Within Phase-In Ranges
- QBI Reduces Income Tax but **Not SE Tax**
- C Corp-NO QBI Compare QBI For: Sole proprietor, SMLLC, partnership, or S corp
- DOES NOT INCLUDE – wages, salaries, or guaranteed payments for services
- Taxable income thresholds
  - $329,800 MFJ, $164,900 S & HOH, $164,925 MFS
- S corp shareholder salary
  - Reasonable compensation, Required
  - Reclassify distributions as compensation

EXAMPLE 5.3 - GUARANTEED PAYMENTS P. 216

- J&J Construction - partnership
- $550,000 income
- $250,000 guaranteed payments
- $300,000 pass through income
- Partner share of QBI = $150,000

EXAMPLE 5.4 - PROFIT ALLOCATION P. 216

- J&J Construction
- $550,000 income
- No guaranteed payments
- Partner share of QBI = $275,000
- $125,000 Increase in QBI
- Reduce Taxable Income
- Increase SE Tax

FRINGE BENEFITS

FRINGE BENEFITS P. 217

- Fringe benefits – included in income
  - Unless specifically excluded ☺
  - Deductible by Entity
- 2% shareholder of S corporation – Most of our Clients?
  - Treat as general partner
  - Treat as self-employed
  - Practitioner Note – attribution rules

HEALTH & ACCIDENT INSURANCE PP. 217-218

- S Corp 2% shareholder
  - Corp deducts premium payment
  - Shareholder includes in income, W-2, Box 1, Taxable, Not Box 3 or 5
  - Self-Employed Health Insurance, (SEHI) Adjustment to Gross Income - 1040
- Partner
  - Treat as guaranteed payment – deduction By Partnership
  - Treat as reduction of distributions – no deduction by Partnership
- SE Health Insurance Deduction
  - 2% shareholder – if included in wages
  - (SEHI) Limited to earned income

HEALTH SAVINGS ACCOUNT (HSA) P. 218

- Contributions – adjustments to AGI
- Distributions for medical expenses = NOT included in gross income
- High-deductible health plan participant
  - $1,400 self-only coverage
  - $2,800 family coverage
- Out-of-pocket expenses limitation
  - $7,000 self-only
  - $14,000 family
- Contribution limits
  - $ 3,600 self-only
  - $7,200 family
  - $1,000 extra age 55 and older

HEALTH SAVINGS ACCOUNT

PP. 218 -219

- S Corp 2% Shareholder
  - Cannot exclude from gross income
  - Not subject to FICA or FUTA
- Partner
  - Treat as distributions to partner, no partnership deduction
  - Treat as guaranteed payment, Partnership can deduct

GROUP TERM LIFE INSURANCE

P. 219

- $50,000 excluded from wages
- Excess of $50,000 included in wages
- 2% shareholder or partner = NO exclusion

MEALS & LODGING

P. 219

- Meals may be excluded from gross income
  - Served on premises
- Lodging may be excluded from gross income
  - On employer's premises
  - Condition of employment
  - 2% shareholder or partner = Included in Gross Income

CAFETERIA PLANS

P. 219

- Not available to –
  - Self-employed
  - 2% Shareholders
  - Partners
- Planning Pointer – 2% Shareholder Participation
  - 2% shareholder may disqualify the plan
  - Consider before converting C to S corp

EDUCATIONAL ASSISTANCE

P. 220

- Nontaxable fringe benefit
- Cannot discriminate in favor of highly compensated
  - 5% owner
  - Compensation greater than $130,000
  - 5% limit, need 20 other Employees
- Practitioner Note – Student Loan Payments
  - March 27, 2020 - December 31, 2025

DEPENDENT CARE ASSISTANCE

P. 220

- Maximum Exclusion
  - $10,500 per year
  - $5,250 MFS
- Limit on benefit paid to 5% owners, 25%
- Need 3 or 4 other employees

INCOME TAX FILING OBLIGATIONS

FILING REQUIREMENTS

PP. 221-222

- SMLLC or disregarded entity – 15th day of 4th month following close of tax/fiscal year end
- Partnership -- 15th day of 3rd month following close of tax/fiscal year end
- C Corporation – 15th day of 4th month following close of tax/fiscal year end
- S Corp – 15th day of 3rd month following close of tax/fiscal year end
- Extensions available

