

## Items to Explain for Tax Focus Groups

1. Corporations:
  - a. The tragedy of double taxation of profits.
  - b. The tragedy of not passing through losses.
  - c. Ways (and risks of “constructive dividends”) of avoiding taxation at the corporate level by deducting as an expense: leasing, employment wages and bonuses, interest on loans
  - d. Contributions of low basis property – impact on Carl
  - e. Contributions of services: *Campbell v. Commissioner*. When does a service participant have to report equity or other interests as income (& pay taxes, social security, etc.).
  
2. General partnerships & L.P.’s & LLC’s
  - a. The joy of pass through of profits.
  - b. The joy of pass through of losses.
    - i. Passive activity loss limits
    - ii. At-risk loss limits
  - c. Contributions of low basis property – impact on Carl
  - d. Contributions of services: *Campbell v. Commissioner*. When does a service participant have to report equity or other interests as income (& pay taxes, social security, etc.).
  
3. S Corporations [This topic will be covered by Prof. Ehrlich]
  - a. Explain care to avoid catastrophic consequences if the S election is not properly made or is inadvertently terminated.
  
  - b. The Requirements for Subchapter S Status
    - (1) the corporation cannot have more than 100 shareholders
    - (2) all shareholders must be individuals & (3) citizens or legal residents of the U.S.
    - (4) only one economic class of stock (differences in voting rights are allowed but there must be identical rights to distribution)
    - (5) *all* shareholders must consent to the election in writing at the time of the election
    - (6) a timely filing of the election with the IRS: