### 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
- •1.R.C. 7701(a)(2): Partnership
- I.R.C. 7701(a)(3): Corporation
- •Unincorporated, multiple owners = Partnership
- $\bullet \mbox{Can}$  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 Corporation Scorporation Professional corporation Corporation Scorporation General partnership Partnership Corporation of Scorporation Limited liability partnership Partnership Corporation of Scorporation Dimited liability partnership Partnership Corporation of Scorporation SMLLC Disregarded entity Corporation of Scorporation \*\*Inex: Reg. § 301.7701-3

### LLC CLASSIFICATION CHANGES P. 203 > Farm 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 freat as SMLLC, or MMLLC, freated as Partnership > 2019 Tax Workbook, Pages 136-137

Si	MLLC 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 t	o 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 sharehold members, or beneficiaries	ders, partners,

٨	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-commun	ity property state
7.	Merger of members of an LLC	
8.	Purchase of the interests of all but one owner under I.R.C. 73 partner provisions	36 <mark>retirement of a</mark>

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, \*\*Bigibility requirements\*\*, & I.R.C. 1362, \*\*file S-Corp Election\*\*, Form 2553
> Domestic corp
> 100 shareholder limit\*\* (with attribution)
> One class of stack
> 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)

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)	
<ul><li>Includes: Defined Broadly</li><li>Syndicate</li></ul>	
≽Group ≽Pool	
➤ Joint venture ➤ Not otherwise classified as corporation, trust, or estate	

PARTNERSHIPS

Partner - member in syndicate, group, pool, joint venture, or organization

Partnership - For Federal Tax Law

Broader scope

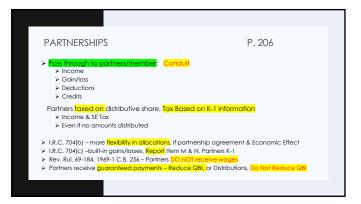
Doesn't have to organize under State Law

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



C CORPORATIONS	P. 206
21% Flat Tax-Tax Decrease or Tax Increase	
> Qualified dividends taxed at shareholder level > 0%, 15%, 20% > 3.8% NIII* (net investment income tax) > Cross-Reference - C Corp vs. Pass-through	
<ul> <li>Corp w/ No Dividends Lower tax rate in grow</li> <li>Corp that Retains earnings &lt; partnership or S</li> <li>If distribute earnings, Combined Corp &amp; Ind to</li> </ul>	S corp tax rate > partnership or S-Corp
➤Corporation fringe benefits usually better; HI >2018 Tax Workbook, pages 458-480	RA

S-CORPORAT >> I.R.C. 1363(a) = S-	ION Corp, <mark>no tax on earnings</mark>		P. 207
<ul> <li>▶ Pass through item</li> <li>▶ Income</li> <li>▶ Loss</li> <li>▶ Deduction</li> <li>▶ Credits</li> </ul>	· -		
		quired	
Exceptions:  Built-in gains (BIG) to  Excess net Passive In	ax – if formerly C Corp ncome		

		Comp	FIGURE 5.2 parison of Business Ent	ities	
	Item	Partnerships	5 Corporations	C Corporations	Disregarded Entity
	Entity classification	Default status for multimember LLC	Elective status for multimember LLC or SMLLC if qualified for 5 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
FIGURE 5.2	Classes of equity interests	No limitation	One class of stock (voting rights are disregarded in making this determination)	No limitation	N/A
P. 208	Ineligible entities	Generally, partnerships with equity interests that are publicly traded; banks and certain insurance companies must use the corporate form	Foreign corporations; financial institution using reserve method of accounting; insurance companier; 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	fligible
	Tax-exempt Eaxpayers	Eligible to be a partner; income subject to generally applicable unrelated business income tax	Tax-exempt taxpayer (other than charitise and qualified retirement plans) well-glide to be a shereholder all items charities and qualified retirement plans (other than 500%) included in unrelated business taxable income, termo 50% not included in unrelated business taxable income, termo 50% 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 grandor frusts, testamentary troub, qualified subchapter 5 trusts, as strote eligible as shareholders, special taxation rules apply	Eligible to be a shareholder; usual fust taxation rules apply	Eligible

