



› National Association
of Enrolled Agents

Turning Theory into Practice: S-Corporations

Certificate Program



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› National Association
of Enrolled Agents

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Enrolled Agent | Juris Doctor of Law

Award-nominated authors

Deducting The Right Way® series
deductingtherightway.com/books





Agenda

2 p.m. to 4 p.m.

Q&A

1-minute (after each example)

10-minute Q&A @ 3:50 p.m.

Glossary

Acronyms



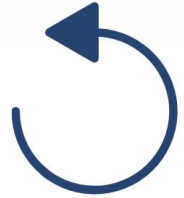
Refer to Page 3 of handout.

SH	shareholder
TP	taxpayer
TY	tax year
NRA	non-resident alien
S-corp	s corporation
C-corp	c corporation
SMLLC	single-member LLC
MMLLC	multi-member LLC
P-ship	partnership
RC	reasonable compensation
SE	self-employment
SB	small business
SLE	state law entity
QSET	qualified subpart E trust
QSub	qualified subchapter S subsidiary
QSST	qualified subchapter S trust
ESBT	electing small business trust

Recap

Select topics

Rewind



Rewind

(UPDATED) Course Handout | Intro to S-Corps

 Refer to Page 4 (chart)

	Sole prop	SMLLC	P-ship / MMLLC	S-corp	C-corp
State registration	Maybe	Yes	Yes	Yes	Yes
Tax return	Sch C	Sch C	1065	1120-S	1120
K-1	No	No	Yes	Yes	No
Capital gains (draw/distrib.)	No	Yes	Yes	Yes	No
Owner payroll	No	No	No	Yes	Yes
Tax bracket	10% to 37% + SE tax	10% to 37% + SE tax	10% to 37% + SE tax	10% to 37%	21% + 10% to 37%* or 0%,15%,20%

*Depends on qualifying or non-qualifying (ordinary) dividend status.

Rewind

(UPDATED) Course Handout | Intro to S-Corps

 Slide deck

Late filing

Penalties | Example

Due Sept 15th

Filed Dec 3rd

3 SH

$\$210 \times 4 \text{ months} = \$840 \times 3 \text{ SH} = \$2,520$

Penalties | Example

Due **Mar** 15th

Filed **June** 3rd

3 SH

$\$210 \times 4 \text{ months} = \$840 \times 3 \text{ SH} = \$2,520$

Rewind

(UPDATED) Course Handout | Intro to S-Corps

 Refer to Page 9 (landlords)

Activity treatment (normal conditions)

	Active	Passive
Landlord (buy and hold)	X	✓
Flipper (buy and sell)	✓	X

Entity comparison

Default

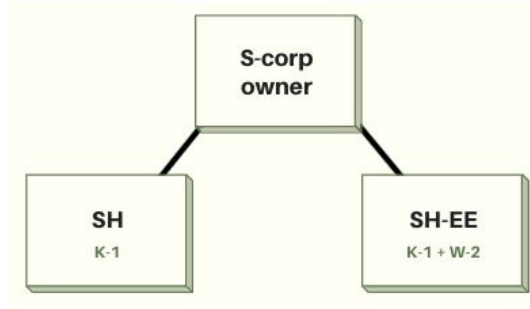
Landlord (passive)	Flipper (active)
Sch E	Sch C
SE tax	SE tax

