

**From the desk of  
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# **S corporations may want to convert to a C corporation**

After last year's tax reform legislation some S corporations may choose to revoke their S election to be a C corporation due to the new flat 21-percent C corporation tax rate.

A C corporation is taxed on its earnings.

An S corporation passes corporate income, losses, deductions and credits through to their shareholders for tax purposes.

Shareholders of S corporations report the pass-through of income and losses on their personal tax returns and are assessed tax at their individual income tax rates.

This allows S corporations to avoid double taxation on the corporate income.

S corporations are responsible for tax on certain built-in gains and passive income at the entity level.

The [Tax Cuts and Jobs Act](#) includes two changes that affect a corporation's revocation of an S election to be a C corporation:

- The corporation should report net adjustments attributable to the revocation over six years.
- Distributions of cash following the post-termination transition period may be treated as coming out of the corporation's accumulated adjustments account and accumulated earnings and profits proportionally resulting in part of the distributions being non-dividend distributions from the C corporation.
- The non-dividend distributions may not be subject to tax at the shareholder level if the shareholder has sufficient stock basis. Additional guidance will be coming.

These law changes only apply to a C corporation that:

- Was an S corporation on December 21, 2017,
- Revokes its S corporation election after December 21, 2017, but before December 22, 2019, and

- Has the same owners of stock in identical proportions on the date of revocation and on December 22, 2017.

The decision to make this change needs to be balanced against the new IRC 199 pass-through deduction that allows up to a \$60,000.00 deduction for income passed through to shareholders of certain types of businesses conducted as an S Corporation.

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