			GURE 5.2 (continued) parison of Business Ent	ities	
	Item	Partnerships	S Corporations	C Corporations	Disregarded Entity
FIGURE 5.2	Allocation of income and losses	Allocation in accordance with partnership agreement if allocation is in accordance with each partner's interest in the 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
P. 209	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 industedness of corporation to shareholder; no inclusion of corporate debt in shareholder basis; subject to amount at risk, pashve activity loss, and excess business loss limits	Losses deductible against corporate incorne; NOLs generally can be carried forward; capital losses generally can be carried back 2 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; pertnenhip may elect to make basis adjustment in partnenhip property to reflect adjustments to distribute pertner	Any gain in distributed property is recognized by the corporation and allocated to the shareholders; PMV basis to the shareholder	Any gain in distributed property taxable to the corporations 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 psuchase price	Gain treated as capital; no adjuttments 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 (continued) Comparison of Business Entities				
	Item	Partnerships	S Corporations	C Corporations	Disregarded Entity
FIGURE 5.2	Treatment of Corporation Corporation Converting to partnership or partnership or Corporation	Corporation must liquidate and gain or loss is recognized to corporation and shareholders	Generally, no taxation upon election; coeporate tax is imposed on built-in gain if assets sold during 5-year period during 5-year period distribution of subchapter C earnings and profits taxable as a dividend; special rules applicable occumulated earnings and excess net passive investment income	N/A	NA
P. 210	Treatment of disregarded entity or pertnership 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	NA	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 dioregarded entity	Not subject to tax on dividends or liquidating distributions paid between wholly owned subsidieries; 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 taked at a flat 21% rate	All income is taxed to the individual owner
	Application of employment and 58 taxes	Except in certain cases involving a limited partner, each partner's share of net business income is not 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 5 corporation income is net earnings from 52	Amounts paid as compensation are wages subject to employment tax; no amounts are net earnings from SE	Net business income is net earnings from 55

	FIGURE 5.2 (continued) Comparison of Business Entities						
FIGURE 5.2	Item	Partnerships	S Corporations	C Corporations	Disregarded Entity		
P. 211	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	Q8I, 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		

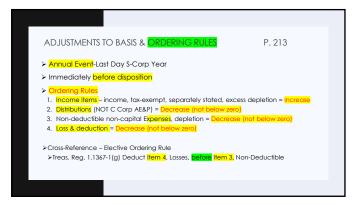
LOSSES LIMITED BY BASIS	

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)	
<ul> <li>Losses up to adjusted basis</li> <li>Carry-Over unused losses</li> </ul>	
Carry-Over on osed rosses	

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 & no	ntaxable partnership income	
> Decrease by > Distributions > Losses > Nondeductible expenses (not capital expend	litures)	

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 COSSES — DEDUCTIBLE?  > 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	P. 212
➤ I.R.C. 1366(d)(1) ➤ Losses > stock basis + loan or debt basis = DISALLOWED	
> Losses > stock basis + loan or debt basis = DISALLOWED	
Stock basis at time of acquisition	
,	
> Increased by	
▶Income ▶Decreased by	
➤ Deductions	
≻Losses	
▶ Distributions	