MULTIPLE ENTITY ISSUES

CONTROLLED GROUPS

P. 223

- I.R.C. 1563 – two or more employers treated as one
  - Benefit plans – all employees of all entities must meet requirements
- Practitioner Note – Other Aggregations
- Work Opportunity Credit, Cafeteria plans, 179 deduction

- Types of Controlled Groups
  - Parent – Subsidiary
  - Brother - Sister

PARENT – SUBSIDIARY

P. 223

- One or more "chains" – connected through stock ownership
  - Stock possessing at least 80% of the total combined voting power of all classes of stock entitled to vote or at least 80% of the total value of shares of all classes of stock of each of the corporations, except the common parent corporation, is owned by one or more of the other corporations
  - The common parent corporation owns stock possessing at least 80% of the total combined voting power of all classes of stock entitled to vote or at least 80% of the total value of shares of all classes of stock of at least one of the other corporations, excluding, in computing such voting power or value, stock owned directly by such other corporation.

BROTHER – SISTER

P. 223

- 5 or fewer "persons" – individuals, estates/trusts
- Own two or more entities
- Total combined voting power > 50%
- Directly owned stock
- Constructive ownership

CONSTRUCTIVE OWNERSHIP P. 224

1. Stock options owned by a person are treated as stock owned by such person.
2. Stock owned directly or indirectly by a partnership is deemed owned by any partner having a 5% or more capital or profits interest in the partnership. The constructive ownership is proportionate to the greater of the capital or profits interest.
3. Stock owned directly or indirectly by an estate or trust [other than an I.R.C. §401(a) employees' trust] is deemed owned by any beneficiary who has a 5% or more actuarial interest, to the extent of the actuarial interest.
4. Stock owned directly or indirectly by a trust (other than an employee's trust) in which a person is considered the owner (grantors and others treated as substantial owners) is deemed owned by such owner.

CONSTRUCTIVE OWNERSHIP P. 224

5. Stock owned directly or indirectly by a corporation is deemed proportionately owned by any shareholder who owns 5% or more in value of its stock.
6. Stock owed directly or indirectly by a spouse (other than a spouse who is legally separated from the individual under a decree of divorce or decree of separate maintenance) is deemed owned by the individual, unless all the following criteria are met:
   - The individual does not directly own any stock in the corporation during the year.
   - The individual is not a director or employee and does not participate in the management of the corporation during the year.
   - Not more than 50% of the corporation's gross income for the tax year is derived from royalties, rents, dividends, interest, and annuities.
   - The stock is not subject to conditions that limit the spouse's right to dispose of the stock and run in favor of the individual or the individual's children who have not attained age 21.

CONSTRUCTIVE OWNERSHIP P. 224

7. Stock owned directly or indirectly by an individual's children under the age of 21 is deemed owned by the individual.
8. Stock owned directly or indirectly by an individual is deemed owned by the individual's children under the age of 21.
9. An individual who owns more than 50% of the total combined voting power or total value of a corporation's stock is deemed to own the stock held directly or indirectly by his or her parents, grandparents, grandchildren, and children who have attained age 21.

P. 224

- Practitioner Note – Affiliated Service Group
  - All employees of all members
  - Considered employees of single employer
- Cross-Reference – QBI Aggregation
  - Multiple trades/businesses
  - No SSTBs

APPLICABLE LARGE EMPLOYERS

P. 225

- Affordable Care Act (ACA)
- Minimum essential coverage (MEC)
- Affordable & provides minimum value (MV)
- Full-time employees and full-time equivalents
- Aggregation rules apply
- Failure to provide, penalty - employer shared responsibility payment (ESRP)

APPLICABLE LARGE EMPLOYERS

P. 225

- Aggregating Employees
  - Controlled groups
  - Common control
  - FTEs 50 or more (prior year) = ALE
  - Each employer of group
    - Responsible for their own ESRP
- Cross-Reference – Common Control

QUESTIONS?