LIST OF SUBSTANTIVE CHANGES AND ADDITIONS

*PPC’s 1120S Deskbook*

Thirty-second Edition (October 2022)

**Highlights of This Edition**

Important new features of the 2022 Edition of *PPC’s 1120S Deskbook*:

- **Inflation Reduction Act of 2022.** Most of the changes brought about by the Inflation Reduction Act are not effective until tax year 2023 and beyond. The primary impact on 2022 S corporation and shareholder filings has to do with available tax credits. Changes to commonly encountered credits are explained in Chapter 28.

- **Schedules K-2 and K-3.** These schedules were introduced for the 2021 tax year and are meant to provide uniformity and clarity with respect to reporting foreign operations for S corporations and their shareholders. The 2022 edition of the *Deskbook* includes examples and illustrations designed to help practitioners understand when these schedules are required and how to complete them.

- **Shareholder Stock and Debt Basis.** The IRS has been steadily increasing stock and debt basis reporting requirements in recent years and released Form 7203 (S Corporation Shareholder Stock and Debt Basis Limitations) in 2021. This edition of the Deskbook includes expanded discussions on basis tracking and reporting. A new debt basis worksheet was created for 2022, and changes were made to other basis tracking worksheets to help practitioners accurately complete Form 7203.

- **Reportable Transactions.** Taxpayers who are a party to certain transactions must report these transactions on their return or face significant penalties. This edition of the *Deskbook* contains a new key issue to help preparers of S corporation returns recognize potential reportable transactions, including those reported to the S corporation by a partnership on Schedule K-1, and know how to report them on Form 1120-S and Schedules K-1.

- **Expired COVID-19 Provisions.** Over the last two years, several sweeping tax laws such as the CARES Act were implemented to provide relief to taxpayers affected by COVID-19. Most of these provisions were temporary and expired prior to the beginning of the 2022 tax year. Guidance throughout the *Deskbook* has been updated accordingly.

- **Inflation-adjusted Amounts.** Each year, many amounts are adjusted for inflation. The text and examples have been updated to reflect the 2022 amounts.

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

<table>
<thead>
<tr>
<th>Chapter</th>
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<tbody>
<tr>
<td>CHAPTER 1</td>
<td>1. Provided examples with cites to letter rulings for when inadvertent termination relief is available for common terminating events relating to ineligible shareholders, which salvages the S election.</td>
<td>Key Issue 1A</td>
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<tr>
<td>2. Cited grandfather S corporation eligibility rules for eligible casualty insurance companies and oil corporations.</td>
<td>Key Issue 1A</td>
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<td>3. Described when a decedent’s estate can be deemed to be an ineligible trust, which would terminate the S election.</td>
<td>Key Issue 1B</td>
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<td>4. Explained a potential trap for the unwary when S corporation shares held by an ESOP are distributed to plan participants.</td>
<td>Key Issue 1D</td>
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<td>5. Added a discussion regarding retroactive relief under Rev. Proc. 2022-19 for an entity that elect S status but has governing provisions which could result in a second class of stock. The IRS will no longer issue private letter rulings in these circumstances.</td>
<td>Key Issue 1H</td>
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<td>6. Added an Observation related to clarification provided by Rev. Proc. 2022-19 that disproportionate distributions do not create a second class of stock if the S corporation’s governing agreements provide for identical distribution and liquidation rights.</td>
<td>Key Issue 1H</td>
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<tr>
<td>7. Updated discussion to note that under Rev. Proc. 2022-3, as modified by Rev. Proc. 2022-19, the IRS will no longer issue private letter rulings in situations involving certain errors or omissions on Form 2553.</td>
<td>Key Issue 1H</td>
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**CHAPTER 2**
Filing and Repairing the S Election

1. Added a Practice Tip to provide guidance for practitioners who do not receive timely acknowledgement from the IRS when filing Form 2553 with contact information to follow up with the IRS. | Key Issue 2A |
2. Added a Note regarding updated “No Rule” guidance related to issuance of private letter rulings (PLRs). Rev. Proc. 2022-19 amplifies and modifies Rev. Proc. 2022-3, which is intended to reduce the volume of PRL requests. The guidance limits the circumstances under which the IRS will issue PLRs related to the validity of S corporation election. | Key Issue 2C |

**CHAPTER 6**
Trade or Business Income

1. Updated the discussion on Form 1099-K reporting requirements to reflect the changes made by the American Rescue Plan Act (ARPA) to reduce the reporting threshold to $600. | Key Issue 6B |
2. Added a Note regarding the taxability of crowdsourced receipts. | Key Issue 6B |

