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## LIST OF SUBSTANTIVE CHANGES AND ADDITIONS

### *PPC's 1120S Deskbook*

### Thirtieth Edition (October 2020)

#### Highlights of This Edition

Important new features of the 2020 Edition of *PPC's 1120S Deskbook*:

- Guidance on TCJA Small Taxpayer Exemptions.** Proposed reliance regulations explain how to compute the Section 448(c) gross receipts test and the definition of a syndicate for determining whether a taxpayer qualifies for the small business exemptions from (1) use of the accrual method, (2) applying the UNICAP rules, (3) the Section 163(j) limit, (4) use of the PCM method for certain long-term contracts, and (5) maintaining inventory under the Section 471 rules. This *Deskbook* explains the rules, as well as the two available methods under the regulations for accounting for inventory if the taxpayer is exempt from the Section 471 inventory rules.
- Retroactive Changes Make Qualified Improvement Property Eligible for Bonus Depreciation.** Taxpayers that placed qualified improvement property (QIP) in service in tax years after 2017 have several options for claiming bonus depreciation on that QIP (assuming it qualifies) or using a 15-year recovery period for such property for those years. In light of this development, the IRS is allowing taxpayers to make certain late elections and/or revoke elections that are generally revocable only with IRS permission, including the elections to be an electing real property trade or business or an electing farm business. These relaxed rules, however, only apply for a certain amount of time.
- Changes to Limit on Business Interest Expense.** The Coronavirus Aid, Relief, and Economic Security (CARES) Act relaxed the limit on business interest expense for tax years beginning in 2020. The discussion on the business interest expense limitation has been updated for these changes and recently issued final regulations.
- Business Tax Credits.** New tax credits were enacted by Congress as an attempt to provide some relief from the hardships businesses are experiencing due to the COVID-19 pandemic. These new credits include (1) Emergency Paid Sick Leave Credit, (2) Expanded Family and Medical Leave Credit, and (3) Employee Retention Credit. Also, the Employer Credit for Paid Family and Medical Leave was extended through December 2020. This *Deskbook* has detailed discussions of the requirements for taking each of these credits.

In addition to these featured items, your *Deskbook* includes the following update items detailed below.

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
CHAPTER 1 Eligibility	1. Noted some items to consider when electing to have an LLC treated as an S corporation.	Key Issue 1F

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
	2. Noted some requirements that an entity must meet to be a qualified Subchapter S subsidiary (QSub).	Key Issue 1G
	3. Mentioned the <i>Mowry</i> case that reinforces the importance of shareholder agreements and other corporate documents.	Key Issue 1H
CHAPTER 2 Filing and Repairing the S Election	1. Referenced a recent court case that addressed the timely-mailing-as-timely-filing rule when the taxpayer failed to use an IRS-approved private delivery service.	Key Issue 2A
CHAPTER 3 Incorporation and Capitalization	1. Noted potential problems meeting the Section 351 "control" requirement when making post-incorporation transfers to a corporation.	Key Issue 3A
	2. Cited IRS guidelines for determining whether patent rights, trade secrets, or know-how constitute property for transfers to corporations.	Key Issue 3A
	3. Noted and illustrated a method of allocating a shareholder's gain (that resulted from contributing encumbered property to the corporation) to the corporation's basis in property that the shareholder contributed.	Key Issue 3A
	4. Discussed the connection between an asset's basis upon incorporation and the corporation's subsequent exposure to the Section 1374 built-in gains tax.	Key Issue 3A
	5. Clarified when a partnership (or LLC taxed as a partnership) should file Forms 2553 and/or 8832 when incorporating and electing S status.	Key Issue 3B
	6. Cited an IRS ruling authorizing the conversion of a partnership into a corporation under a state law not requiring an actual transfer of the entity's assets or interests.	Key Issue 3B
	7. Illustrated a trap for the unwary when the corporation has an ineligible shareholder during the period of time from the start of the tax year to the date the Form 2553 is filed.	Key Issue 3F
CHAPTER 7 Cost of Goods Sold	1. Updated for proposed regulations, which taxpayers can rely upon, that provide guidance for small taxpayers that meet the Section 448(c) gross receipts test and do not have to maintain inventories for tax purposes.	Key Issue 7A
	2. Added a discussion on inventory losses due to COVID-19 issues.	Key Issue 7E
CHAPTER 8 Nonbusiness Income	1. Referenced CCA 202035011 that addressed convertible virtual currency received in a microtask and its treatment as ordinary income.	Key Issue 8G
CHAPTER 9 Installment Sales and Like-kind Exchanges	1. Highlighted changes to the 2020 version of Form 6252 (Installment Sale Income).	Key Issue 9A
	2. Added an example on using an installment sale when selling multiple assets.	Key Issue 9A
	3. Updated the discussion on like-kind exchanges for proposed regulations defining <i>real property</i> .	Key Issue 9J

