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.

We here at Muffoletto & Company believe that the more informed you are in regards to the rules and regulations that affect you the more we can be of service.

Should you have questions relating to any tax or financial matters call at
(818) 346-2160,
or you can visit us on the web at
www.petemcpa.com!

Providing individuals, small businesses, corporations, partnerships, professionals, and other business entities with the necessary guidance and answers for a complex world.

IMPORTANT NOTICE

The contents of this email and any attachments to it may contain privileged and confidential information from Muffoletto & Company.

This information is only for the viewing or use of the intended recipient. If you are not the intended recipient, you are hereby notified that any disclosure, copying, distribution or use of, or the taking of any action in reliance upon, the information contained in this e-mail, or any of the attachments to this e-mail, is strictly prohibited and that this e-mail and all of the attachments to this e-mail, if any, must be immediately returned to Muffoletto & Company or destroyed and, in either case, this e-mail and all attachments to this e-mail must be immediately deleted from your computer without making any copies hereof.

If you have received this e-mail in error, please notify Muffoletto & Company by e-mail immediately.

To ensure compliance with Treasury Department regulations, we wish to inform you that, unless expressly stated otherwise in this communication (including any attachments) any tax advice that may be contained in this communication is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding tax-related penalties under the Internal Revenue Code or applicable state or local tax law provisions or (ii) promoting, marketing or recommending to another party any tax-related matters addressed herein.

If you prefer not to remain on our email lists, please let us know. We will remove you as soon as you notify us.

You may do so by emailing us at
pete@petemcpa.com