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C CORPORATIONS



- ✘ 1986 Tax Act Impact
- ✘ Popularity of S Corporations
- ✘ Lack of Familiarity


C CORPORATIONS – ANY REASON TO CONSIDER?

ADVANTAGES OF THE C

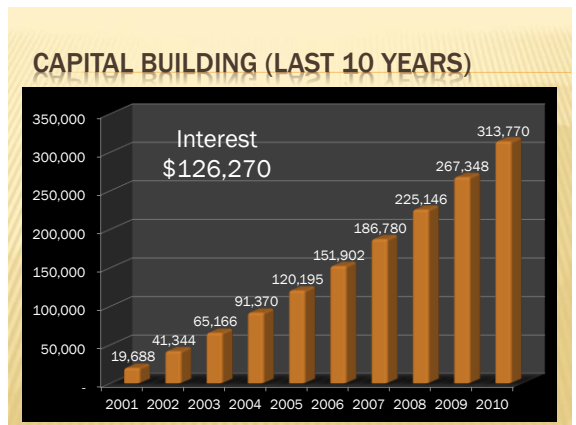
- ✘ Lower tax brackets
- ✘ Employee benefits
- ✘ Fiscal years
- ✘ Public offering
- ✘ Pre-86 – escape double tax on liquidation

PROBLEMS WITH THE C

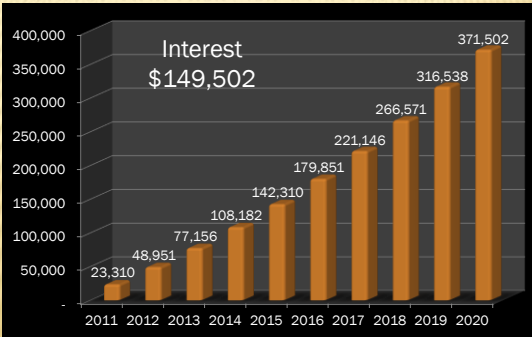
- ✘ 1986 Tax Act
- ✘ Exposure to S Corp Taxes
- ✘ Personal service corporation
- ✘ Accrual basis



NEED TO BUILD CAPITAL
 Lower tax cost to retain earnings



CAPITAL BUILDING (NEXT 10 YEARS)



A number of benefits are limited to being offered to employees of an enterprise. Only in a C do owners end up with employee treatment.

125
HRA Plans
Accounts

FRINGE BENEFITS

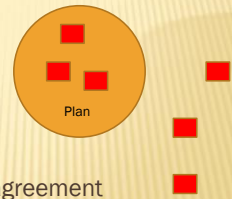


MEDICAL BENEFITS

Health Reimbursement Arrangements and Other Medical Benefits

POTENTIALLY EXCLUDED GROUPS

- ✘ 3 Years of Service
- ✘ Age 25
- ✘ Part time employees
- ✘ Seasonal employees
- ✘ Collective bargaining agreement
- ✘ Nonresident aliens



SIMPLE 125 CAFETERIA PLANS

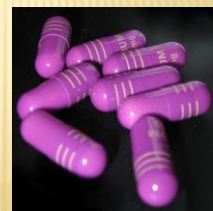
- ✘ Discrimination rules waived
- ✘ Initial qualification
- ✘ Continued qualification
- ✘ Contribution requirements

POTENTIAL CAFETERIA BENEFITS



Dependent Care

Flexible Medical



PERSONAL SERVICE CORPORATIONS

CPA

PERSONAL SERVICE CORPORATIONS



NOTICE: THIS LOAN IS NOT ASSUMABLE WITHOUT THE APPROVAL OF THE DEPARTMENT OF VETERANS AFFAIRS OR THE FEDERAL BUREAU OF INVESTIGATION

\$108(I) RULES FOR C CORPORATIONS

- TD 9497, Temporary Regulations
 - Acceleration guidance
 - No acceleration in certain reorganizations
 - Events that trigger
 - Change in tax status
 - Liquidation where §381(a) does not apply
 - Transaction that reduces net value
 - Deferral applies for E&P purposes

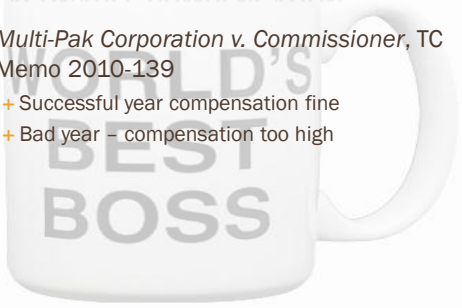
PAYMENTS NOT TO REDEEM

- Partial Deduction Allowed
 - Media Space v. Commissioner, 135 TC No. 21
 - Not interest payment
 - First payment was ordinary and necessary
 - Following payments failed 12 month test



REASONABLE COMPENSATION

- Multi-Pak Corporation v. Commissioner, TC Memo 2010-139
 - Successful year compensation fine
 - Bad year – compensation too high



ANTI-ABUSE §304 REGULATIONS

- TD 9477
 - Formed for avoidance transactions
 - Foreign transaction issue

AUTO NOT IN CORPORATE NAME

- ✘ *Rosser v. Commissioner*, TC Memo 2010-6
 - + Van treated as constructively owned
 - + Check date constructive dividend issue

ASSETS NOT TRANSFERRED TO CORP

- ✘ *Slota v. Commissioner*, TC Summary Opinion 2010-152
 - + Created corporation under §351
 - + Did not transfer title
 - + Assignment of income

IRS ALLOWED LATE CONSENT DIVIDEND

- ✘ PLR 201035002
 - + Nontax CPA missed PHC, advised not to make S election
 - + Did not know about consent dividend
 - + Outside advisers noted option
 - + IRS granted permission

NO INTEREST NETTING PRIOR TO CONSOLIDATION

- ✘ *East Energy Corporation v. U.S.*, Court of Federal Claims, No. 1:07-cv-00812
 - + Acquired subsidiaries
 - ✘ Some overpaid
 - ✘ Some underpaid
 - + Earlier years
 - ✘ No netting allowed

LATE ENTITY SELECTION RELIEF

- ✘ Chief Counsel Email 201036019
 - + Missed date for automatic relief
 - + Only grant relief back 3 years and 75 days initially
 - + Can ask for a full ruling for another date

LIBERALIZED CHECK THE BOX

- ✘ Revenue Procedure 2009-41
 - + Relief back 3 years & 75 days
 - + Automatically