S-corp

Landlord (passive)	Flipper (active)
SE tax	SE tax
Excise tax	Excise tax

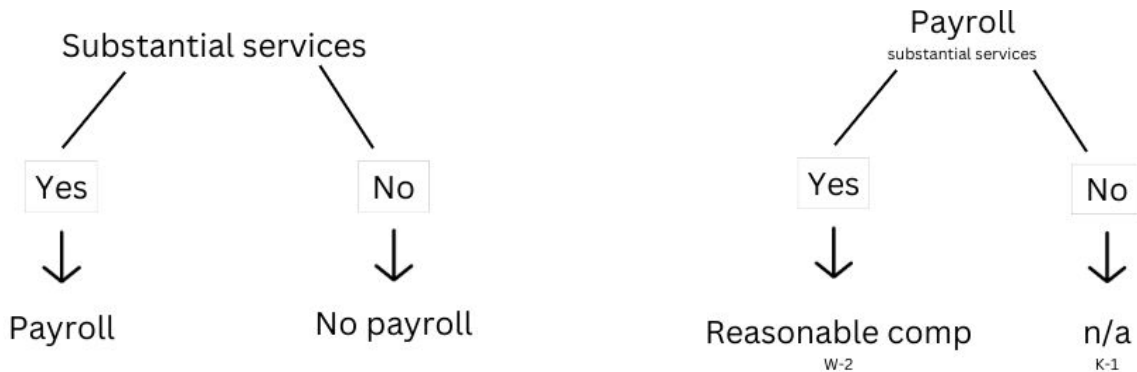
Rewind

(UPDATED) Course Handout | Intro to S-Corps



Rewind

(UPDATED) Course Handout | Intro to S-Corps



Rewind

(UPDATED) Course Handout | Intro to S-Corps

 Refer to Pages 5 (NRA)

Rule

Resident	Nonresident
U.S. citizen or green card holder	Holds neither

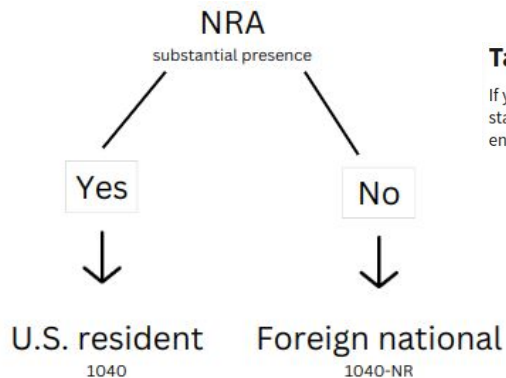
Nonresident converts to "Resident" under [tax code](#)

	Legal world	Tax world
Resident (lawful)	✓	✓
Nonresident (lawful or unlawful)	x	✓

Rewind

(UPDATED) Course Handout | Intro to S-Corps

📖 Refer to Pages 5-6 (NRA)



Tax Treatment of Resident Alien

If you are a U.S. resident alien, you use the same forms and mailing addresses as U.S. citizens. You can use the same filing statuses available to U.S. citizens. You can claim the same deductions allowed to U.S. citizens if you are a resident alien for the entire tax year.

Note. Under the IRC, even an undocumented individual who meets the Substantial Presence Test will be treated for tax purposes as a U.S. resident. Handout, p. 5.

Rewind

(UPDATED) Course Handout | Intro to S-Corps

 Refer to Pages 6 (NRA)

15. Special Rules for Various Types of Services and Payments

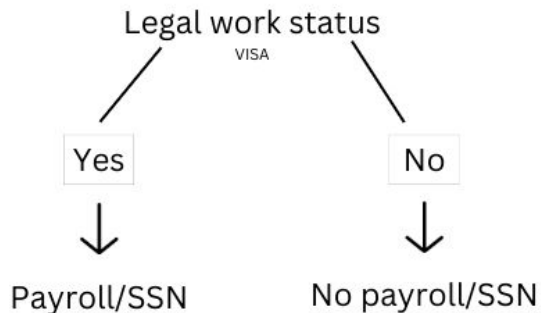
Section references are to the Internal Revenue Code unless otherwise noted.

Special Classes of Employment and Special Types of Payments	Treatment Under Employment Taxes		
	Income Tax Withholding	Social Security and Medicare (including Additional Medicare Tax when wages are paid in excess of \$200,000)	FUTA
Aliens, nonresident.	See Pub. 515 and Pub. 519.		
Aliens, resident: 1. Service performed in the U.S.	Same as U.S. citizen.	Same as U.S. citizen. (Exempt if any part of service as crew member of foreign vessel or aircraft is performed outside U.S.)	Same as U.S. citizen.
Officers or shareholders of an S corporation: Distributions and other payments by an S corporation to a corporate officer or shareholder must be treated as wages to the extent the amounts are reasonable compensation for services to the corporation by an employee. See the Instructions for Form 1120-S.	Withhold	Taxable	Taxable

Rewind

(UPDATED) Course Handout | Intro to S-Corps

📖 Refer to Pages 6 (NRA)



An ITIN **does not**:

- Authorize work in the U.S.
- Provide eligibility for Social Security benefits

Note. An ITIN is for tax use only. It does not entitle you to social security benefits or change your employment or immigration status under U.S. law. Handout, p. 6.

