GBQ Partners

Tax Saving Opportunities for S Corporations

Do you have an S corporation with earnings and profits accumulated in C corporation year?

Do you have significant S corporation suspended losses?

If you answered "yes" to one of the above questions, you may want to consider exploring a deemed dividend election. With qualified dividend rates lower than ordinary income rates, now may be the time for shareholders of existing S corporations to consider a deemed dividend election.

Normally, you defer paying tax on income if you can but this is a time triggering taxable income might make sense. Implementation will result in a dividend distribution that will be taxed at a 15% rate, and a corresponding ordinary deduction that will offset other ordinary income that may be taxed at 35%.

Benefits to your S corporation:

- Utilize suspended S corporation losses
- Not being subject to the tax on excess net passive income for the year
- Not being subject to the termination of the S Corporation election
- Being relieved of the burdens associated with calculating AAA balance each year
- Net federal tax savings of approximately 20% on other items of ordinary income, such as interest, wages, or other K-1 flow-through items

The 15% federal income tax rate imposed on dividends received by individual taxpayers is currently scheduled to expire at the end of 2012. Thereafter, unless this provision is extended, it will be more expensive for shareholders to consent to deemed dividend elections.

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