**CHAPTER 7**
Cost of Goods Sold

1. Added a Preparation Pointer regarding the requirement to file Form 8916-A along with Schedule M-3. | Key Issue 7D |
2. Added a discussion of allowable deductions for cost of goods sold for Section 280E businesses, such as those in the cannabis industry. | Key Issue 7E |
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| CHAPTER 8                     | 1. Added a discussion of the taxation of nonfungible tokens (NFTs), including examples relating to the taxation of NFT creators and investors. Also included a discussion about whether NFTs are treated as collectibles for tax purposes.  
2. Expanded the discussion of the reporting requirements for tax-exempt income from PPP loan forgiveness and updated the related example. | Key Issue 8F |
| Nonbusiness Income            | 1. Expanded the discussion of depreciation recapture in an installment sale and added two examples. | Key Issue 9A |
|                              | 2. Listed the transactions that are not governed by the contingent payment sale rules.            | Key Issue 9A |
|                              | 3. Expanded the discussion of imputed interest on installment sales due to charging insufficient interest addressing the current rising rate environment. | Key Issue 9I |
| CHAPTER 9                     | 1. Added a Practice Tip concerning allocations in purchase price agreements or other documents.  | Key Issue 10H |
| Installment Sales and Like-kind Exchanges | 2. Added a discussion of the Form 8594 reporting for post-sale adjustments to purchase price. | Key Issue 10H |
|                              | 3. Added a comprehensive example reporting the sale of essentially all of a business’s assets, including eight new illustrations with filled-in forms. | Key Issue 10J |
|                              | 1. Added an Observation highlighting the IRS guidance that reasonable compensation will never exceed the amount actually received by the shareholder. Therefore, compensation may be zero in years when the shareholder receives no distributions. | Key Issue 12B |
| CHAPTER 10                    | 1. Added a discussion of applicable entities that are required to file Form 1099-C when they discharge debt in the course of their trade or business.  
2. Added a cautionary reminder that interest rates are increasing, and the Applicable Federal Rate (AFR) should be used for related party loans. | Key Issue 13A, Key Issue 13C |
| Reporting Property Transactions | 1. Added a discussion on states allowing pass-through entity level taxes as a way of mitigating the SALT cap. | Key Issue 14C |
|                              | 2. Updated discussion of IRC. Sec 163(j) limitation on the deductibility of business interest expense to reflect changes to the calculation of adjusted taxable income (ATI) for year beginning in 2022. | Key Issue 14F |
|                              | 3. Added a Caution alert regarding the different treatment of self-charged interest income paid to an S corporation shareholder versus a partner in a partnership when calculating the business interest expense limitation. | Key Issue 14F |
|                              | 1. Added a discussion of depreciation rules for qualified improvement property.                    | Key Issue 15A |
| CHAPTER 12                    |                                                                                                  |           |
| Compensation                  | 1. Added an Observation highlighting the IRS guidance that reasonable compensation will never exceed the amount actually received by the shareholder. Therefore, compensation may be zero in years when the shareholder receives no distributions. | Key Issue 12B |
| CHAPTER 13                    | 1. Added a discussion of applicable entities that are required to file Form 1099-C when they discharge debt in the course of their trade or business.  
2. Added a cautionary reminder that interest rates are increasing, and the Applicable Federal Rate (AFR) should be used for related party loans. | Key Issue 13A, Key Issue 13C |
| Bad Debt Losses               | 1. Added a discussion on states allowing pass-through entity level taxes as a way of mitigating the SALT cap. | Key Issue 14C |
| CHAPTER 14                    | 1. Added a discussion of applicable entities that are required to file Form 1099-C when they discharge debt in the course of their trade or business.  
2. Added a cautionary reminder that interest rates are increasing, and the Applicable Federal Rate (AFR) should be used for related party loans. | Key Issue 13A, Key Issue 13C |
| Taxes and Interest            | 1. Added a discussion of applicable entities that are required to file Form 1099-C when they discharge debt in the course of their trade or business.  
2. Added a cautionary reminder that interest rates are increasing, and the Applicable Federal Rate (AFR) should be used for related party loans. | Key Issue 13A, Key Issue 13C |
| CHAPTER 15                    | 1. Added a discussion of depreciation rules for qualified improvement property.                    | Key Issue 15A |
| Depreciation and Depletion    |                                                                                                  |           |
Chapter 16: Fringe Benefits and Retirement Plans
1. Added discussion of filing amended payroll tax returns if 2020 or 2021 COVID-19 payroll tax credits were not properly claimed on original payroll tax returns. Key Issue 16A
2. Expanded guidance on membership dues and companion travel as a working condition fringe benefit. Key Issue 16A
3. This edition has information on the leave-based donation program that allows employers to deduct contributions made to aid victims of the Russian invasion of Ukraine. Key Issue 16A
4. Expanded discussion of nonqualified deferred compensation plans, including guidance on when deferred compensation is deductible by the employer. Key Issue 16E