Rewind

(UPDATED) Course Handout | Intro to S-Corps

 Refer to Pages 7 (NRA)

However, you must have an SSN properly assigned in your name to work in the United States.

NOTE: If your employer uses E-Verify to confirm new employees' eligibility to legally work in the United States, the information you provide on Form I-9, Employment Eligibility Verification, will be compared to data in SSA and DHS databases. Employees must have an SSN in order for E-Verify to confirm their eligibility to legally work in the United States.

4. Employee's Social Security Number (SSN)

You're required to get each employee's name and SSN and to enter them on Form W-2. This requirement also applies to resident and nonresident alien employees. You should ask your employee to show you his or her social security card. The employee may show the card if it is available.



Don't accept a social security card that says "Not valid for employment." An SSN issued with this legend doesn't permit employment.

Rewind

(UPDATED) Course Handout | Intro to S-Corps

 Refer to Pages 8 (NRA)

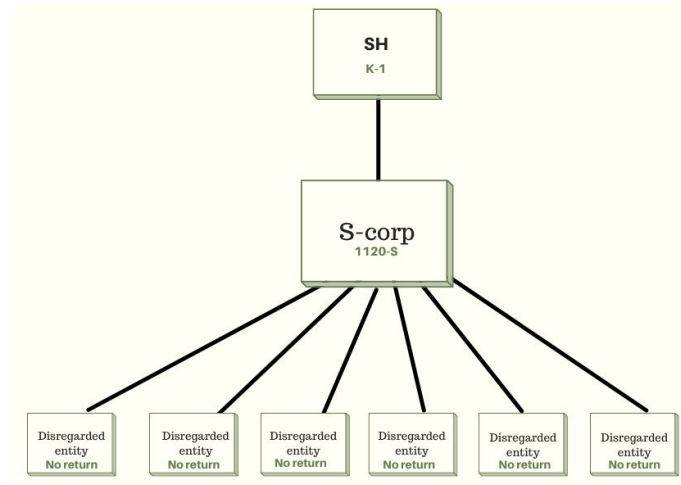
The fact that an officer is also a shareholder does not change this requirement. Such payments to the corporate officer are treated as wages. Courts have consistently held S corporation officers/shareholders who provide more than minor services to their corporation and receive, or are entitled to receive, compensation are subject to federal employment taxes.

If an officer does not perform any services or only performs minor services and is not entitled to compensation, the officer would not be considered an employee.

Rewind

(UPDATED) Course Handout | Intro to S-Corps

📖 Refer to Page 9 (multi-layer)





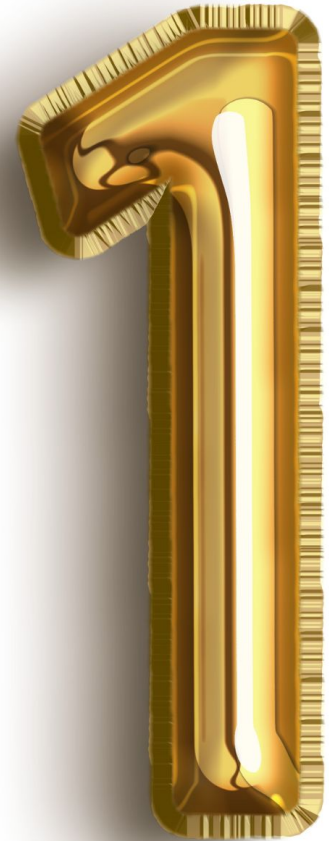
Attendance Check #1

Please answer the poll in Zoom.
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Scenario #1

Late filing penalties



Late filing penalties

Rule

Late filing



Failure to file (FTF) penalty

Fee multiplied by number of SH

Late filing penalties

Scenario (Page 4, handout)

MMLLC taxed as S-corp

Calendar year TP

1120-S due 3/15

No extension

\$700 tax liability

Late filed/paid tax 9/15

Notice due date 10/1

Paid 10/15

- Mother
- Son
- Aunt (NRA): passed tests in prior years and on 3/15 has 29 days in current year.

