

"S" Corporation Basis Records

Our records reflect that you are one of our valued "S" corporation clients. Preserving tax benefits for our clients (including our "S" corporation clients) is an important goal of our accounting firm.

"S" Corporation Basis Overview

An "S" corporation shareholder can have basis (investment) in his or her "S" corporation stock, as well as direct shareholder loans. IRS requires that the "S" corporation shareholder keep records to prove their basis in the "S" corporation stock and direct shareholder loans (advances; promissory notes).

"S" Corporation Stock Basis

As a general rule, the starting point in determining stock basis for an "S" corporation shareholder is their economic outlay (cash investment in "S" corporation stock). Additional "cash infusions" add to an "S" corporation shareholder's basis. Tax-free distributions of stock basis reduce a "S" shareholder's stock basis.

Our tax firm keeps track of the operations of your "S" corporation Schedule K-1 and adjusts your basis schedules accordingly. Please make sure you call our tax firm if you are planning any major basis transactions like a major cash infusion to your "S" corporation.

A Few Words About Debt Basis

An "S" corporation shareholder must also keep track of their "debt basis." Debt basis includes each direct shareholder "advance" (that is bona fide debt) and any shareholder promissory note loans. After you exhaust shareholder stock basis by losses, you start to reduce "debt basis." Losses are only useable by an "S" shareholder if they have basis available (cannot take losses in excess of basis).

It is important to call our tax firm if you are either making a loan to your "S" corporation or making a loan from an "S" corporation to a shareholder. Numerous technical tax code requirements may apply to your shareholder

debt transactions. For example, if you have previously written off losses against your "debt basis" and then repay such debt (loan) in whole or in part, you may (probably!) have an "income recognition" event.

NOTE: The IRS asserts that the legal responsibility to maintain "S" corporation basis proof rests with the individual shareholder.

Conclusion

One of the goals of our accounting firm is to preserve the tax benefits of your "S" corporation. Basis records for your "S" corporation stock investments and/or debt outlays are crucial. Please save any documentation (checks, promissory notes, corporate minutes, etc.) regarding your basis transactions. This is important if you get audited by a governmental body (such as IRS).

Please feel free to call us at 480-907-6644 if you have any questions about this letter, "S" corporation basis, or your tax situation.

Very truly yours,

Stephan H. Brewer, CPA, CTRS, JSM Tax
Managing Member
Legacy Tax & Resolution Services, LLC

NOTE: The purpose of this document is to educate you on **selected** tax issues. This document is an "as is" document. No warranties apply. This document **cannot** be relied upon to avoid penalties. This document **cannot** be relied upon to avoid any particular liability. This document is **NOT COMPREHENSIVE!!**