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
	4. Added an illustration that lists property that is considered real property for like-kind exchange purposes.	Illustration 9-5
CHAPTER 10 Trade or Business Property Transactions	1. Expanded upon discussion regarding federally declared disasters.	Key Issue 10B
	2. Added a discussion on COVID-19 related losses.	Key Issue 10C
	3. Expanded upon the discussion regarding qualified opportunity funds.	Key Issue 10I
CHAPTER 11 Debt Discharge Income and Foreclosures	1. Cited cases on whether assets exempt from creditors' claims under state law must be included in determining a taxpayer's solvency, and whether contingent liabilities could also be included in the insolvency calculation.	Key Issue 11A
	2. Addressed loan forgiveness under the Paycheck Protection Program and the treatment of expenses for tax purposes that were paid for with loan proceeds that were forgiven.	Key issue 11A
	3. Summarized bankruptcy-related changes made by the CARES Act.	Key Issue 11B
CHAPTER 14 Taxes and Interest	1. Added a discussion on how the payroll tax deferral under the CARES Act affects the income tax deduction for payroll taxes.	Key Issue 14A
	2. Expanded the discussion of a 2019 revenue procedure allowing eligible pass-through entities that expect to receive state or local tax credit in return for payments to treat the payments as ordinary and necessary business expenses.	Key Issue 14C
	3. Updated the key issue that addresses the Section 163(j) business interest expense limitation for the recent issuance of final regulations.	Key Issue 14F
	4. Discussed Rev. Proc. 2020-22 that provides guidance for businesses that made the election under IRC Sec. 163(j)(7) to be an electing real property trade or business or an electing farming business for their tax year beginning in 2018, 2019, or 2020 to withdraw that election out from the Section 163(j) limit on business interest expense.	Key Issue 14F
	5. Noted the treatment at the shareholder level of business interest expense incurred by an S corporation that was exempt from the Section 163(j) limitation.	Key Issue 14F
	6. Noted the IRS's revision of the effective date of the recently issued Section 163(j) final regulations.	Key Issue 14F
	7. Summarized the contents of the final Section 163(j) regulations specifically addressing S corporations.	Key Issue 14F
	8. Addressed and illustrated the increase in the percentage of adjusted taxable income (ATI) when computing the amount of interest expense businesses can deduct in tax years beginning in 2019 and 2020.	Key Issue 14F
	9. Addressed and illustrated the election to use the 2019 ATI instead of 2020 ATI to calculate the 2020 Section 163(j) limitation.	Key Issue 14F

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	10. Expanded the discussion of the effect of an ownership change on the corporation's Section 163(j) limitation, and included an example illustrating the consequences.	Key Issue 14F
	11. Explained the income tax effect of imputing interest on no or low interest loans from a shareholder to the S corporation.	Key Issue 14K
	12. Updated illustrations depicting the calculation and reporting of business interest expense for the current version of Form 8990 [Limitation on Business Interest Expense under Section 163(j)].	Illustrations 14-6 and 14-7.
CHAPTER 15 Depreciation and Depletion	1. Updated and expanded the discussion of first year bonus depreciation to reflect developments and details affecting S corporations. Including (1) the finalization of regulations in 2020 dealing with bonus depreciation and (2) guidance provided in Rev. Proc. 2020-25 for how to implement the retroactive change made by the CARES Act with regards to the depreciable life for qualified improvement property (QIP) placed in service after 2017 from 39-year recovery property to 15-year recovery property that qualifies for bonus depreciation.	Key Issue 15B
CHAPTER 16 Fringe Benefits and Retirement Plans	1. Added coverage of significant COVID-19 relief provisions related to employee benefits.	Key Issue 16A
	2. Updated guidance for final regulations on <i>de minimis</i> fringe benefits.	Key Issue 16A
	3. Updated guidance for property reliance regulations issued regarding qualified transportation fringe benefits.	Key Issue 16A
CHAPTER 17 Travel and Entertainment	1. Updated for the issuance of final regulations that address the deductibility of certain food and beverage expenses under IRC Sec. 274.	Key Issue 17B
	2. Updated for the final regulations that address the disallowance of deductions for entertainment and amusement under IRC Sec. 274	Key Issue 17C
CHAPTER 18 Other Deductions	1. Added a discussion on the treatment of advisory fees incurred at the S corporation level and how they are reported to shareholders.	Key Issue 18G
	2. Added a discussion on the treatment of expenses paid with funds that were forgiven under the Paycheck Protection Program (PPP).	Key Issue 18H
CHAPTER 19 Shareholder Stock Basis	1. Added a variation to Example 19C-13 that illustrates the requirement to reduce stock basis even though a passed-through loss was not deducted (or did not provide a tax benefit) in a closed tax year.	Key Issue 19C
CHAPTER 20 Shareholder Debt Basis	1. Added a Preparation Pointer on the new requirement that loans from a shareholder to an S corporation be reported on the shareholder's Schedule K-1.	Key Issue 20A
CHAPTER 22 Property Transactions with Shareholders	1. Added a discussion on the <i>Sage</i> case, in which losses supposedly generated by transfers to liquidating trusts were disallowed because they were not <i>bona fide</i> dispositions fixed by identifiable events.	Key Issue 22B