Late filing penalties

Questions

1. How many SH?
2. How many months?
3. Tax due or no tax due?

Late filing penalties

Failure to file (FTF) | Page 4, handout

1. How many SH?

Mother

Son

Aunt (NRA; fails current year as of 3/15)

= 3 SH

Late filing penalties

Failure to file (FTF) | Page 4, handout

2. How many months?

Late file penalty = March, April, May, June, July, Aug, Sept = **7**

Late pay penalty = March, April, May, June, July, Aug, Sept, (Oct) = **8**

Late filing penalties

Failure to file (FTF) | Page 4, handout

3. Tax due or no tax due?

Tax due

5% unpaid tax X ___ months = \$_____ late filing penalty
[min. \$435 or 100% of tax (lesser of) if 60+ days; max 25% or 5 months]

FTF (tax due)

Tax Due	Late Penalty	Number of months late	Total Failure to File (FTF) Penalty
\$700	5%	7	\$245, but \$435 is the minimum penalty

Late filing penalties

Failure to pay (FTP) | Pages 4-5, handout

Not paid by notice date

0.5% X \$_____ tax due X ___ months* = \$_____ [penalty](#)
[Max 25%]

FTF (tax due)

Tax Due	Late Penalty	Number of months late	Total Failure to File (FTF) Penalty
\$700	5%	7	\$245, but \$435 is the minimum penalty

Late filing penalties

FTF/FTP offset | Page 5, handout

FTF/FTP offset (both appear on the same return)

Tax Type	Tax Due	Tax Rate	Number of months late	Total Penalty	Total Due (Tax + FTF + FTP)
FTF	\$700	4.5%	7	\$221, but \$435 is the minimum penalty	\$0 + \$435 + \$28 = \$463
FTP		0.5%	8	\$28	

Late filing penalties

Interest | Page 6, handout

IRS Factor Tables (Adapted from Rev. Proc. 95-17)

3% to 13%

365 Day Years

Only including tables for whole percentage rates, up to 92 days

TABLE 11--3.0% COMPOUND RATE

Days	Factor	Days	Factor
1	0.000082192	47	0.003870325
2	0.000164390	48	0.003952835
3	0.000246596	49	0.004035352
4	0.000328808	50	0.004117875
5	0.000411026	51	0.004200406
6	0.000493252	52	0.004282943
7	0.000575484	53	0.004365486
8	0.000657723	54	0.004448037
9	0.000739969	55	0.004530594
10	0.000822222	56	0.004613159
11	0.000904481	57	0.004695730
12	0.000986747	58	0.004778307
13	0.001069020	59	0.004860892
14	0.001151300	60	0.004943483
15	0.001233586	61	0.005026081
16	0.001315879	62	0.005108686
17	0.001398179	63	0.005191298

Late filing penalties

Interest | Pages 5-6, handout

Interest - Tax Due (\$700; if no estimates required)

Quarter	Interest Rate	# of Days Unpaid	Factor	Quarterly Interest Tax Due (3/16 to 9/15)	Cumulative Total
1st (3/16 - 3/31)	3%	16	.001315879	\$0.92	\$700.92
2nd (4/1 - 6/30)	4%	91	.010021943	\$7.02	\$707.94
3rd (7/1 - 9/15)	5%	77	.010603041	\$7.51	\$715.45
TOTAL				\$15.45	

Late filing penalties

Interest | Pages 5-6, handout

Interest - Penalty (\$28)

Quarter	Interest Rate	# of Days Unpaid	Factor	Quarterly Interest Penalty (3/16 - 10/15)	Cumulative Total
1st (3/16 - 3/31)	3%	16	.001315879	\$0.04	\$28.04
2nd (4/1 - 6/30)	4%	91	.010021943	\$0.28	\$28.32
3rd (7/1 - 9/30)	5%	92	.012681615	\$0.36	\$28.68
4th (10/1 - 10/15)	6%	15	.002468593	\$0.07	\$28.75
TOTAL				\$0.75	



Attendance Check #2

Please answer the poll in Zoom.
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answer in the poll you can use
the chat or Q&A box.