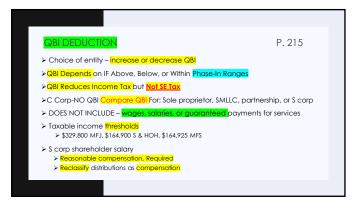


EXAMPLE 5.1 — CASES CREATER HAN BASIS  > S corporation, Smithfield, Inc.  > One storeholder, Pam  > \$30.00  > \$40.000 loss  > Cast Inflation = \$30.000  > Carry forward = \$10.000    Carry forward = \$10.000    Carry forward = \$10.000    Carry forward = \$10.000    P. 213    Loans from Shareholder Increases 8ais, Debt 8ais   P. 213   Loans from Shareholder Increases 8ais, Debt 8ais   P. 213   Carry forward = \$10.000 from Shareholder Increases 8ais, Debt 8ais   P. 213   Carry from Share					
> One shareholder, Parm > \$1000 boss > \$40,000 loss > Loss limitation = \$30,000 > Carry forward = \$10,000  Start form form for shareholder increases Basis  > Loans from Shareholder increases Basis, Debt Basis > Loans from Shareholder increases Basis, Debt Basis > Loans from Shareholder increases Basis, Debt Basis > Couranteeing loan - NOTbona fide indebtedness, Economic outlay by \$7/h > Sucranteeing loan - NOTbona fide indebtedness	EXAMPLE 5.1 – LOSSES GREATER THAN BASIS	P. 213			
> Stock basis = \$30,000 > \$40,000 loss > Carry forward = \$10,000    HAREHOLDER LOANS - INCREASE BASIS   P. 213	➤ S corporation, Smithfield, Inc.				
> \$40,000 loss > Loss limitation = \$30,000 > Carry forward = \$10,000    HARPHOLDER LOANS - INCREASE BASIS   P. 213   Loans from Shareholder Increases Basis, Debt Basis   Treas, Reg. 1,1366-2 - Must be Bond fide indebtedness, Economic outlay by S/H   Saudranteeing loan - NOT bond fide indebtedness			_		
> Loss limitation = \$30,000 > Carry forward = \$10,000  PAREHOLDER LOANS - INCREASE BASIS P. 213 > Loans from Shareholder Increases Basis, Debt Basis > Treas, Reg. 1,136-2 - Must be Bona fide indebtedness, Economic autlay by 5/H > Guaranteeing Ioan - Notibona fide indebtedness					
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 5/H > Guaranteeing loan – NOT bona fide indebtedness					
<ul> <li>➤ Loans from Shareholder Increases Basis, Debt Basis</li> <li>➤ Treas. Reg. 1.1366-2 - Must be Bona fide indebtedness, Economic outlay by S/H</li> <li>➤ Guaranteeing loan - NOT bona fide indebtedness</li> </ul>	≻ Carry forward = \$10,000		_		
<ul> <li>➤ Loans from Shareholder Increases Basis, Debt Basis</li> <li>➤ Treas. Reg. 1.1366-2 - Must be Bona fide indebtedness, Economic outlay by S/H</li> <li>➤ Guaranteeing loan - NOT bona fide indebtedness</li> </ul>					
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≻Treas. Reg. 1.1366-2 – Must be Bona fide indebtedness, Economic outlay by S/H  ≻ Guaranteeing Ioan – NOT bona fide indebtedness			1		
>Treas. Reg. 1.1366-2 – Must be Bona fide indebtedness, Economic outlay by S/H > Guaranteeing Ioan – NOT bona fide indebtedness	SHAREHOLDER LOANS — INCREASE BASIS	P. 213	] _		
> Treas. Reg. 1.1366-2 - Must be Bona fide indebtedness, Economic outlay by S/H > Guaranteeing loan - NOT bona fide indebtedness	SHAREHOLDER LOANS — INCREASE BASIS	P. 213	] —		
> Guaranteeing loan – NOT bona fide indebtedness		P. 213	] _		
	➤ Loans from Shareholder Increases Basis, Debt Basis		] _		
> Treas. Reg. 1.1366-2(a)(2)(ii) – If shareholder, from personal funds, Repays Corporate debt, then Increases Basis, to the extent of payment.	<ul> <li>Loans from Shareholder Increases Basis, Debt Basis</li> <li>➤ Treas. Reg. 1.1366-2 – Must be Bona fide indebtedness, Economic</li> </ul>				
Corporate debt, then Increases Basis to the extent of payment.	<ul> <li>Loans from Shareholder Increases Basis, Debt Basis</li> <li>➤ Treas. Reg. 1.1366-2 - Must be Bona fide indebtedness, Economic</li> </ul>				
	<ul> <li>➤ Loans from Shareholder Increases Basis, Debt Basis</li> <li>➤ Treas. Reg. 1.1366-2 - Must be Bona fide indebtedness, Economi</li> <li>➤ Guaranteeing Ioan - NOT bona fide indebtedness</li> </ul>	ic outlay by S/H			
	<ul> <li>➤ Loans from Shareholder Increases Basis, Debt Basis</li> <li>➤ Treas. Reg. 1.1366-2 - Must be Bona fide indebtedness, Economi</li> <li>➤ Guaranteeing Ioan - NOT bona fide indebtedness</li> </ul>	ic outlay by S/H			
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	<ul> <li>➤ Loans from Shareholder Increases Basis, Debt Basis</li> <li>➤ Treas. Reg. 1.1366-2 - Must be Bona fide indebtedness, Economic</li> <li>➤ Guaranteeing loan - NOT bona fide indebtedness</li> </ul>	ic outlay by S/H			

EXAMPLE 5.2 – SHAREHOLDER GUARANTEE	P. 213
Sole shareholder, Claire	
<ul> <li>Guaranteed \$100,000 bank loan to Glacier</li> <li>Claire PERSONALLY paid \$20,000 (principal) to bank for loan</li> </ul>	to Glacier
> Claire INCREASES Ioan basis by \$20,000	
> Treas. Reg. 1.1366-2(a)(2)(iii), Example 4	

> 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, [RS] 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	NITW PP. 135-137
> Cross Reference, Reasonable Compensation, Col. 1, 2020 NITW PP. 135-137 > Reasonable compensation rules − 5 & 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	
<ul> <li>➤ Reasonable compensation rules – S. &amp; C Corp shareholders</li> <li>➤ IF not Reasonable, IRS can Recharacterize Distribution as Wages, PENALTIES.</li> <li>➤ \$ 10,000 SE Income</li> <li>➤ \$1.413 SE Tax</li> <li>➤ \$707 One-half SE Tax Deduction</li> </ul>	
<ul> <li>➤ IF not Reasonable, RS can Recharacterize Distribution as Wages, PENALTIES.</li> <li>➤ \$ 10,000 SE Income</li> <li>➤ \$1,413 SE Tax</li> <li>➤ \$707 One-half SE Tax Deduction</li> </ul>	
>\$ 10,000 SE Income >\$1.413 SE Tax >\$707 One-half SE Tax Deduction	
>\$1.413 SE Tax >\$707 One-half SE Tax Deduction	ages, PENALTIES.
≽Some MMLLC Members Limited Partners, Cross Reference, Col. 2	
	Col. 2
➤ Proposed Regs never finalized.	
➤ Proposed Regs never finalized.	