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CHAPTER 24 Schedule M-1 and Schedule M-3	1. Added an alert that clarifies when an S corporation is not required to use the accrual method of accounting to determine if it meets the \$10 million Schedule M-3 threshold.	Key Issue 24F
CHAPTER 27 Alternative Minimum Tax	1. Clarified how an S corporation that was previously a C corporation can use minimum tax credit carryforwards to reduce the Section 1374 built-in gains tax.  2. Noted the federal income tax treatment of Section 174 research and experimental expenditures incurred after December 31, 2021.  3. Added a variation to Example 27D-2 in which research and experimental expenditures are deducted under IRC Sec. 162 rather than IRC Sec. 174.	Key Issue 27B  Key Issue 27D  Key Issue 27D
CHAPTER 28 Business Credits	1. Added coverage of significant COVID-19 relief provisions related to Paid Sick Leave and its credit.  2. Added coverage of significant COVID-19 relief provisions related to Expanded Family and Medical Leave and its credit.  3. Added coverage of significant COVID-19 relief provisions related to employee retention credit.	Key Issue 28I  Key Issue 28J  Key Issue 28K
CHAPTER 35 Other Tax Payments	1. Added a preparation pointer on when an S corporation is required to file Form 8453-S (U.S. S Corporation Income Tax Declaration for an IRS e-file Return).	Key Issue 35E
CHAPTER 36 Termination of S Status	1. Added a discussion of final regulations that eliminated the “no-newcomer rule” (i.e., treatment of distributions during the post-termination transition period is applied to all shareholders).  2. Added a discussion and related example on final regulations that clarified the revocation and shareholder-identity requirements for eligible terminated S corporations.  3. Added a discussion and related example on transfers that may be disregarded when determining if an eligible terminated S corporation satisfied the shareholder-identity requirement.	Key Issue 36F  Key Issue 36F  Key Issue 36F
CHAPTER 38 Changes in Corporate Capital Structure	1. Added a discussion of the <i>Bonilla</i> case, in which an S corporation that was administratively dissolved by the state was found to continue its existence for federal income tax purposes.	Key Issue 38F

<u>Chapter</u>	<u>Substantive Changes and Additions</u>	<u>Reference</u>
CHAPTER 40 Accounting Methods	1. Updated the discussion on tax shelters for recently issued proposed regulations which define syndicates and how to elect to test the allocation of losses for a taxpayer based on the prior tax year allocated amounts to determine if an entity is considered a syndicate for a tax year.	Key Issue 40A
	2. Added a discussion on making accounting method changes to reflect CARES Act changes, including how to make a retroactive accounting method change in order to take bonus depreciation on qualified improvement property (QIP) and how to revoke elections previously made or how to make late elections under IRC Sec. 163(j)(7) to be treated as an electing real property trade or business or an electing farming business.	Key Issue 40F
	3. Added an illustration that summarizes the guidance in Rev. Proc. 2020-25 to make changes to depreciate QIP placed in service after 2017 due to the CARES Act changes.	Illustration 40-4
	4. Added an illustration that summarizes the guidance in Rev. Proc. 2020-22 for provisions related to Section 163(j) elections and QIP.	Illustration 40-5
CHAPTER 41 Filing and Amending Form 1120S, Corporate Audits, and Penalties	1. Added a discussion on a recent case that stresses the importance of choosing a private delivery service designated by the IRS to deliver tax returns and other documents.	Key Issue 41A
ELECTIONS	1. Added a sample statement that is required to be attached to a tax return when relying on the rental estate safe harbor in Rev. Proc. 2019-38.	E411
	2. Added a sample election to test the allocation of losses from the prior tax year to determine syndicate status.	E1108