Late filing penalties

K-1 penalty | Page 6, handout

File date	Failure to file correct or e-file	Failure to furnish payee	Combined penalties
1-30 days	\$50	\$50	\$100
31 days to Aug 1st	\$110	\$110	\$220
Aug 2nd	\$280	\$280	\$560
Intentional disregard	\$570	\$570	\$1,140

Late filing penalties

K-1 penalty | Page 6, handout

K-1 penalty

Filed Oct 15th (after Aug)	\$560 X 3 SH
TOTAL	\$1,680

Late filing penalties

Underpayment penalty | Page 7, handout

Underpayment Penalty (Form 2220)

Estimate & Due Date	Tax return Due Date	Days Unpaid	Penalty Rate	Penalty Amount	Cumulative Total
\$175 4/15/21	3/15/22	334	3%	\$4.79	\$4.79
\$175 6/15/21	3/15/22	273	3%	\$3.92	\$8.71
\$175 9/15/21	3/15/22	181	3%	\$2.60	\$11.31
\$175 12/15/21	3/15/22	90	3%	1.29	\$12.60
Total Penalty					\$12.60

Late filing penalties

Underpayment penalty | Page 7, handout

Tax, underpayment penalty, and interest (\$712.60)

Quarter	Interest Rate	# of Days Unpaid	Factor	Quarterly Interest Due (3/16 to 9/15)	Cumulative Total
1st (3/16 - 3/31)	3%	16	.001315879	\$0.94	\$713.54
2nd (4/1 - 6/30)	3%	91	.007507183	\$5.36	\$718.90
3rd (7/1 - 9/15)	3%	77	.006348574	\$4.56	\$723.46
TOTAL				\$10.86	

Late filing penalties

Underpayment penalty | Page 7, handout

Summary

Total Tax Due	\$700
Underpayment Tax Penalty	\$12.60
Interest	\$10.86 <input type="text"/>
Total Due	\$723.46

Late filing penalties

Result | Snowball effect

1. FTF (tax due formula)
2. FTP (tax due; not paid by notice date)
3. Interest
 - a. On penalty
 - b. On tax due; not paid by notice date
4. K-1 late filing penalty
5. Underpayment of Estimated Tax Penalty
 - a. Penalty
 - b. Interest



Q&A

1-minute

Scenario #2

First-time abatement (FTA)



First-time abatement (FTA)

Rule

Each TP



FTA waiver per penalty type, once per lifetime.

First-time abatement (FTA)

Scenario (Page 7, handout)

TP habitual late filer

Tax liability \$3,500

Penalty \$175

First-time abatement (FTA)

Scenario

Should the SH use FTA?

First-time abatement (FTA)

Scenario

Should the SH use FTA?

Cost-benefit analysis

- TP: 1 waiver per penalty type; lifetime
- Future penalties (value)
- Do not use FTA on the less-valuable TY



Q&A

1-minute



Attendance Check #3

Please answer the poll in Zoom.
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the chat or Q&A box.



Scenario #3

1099 compliance



1099 compliance

Rule

Attest and sign to 1099 filings

1099 compliance

Scenario (Page 8, handout)

EA preparing tax return

TP states they had no transactions requiring a 1099

TP is an attorney

1099 compliance

Scenario

What should you do?

1099 compliance

Scenario

What should you do?

Form 1120-S (2021) Page **3**

Schedule B Other Information (see instructions) <i>(continued)</i>		Yes	No
12	During the tax year, did the corporation have any non-shareholder debt that was canceled, was forgiven, or had the terms modified so as to reduce the principal amount of the debt?	<input type="checkbox"/>	<input type="checkbox"/>
	If "Yes," enter the amount of principal reduction ▶ \$	<input type="checkbox"/>	<input type="checkbox"/>
13	During the tax year, was a qualified subchapter S subsidiary election terminated or revoked? If "Yes," see instructions	<input type="checkbox"/>	<input type="checkbox"/>
14a	Did the corporation make any payments in 2021 that would require it to file Form(s) 1099?	<input type="checkbox"/>	<input type="checkbox"/>
b	If "Yes," did the corporation file or will it file required Form(s) 1099?	<input type="checkbox"/>	<input type="checkbox"/>
15	Is the corporation attaching Form 8996 to certify as a Qualified Opportunity Fund?	<input type="checkbox"/>	<input type="checkbox"/>
	If "Yes," enter the amount from Form 8996, line 15 ▶ \$	<input type="checkbox"/>	<input type="checkbox"/>
Schedule K Shareholders' Pro Rata Share Items		Total amount	

1099 compliance

Scenario

What should you do?