### QUALIFIED BUSINESS INCOME DEDUCTION



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		
No guaranteed payments		
$\triangleright$ Partner share of QBI = \$275,000		
≻ <mark>\$125,000 Increase</mark> in QBI		
≻ <mark>Reduce</mark> Taxable Income		
≻ <mark>Increase</mark> SE Tax		

FRINGE BENEFITS

FRINGE BENEFITS	P. 217
<ul> <li>Fringe benefits – included in income</li> <li>Unless specifically excluded ©</li> <li>Deductible by Entity</li> </ul>	
<ul> <li>2% shareholder of \$ corporation – Most of our Clients?</li> <li>&gt; Treat as general partner</li> <li>&gt; Treat as self-employed</li> <li>&gt; Practitioner Note – attribution rules</li> </ul>	
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HEALTH & ACCIDENT INSURANCE	PP. 217-218
▶ S Corp 2% shareholder	
Corp deducts premium payment	
Shareholder includes in income, W-2, Box 1, Tax	xable, Not Box 3 or 5
Self-Employed Health Insurance, (SEHI) Adjustm	nent to Gross Income - 1040
> Partner	
➤Treat as guaranteed payment – deduction By I	Partnership
> Treat as reduction of distributions – no deducti	ion by Partnership
➤SE Health Insurance Deduction	
> 2% shareholder – if included in wages	
> (SEHI) Limited to earned income	

## HEALTH SAVINGS ACCOUNT (HSA) > 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-packet expenses limitation > \$7.000 self-only > \$14.000 family > \$3.600 self-only > \$7.200 family > \$7.200 family > \$7.200 family > \$7.200 family > \$1.000 extra age 55 and older

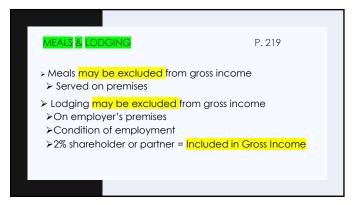
HEALTH SAVINGS ACCOUNT	PP. 218 -219
Corp 007 Sharahaldar	
S Corp 2% Shareholder	
Cannot exclude from gross income	
Not subject to FICA or FUTA	
➤ Partner	
➤Treat as distributions to partner, no partnership deduction	
➤ Treat as guaranteed payment, Partnership can deduct	

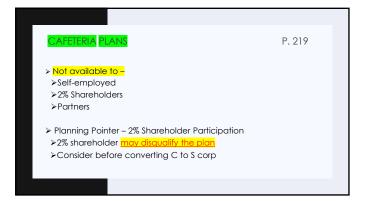
GROUP TERM LIFE INSURANCE P. 219

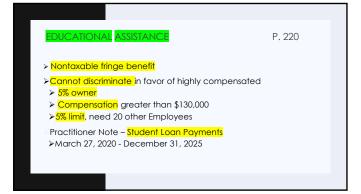
> \$50,000 excluded from wages

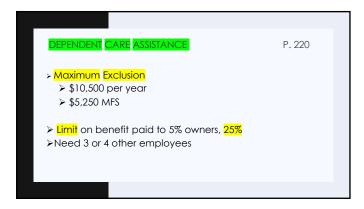
➤ Excess of \$50,000 included in wages

> 2% shareholder or partner = NO exclusion









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	
<ul> <li>➤ I.R.C. 1563 – two or more employers treated as one</li> <li>➤ Benefit plans – all employees of all entities must meet requirements</li> <li>➤ Practitioner Note – Other Aggregations</li> <li>➤ Work Opportunity Credit, Cafeteria plans, 179 deduction</li> </ul>		
<ul><li>➤ Types of Controlled Groups</li><li>➤ Parent – Subsidiary</li><li>➤ Brother - Sister</li></ul>		

### P. 223 Description: 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 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 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.
- Stock owned directly or indirectly by an estate or trust tother 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.

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P. 224

P. 224

- 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.
- 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:
- 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.
- **EVOLUTION** 10% of the corporation's gross income for the tax year is derived from royalties, restricted, 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

- 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 wned by the individual's children under the age of 21.
- 9. An individual who owns more than 50% of the total combined An individual wino owns mote inan size, 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) P. 225 ➤ Controlled groups ➤Common control  $\succ$ FTEs 50 or more (prior year) = ALE ➤ Each employer of group ≻Responsible for their own ESRP ➤ Cross-Reference – Common Control

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