Chapter 18: Other Deductions
1. Updated discussion of research and experimental (R&E) costs to reflect requirement to amortize over five years instead of being able to deduct for tax year beginning after 2021. Key Issue 18D

Chapter 19: Shareholder Stock Basis
1. Addressed Form 7203 (S Corporation Shareholder Stock and Debt Basis Limitations), which is used to calculate and report shareholders’ stock and debt basis. Included a summary of each part of the form. Key Issues 19A, 19C, and 19F
2. Added coverage of an IRS Practice Unit providing examiners with a three-step process for computing a shareholder’s stock and debt basis, including how to handle losses claimed in excess of basis in a closed statute year, and how to determine whether losses were taken in excess of basis in an open statute year. Key Issue 19I

Chapter 20: Shareholder Debt Basis
1. Updated discussions on basis tracking to include Form 7203 (S Corporation Shareholder Stock and Debt Basis Limitations). Key Issue 20A and 20B, Illustration 20-1
2. Created new Practice Aid for tracking shareholder debt basis, which tracks debt basis and computes the gain on repayment for multiple shareholder loans.

Chapter 21: Distributions
1. Added a Note related to clarification provided by Rev. Proc. 2022-19 that disproportionate distributions do not create a second class of stock when the S corporation’s operating agreement (or other governing document) provides for identical distribution and liquidation rights. Key Issue 21N

Chapter 22: Property Transactions with Shareholders
1. Added a Preparation Pointer encouraging separate activity tracking for rental income from related versus unrelated parties. Key Issue 22C

Chapter 23: Schedule L—The Balance Sheet
1. Added a Preparation Pointer reminding practitioners that the amounts reported on Schedule L, lines 10a and 10b reflect the book amounts of fixed asset cost and accumulated depreciation and may vary from amounts on tax-basis fixed asset schedules. Key Issue 23A

Chapter 26: Schedules K and K-1—Pass-through
1. Added Example 26F-2 illustrating how to account for corporate expenses paid by a shareholder to ensure the amount is deductible. Key Issue 26F
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| **Chapter 27**  
Alternative Minimum Tax | 2. Addressed uncertainty related to the self-employed health insurance deduction for > 2% shareholders and whether the regulations require qualified business income to be reduced two times for the same amount. | Key Issue 26H |
| **CHAPTER 28**  
Business Credits | 3. Enhanced the discussion of how an S corporation determines W-2 wages for purposes of the Section 199A wage/investment limit. | Key Issue 26H |
| **CHAPTER 29**  
Foreign Operations | 1. Added a discussion of the AMT treatment of property for which bonus depreciation is claimed. | Key Issue 27B |
| **CHAPTER 30**  
Shareholder Losses: Basis Limitations | 2. Updated the discussion of optional elections under IRC Sec. 59(e) to reflect the required capitalization and amortization of Section 174 research and experimental expenditures paid or incurred after 2021. | Key Issue 27C |
| **CHAPTER 31**  
Passive Activity Loss | 1. Added a note about general business credits included in the Inflation Reduction Act of 2022 and CHIPS Act of 2022 to alert practitioners that new credits are generally not applicable until after 2022. | Key Issue 28A |
|  | 2. Added an overview of changes made by the Inflation Reduction Act to the Section 30D clean vehicle credit, highlighting the final assembly requirement that goes into effect during 2022. | Key Issue 28A |
|  | 3. Added a cautionary reminder for practitioners to capitalize any qualified research expenditures (QREs) used for the Section 41 research credit since research and experimental expenditures under IRC Sec. 174 now require capitalization and amortization. | Table T801 |
|  | 4. Added a brief overview of the enhanced payroll tax credit included in the Inflation Reduction Act that can be claimed by qualified small businesses in lieu of the research income tax credit. Applies to tax years beginning after 2022. | Table T801 |
|  | 5. Added a discussion of Notice 2022-5, which provides temporary relief with compliance deadlines and operational provisions relating to the low-income housing credit. | Table T802 |
| **CHAPTER 27**  
Alternative Minimum Tax | 1. Created a new Key Issue to provide more detailed guidance on filing requirements and completion of Schedules K-2 and K-3. Also included a new example and illustrations. | Key Issue 29C |
| **CHAPTER 29**  
Foreign Operations | 2. Added a discussion of Form 5713 (International Boycott Report) to the list of IRS forms that may be required for S corporations with international operations. | Key Issue 29D |
| **CHAPTER 30**  
Shareholder Losses: Basis Limitations | 1. Added a Law Change alert regarding the two-year extension of Section 461(l) excess business loss limitation to tax years beginning before 2029. | Introduction |
| **CHAPTER 31**  
Passive Activity Loss | 1. Revised example illustrating characterization of income from significant participation activities. | Key Issue 31C |
|  | 2. Clarified application of the real estate professional test to married couples (whether they file jointly or not). | Key Issue 31D |
### Chapter 33  
**Built-in Gains Tax**