Scan P&L

66700 Professional Fees	
66701 Investigative Services	150.00
66702 Accounting	2,579.80
66703 Paralegal	2,226.90
66704 Outside Counsel	10,029.51
66705 Computer Support	2,752.45
Total 66700 Professional Fees	17,738.66
67010 Education Expense	3,408.75

1099 compliance

Scenario

What should you do?

If over \$600 → Scan GL

1/15/xx	Your Paralegal, LLC	Matter 1234	\$475.00
1/22/xx	Your paralegal, LLC	Matter 1340	\$550.00
2/22/xx	Your Paralegal, LLC	Matter 3945	\$75.00
3/12/xx	Expert Paralegal, Inc	Matter 258-9	\$405.00
4/15/xx	Your Paralegal, LLC	Matter 1234	\$275.00
4/15/xx	Expert Paralegal, Inc	Matter 257-1	\$125.00
6/1/xx	Expert Paralegal, Inc	Matter 201-3	\$150.00
7/31/xx	Your Paralegal, LLC	Matter 887	\$171.90
66703 Paralegal			\$2,226.90



Q&A

1-minute

Scenario #4

Non-resident alien



Non-resident alien

Rule

Min 183 days of in-country presence



Substantial presence (NRA turns into Resident)

Non-resident alien

Scenario (Page 9, handout)

- MMLLC taxed as P-ship
- Want S-election
- Husband, wife, two daughters (not U.S. citizens, but applied)

Period	Location	Presence dates
Current year	FL + U.S. Virgin Islands (7 days)	7/10 to 12/31
1st preceding year	FL + D.C.	3/15 to 10/28
2nd preceding year	NY	5/10 to 11/11

Non-resident alien

Scenario

1. What minimum time does a non-resident alien need to spend inside the U.S. using the formula?
2. Are the sisters eligible to be an S-corp SH?

Non-resident alien

Scenario

1. What minimum time does a non-resident alien need to spend inside the U.S. using the formula?

Presence days X Multiplier = # of Days

183 days over three years, with a minimum of 31 days in the current year.

Period	Days	Multiplier	# of Days
Current year	31	1	
1st preceding year		$\frac{1}{3}$	
2nd preceding year		$\frac{1}{6}$	

Non-resident alien

Scenario

1. What minimum time does a non-resident alien need to spend inside the U.S. using the formula?

Presence days X Multiplier = # of Days

Sample minimum

Period	Days	Multiplier	# of Days
Current year	31	1	31
1st preceding year	320	$\frac{1}{3}$	107
2nd preceding year	275	$\frac{1}{6}$	46

Non-resident alien

Scenario

2. Are the sisters eligible to be an S-corp SH?

2 NRA (daughters)

Period	Location	Presence dates	Presence Days	Multiplier	# of Days
Current year	FL + U.S. Virgin Islands (7 days)	7/10 to 12/31	162*	1	162
1st preceding year	FL + D.C.	3/15 to 10/28	227	1/3	76
2nd preceding year	NY	5/10 to 11/11	185	1/6	31

* 175 days minus 7 days.

Yes, 269 days.
More than 183
day minimum.



Q&A

1-minute



Attendance Check #4

Please answer the poll in Zoom.
If you are unable to enter your
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Scenario #5

Accountable plan



Accountable plan

Rule

Accountable plan = tax-free reimbursements

No accountable, not following rules = taxable reimbursements

Accountable plan

Scenario | Home office (Page 10, handout)

TP pays for SH utilities directly

2,125 sq. ft. home

- 275 sq. ft. office
- 20 sq. ft. garage to store critical biz docs

\$283/mo expenses (\$66/mo. utilities)

Accountable plan

Rule | Home office

Simplified method
or
Actual method

Employees cannot use the
simplified (flat-fee) method.

Must use actual with
receipts/invoices.

[Rev. Proc. 2013-13, Sec. 4.02]

Accountable plan

Scenario | Home office

1. How much is the qualifying home office deduction?
2. How do you treat the home office expenses if there is no accountable plan?

Accountable plan

Scenario | Home office

1. How much is the qualifying home office deduction?

Home office

Item	Value	Formula
Expenses	\$217	\$283 minus \$66
Biz-use %	12.94%	$275 \div 2,125$
TOTAL	\$28.08/mo	

Storage areas
must contain
inventory for
resale, not
corporate docs.

$$\begin{aligned} &12.94\% \\ &\times \\ &\$217/\text{mo} \\ &= \\ &\$28.08/\text{mo} \\ &(\$336.96/\text{yr}) \end{aligned}$$

Accountable plan

Scenario | Home office

2. How do you treat the home office expenses if there is no accountable plan?

Taxable wages

Accountable plan

Rule | Health insurance

Deductible premiums cannot exceed net income.



SS wages are treated as earned income. [IRC § 401(c)(1)]

Accountable plan

Scenario | Health insurance (Page 11, handout)

- SMLLC taxed as S-corp
- RC report \$64,500
- SH premiums \$9,750
- Paid by TP via reimbursement on the 15th
- Net income \$8,250

Accountable plan

Scenario | Health insurance

1. How much can SH claim as biz expense?
2. How much is subject to FICA?
3. What if SH's wife becomes eligible for insurance in Oct, but TP doesn't find out until January 1st?
4. What if TP only has enough cash flow for the premiums and not the entire salary?

Accountable plan

Scenario | Health insurance

1. How much can SH claim as biz expense?

\$9,750

Not capped at net income (\$8,250) because wages are \$64,500.

Accountable plan

Scenario | Health insurance

2. How much is subject to FICA?

\$64,500 minus \$9,750 = \$54,750.

- a. \$64,500 subject to the applicable federal and state withholding
- b. \$54,750 subject to payroll taxes.
- c. W-2: premiums in box 1 with a notation in Box 14 for SE Health Insurance.

Accountable plan

Scenario | Health insurance

3. What if SH's wife becomes eligible for insurance in Oct, but TP didn't know until January?

Must reclassify three months of reimbursements as wages subject to federal and state withholding, and payroll taxes.

Accountable plan

Scenario | Health insurance

4. What if TP only has enough cash flow for the premiums and not the entire salary?

SH gets Sch A only.

No adjustment to income (no above-the-line deduction) due to lack of earned income.



Attendance Check #5

Please answer the poll in Zoom.
If you are unable to enter your
answer in the poll you can use
the chat or Q&A box.





Q&A

1-minute

Scenario #6

Net passive investment income tax



Net passive investment income (NPII)

Rule

Passive investment gross receipts > 25% of gross receipts =
Excess NPIIT [IRC § 1375]

Net passive investment income (NPII)

Formula

The tax is calculated using the smaller of

- Excess NPIIT X highest corporate tax rate (21%)
or
- Taxable income using Form 1120, Lines 1-28

Net passive investment income (NPPI)

Scenario (Page 12, handout)

Gross receipts \$128k

- \$50k sales from operations
- \$4k interest income
- \$64k rental income with \$24k expenses
- \$10k stock sale with \$2k cost basis

Net passive investment income

Scenario (Page 12, handout)

1. How much excise tax?
2. What if taxable income was \$28,500?
3. How do you allocate the excise tax?

Net passive investment income

Scenario (Page 12, handout)

How much excise tax?

[1] Gross receipts \$128,000

- \$50k sales from operations
- \$4k interest income
- \$64k rental income
- \$10k stock sale

Net passive investment income

Scenario (Page 12, handout)

How much excise tax?

[2] Passive gross receipts \$68,000

- \$64k rental income
- \$4k interest income

Net passive investment income

Scenario (Page 12, handout)

How much excise tax?

[3] 25% of gross receipts (\$128k)	\$32,000
------------------------------------	----------

If passive gross receipts (\$68k) is less than 25% total gross receipts (\$32K), then tax does not apply. [Not applicable here].

Net passive investment income

Scenario (Page 12, handout)

How much excise tax?

Answer:

smaller of [8] or [9]

[1]	Gross receipts	\$128,000
[2]	Passive gross receipts	\$68,000 (\$64,000 + \$4,000)
[3]	25% of total gross receipts	\$32,000 (\$128,000 x 25%)
[4]	Excess passive investment income	\$36,500 (\$68,000 - \$31,500)
[5]	Directly-related expenses	\$24,000
[6]	Net Passive income [2] - [5]	\$44,000 (\$68,000 - \$24,000)
[7]	Divide [4] / [2]	53.68% (\$36,500 / \$68,000)
[8]	Excess net passive income	\$23,618 (\$44,000 * 53.68%)
[9]	Taxable income (using 1120	\$18,500
[10]	Smaller of [8] or [9]	\$18,500
[11]	21% Excise Tax	\$3,885 (\$18,500 x 21%)

Net passive investment income

Scenario (Page 12, handout)

What if taxable income was \$28,500?