1. Referenced the built-in gains tax rate and the need to make estimated tax payments for the current tax year when the tax is owed.  
   **Reference:** Key Issue 33A

2. Revised discussion of using net operating losses (NOLs), capital losses, and business tax credits carried over from C corporation tax years to reduce the built-in gains tax.  
   **Reference:** Key Issue 33D

3. Noted that minimum tax credit carryovers are no longer allowed against the built-in-gains tax for tax years beginning after 2021.  
   **Reference:** Key Issue 33D

4. Added coverage of application of the built-in gains tax to complete and partial S corporation liquidations.  
   **Reference:** Key Issue 33I

5. Clarified whether it matters for built-in gains tax purposes whether assets are distributed in a liquidation or are sold with the proceeds distributed to the shareholders.  
   **Reference:** Key Issue 33I

6. Clarified whether the built-in gains tax applies to asset sales between a qualified Subchapter S subsidiary (QSub) and its parent S corporation.  
   **Reference:** Key Issue 33J

### Chapter 34  
**Tax on Excess Net Passive Income**

1. Expanded discussion on requesting a waiver of the tax on excess net passive income to include a list of the information that is required in the waiver request.  
   **Reference:** Key Issue 34E

### Chapter 35  
**Other Tax Payments**

1. Added a Note and a Practice Tip regarding Form 8752 for fiscal-year S corporations and payment options when a deposit is required.  
   **Reference:** Key Issue 35C

2. Expanded the discussion on remitting S corporation taxes electronically to include “same-day” EFTPS payment options, electronic funds withdrawal when Form 1120-S is filed, and wire transfers from a financial institution.  
   **Reference:** Key Issue 35E

3. Expanded the discussion on the requirement for ordinary business care and prudence when requesting a waiver of the Section 6651 failure-to-pay penalty due to reasonable cause.  
   **Reference:** Key Issue 35F

### Chapter 36  
**Termination of S Status**

1. Expanded the discussion on who is required to provide consent to a voluntary revocation of the S election in various scenarios (such as joint ownership, or stock held in trust or an estate).  
   **Reference:** Key Issue 36A

2. Clarified whether IRC Sec. 7503 (addressing time for performance where the last day occurs on a Saturday, Sunday, or legal holiday) applies to the revocation of an S election.  
   **Reference:** Key Issue 36A

3. Added examples of transactions that do not terminate the S election.  
   **Reference:** Key Issue 36B
**Substantive Changes and Additions**

4. Expanded the discussion on inadvertent termination due to a second class of stock to include Rev. Proc. 2022-19 guidance on disproportionate distributions and certain non-governing agreements.

5. Added a discussion outlining eligibility requirements for retroactive termination relief for an S corporation with non-identical governing provisions.

6. Added a discussion regarding a recent change to the IRS’s private letter ruling procedures. Rev. Proc. 2022-19 added six “No rule” situations.

1. Updated the discussion on the ability to request a private letter ruling with respect to a late QSub election with recent IRS guidance found in Rev. Proc. 2022-19.

**CHAPTER 38**

**Changes in Corporate Capital Structure**

1. Expanded the discussion on making changes in accounting methods to include additional information on the procedures to make nonautomatic changes and the circumstances when an S corporation takes the remaining positive Section 481(a) adjustment into income.

**CHAPTER 40**

**Accounting Methods**

1. Added discussion of required tax return signatures for both the signing tax return preparer and the taxpayer for paper-filed or electronically filed returns.

2. Expanded discussion of filing a superseding tax return to include information about the statute of limitations when a superseding return is filed and to discuss situations in which a superseding return can be beneficial.

3. Discussed when S corporations can be subject to the centralized partnership audit regime and the two options for taking an adjustment into account, noting important filing requirements and deadlines for the S corporation to push out imputed adjustments to its shareholders.

4. Added new Key Issue on recognizing reportable transactions. In this key issue, we discuss the types of reportable transactions and how to properly disclose them to avoid costly penalties.