Taxable income [9] calculated using Form 1120, lines 1 -28.

Captures passive income in total income

(not like 1120-S where those items appear on Sch K then to SH).

Net passive investment income

Scenario (Page 12, handout)

What if taxable income was \$28,500?

[8]	Excess net passive income	\$23,618 ($\$44,000 \times 53.68\%$)
[9]	Taxable income (using 1120	\$18,500
[10]	Smaller of [8] or [9]	\$18,500
[11]	21% Excise Tax	\$3,885 ($\$18,500 \times 21\%$)

Excise tax would be 21% of \$23,618 (\$4,960)--smaller of line [8] or [9].

Net passive investment income

Scenario (Page 12, handout)

How do you allocate the excise tax?

SH receives a reduced amount for each category on their K-1.

Requires a special allocation based on passive item over total passive income.

Net passive investment income

Scenario (Page 12, handout)

How do you allocate the excise tax?

Total passive gross receipts	\$68,000
Total NPIIT excise tax	\$3,885
Interest	\$4,000 5.88% (4,000 / 68,000)
Rents	\$64,000 94.12% (64,000 / 68,000)
Net rental income (Schedule K, Line 2)	\$43,332 (\$48,000 - (94.12% x \$4,960 tax))
Interest income (Schedule K, line 4)	\$3,708 (\$4,000 - (5.88% x \$4,960 tax))

Software will transfer the net rental income (Form 8825, Line 21) to Line 2 on Schedule K of the 1120S.



Must adjust Line 2 manually by reducing the total by the tax by adding a line item/statement for the tax.



Q&A

1-minute



Attendance Check #6

Please answer the poll in Zoom.
If you are unable to enter your
answer in the poll you can use
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BONUS CONTENT

Miscellaneous topics

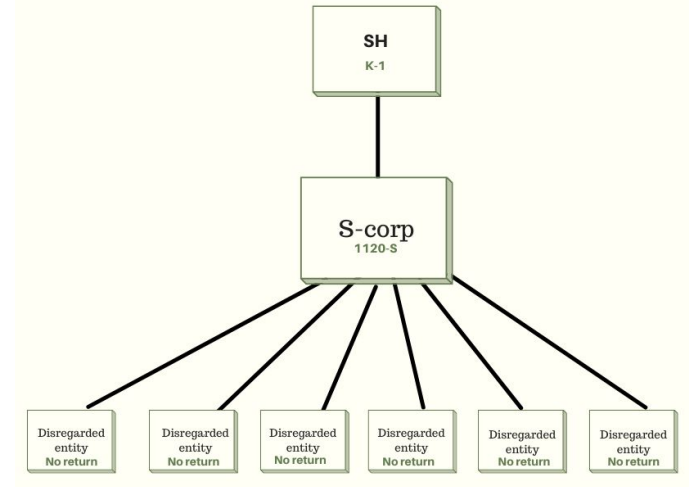
The word "BONUS" is rendered in large, three-dimensional gold letters with a metallic sheen and a slight shadow beneath each letter, giving it a celebratory and premium appearance.

Multi-layered S-corp

Issue

Transfers between related companies

Vertical vs. Horizontal



K-1 footnotes

Issue

SE health insurance premiums + other policies

Distribution gain



Reasonable comp

Issue

Round figures

Updated report

50/50 insistence



Bookkeeping file

Issue

Start/end date

Clean break

Filing incorrect tax form

Issue

Sch C vs. 1120-S

1120 vs. 1120-S

Filing short-year returns

Issue

Non-compliance: effects

K-1



Attendance Check #7

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QBI aggregation

Issue

Rental and non-rental activities

Fixed assets (separate tracking)

Elections

Issue

DMSH: original vs. amended

Safe harbor for real estate (Rev. Proc. 2019-38)



Q&A

If you have any questions or concerns regarding this presentation, please contact the education department at education@naea.org.



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