

IRS Now Requiring S Corporation Shareholder to Report Basis on Tax Returns

September 16, 2019 by [Hassan Sultan, CPA, CVA, MBA](#)



After the passing of the [Tax Cuts and Jobs Act](#), IRS released the revised [Form 1040](#) – US Individual Income Tax Return earlier this year. As part of the revision, a new checkbox has now appeared on [Schedule E](#) of Form 1040 that applies to S Corporation Shareholders. IRS posted information about this change on its [website](#) stating:

As stated in Part II of the Schedule E (Form 1040), a taxpayer who owns an interest in an S corporation and reports a loss, receives a distribution, disposes of stock, or receives a loan repayment from the S corporation must check a corresponding box under line 28, column (e), and attach a computation detailing their S corporation basis. The discussion about basis

rules for S corporations in the Instructions for Schedule E (Form 1040) for Parts II and III does not limit or modify this requirement.

Per the instructions, an individual taxpayer who owns an interest in an S Corporation must attach a copy of their stock basis calculation to their return if the individual:

- reports a loss
- receives a distribution
- disposes of stock
- received a loan repayment from the S Corporation

The requirement to attach a basis schedule to Form 1040 for an S Corporation shareholder claiming a loss is not new. However, the instances where an S Corporation shareholder is required to attach a basis schedule have significantly expanded. Since almost all S Corporations make distributions to shareholders, it is anticipated that nearly all S Corporation shareholders are subject to this new provision.

Below is a screenshot of page 2 of Schedule E depicting the new checkbox:

Schedule E (Form 1040) 2018 Attachment Sequence No. **13** Page **2**

Name(s) shown on return. Do not enter name and social security number if shown on other side. Your social security number

Caution: The IRS compares amounts reported on your tax return with amounts shown on Schedule(s) K-1.

Part II **Income or Loss From Partnerships and S Corporations** — **Note:** If you report a loss, receive a distribution, dispose of stock, or receive a loan repayment from an S corporation, you **must** check the box in column (e) on line 28 and attach the required basis computation. If you report a loss from an at-risk activity for which **any** amount is **not** at risk, you **must** check the box in column (f) on line 28 and attach **Form 6198** (see instructions).

27 Are you reporting any loss not allowed in a prior year due to the at-risk, excess farm loss, or basis limitations, a prior year unallowed loss from a passive activity (if that loss was not reported on Form 8582), or unreimbursed partnership expenses? If you answered "Yes," see instructions before completing this section. **Yes** **No**

28	(a) Name	(b) Enter P for partnership; S for S corporation	(c) Check if foreign partnership	(d) Employer identification number	(e) Check if basis computation is required	(f) Check if any amount is not at risk
A			<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
B			<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
C			<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
D			<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>

Passive Income and Loss		Nonpassive Income and Loss		
(g) Passive loss allowed (attach Form 8582 if required)	(h) Passive income from Schedule K-1	(i) Nonpassive loss from Schedule K-1	(j) Section 179 expense deduction from Form 4562	(k) Nonpassive income from Schedule K-1
A				
B				
C				
D				
29a Totals				
b Totals				
30 Add columns (h) and (k) of line 29a.				30
31 Add columns (g), (i), and (j) of line 29b.				31 ()
32 Total partnership and S corporation income or (loss). Combine lines 30 and 31				32

IRS has indicated that it intends to begin sending notices to S Corporation shareholders that have not attached basis schedules to their 2018 returns. A draft of the [form letter](#) was recently published on the IRS website.

The Challenge

Calculating the S Corporation shareholder's basis is important because it measures the amount the shareholder can withdraw or receive from the S Corporation without realizing income or gain. However, maintaining an accurate S Corporation basis is a challenge particularly in cases where shares are gifted to family members, or inherited upon death.

Historically, the task of tracking S Corporation basis has been neglected because when a profitable S Corporation makes distributions which are less than the taxable income of the Corporation, the number simply didn't matter – until a major change happened i.e. change in shareholder's ownership or the end of the Company's life. The new requirement means that S Corporation shareholders and their tax preparers may have to dig through their historic records in order to create the basis schedules, going back the date when the stock was acquired. This could mean going back decades to when the stock was originally acquired (purchased or inherited).

Looking Forward

We strongly feel that maintenance of S Corporation basis schedule is a shareholder level responsibility. However, this is an area where the shareholders may request assistance from the S Corporations. Since the new requirement came out, a number of our S Corporation clients have been contacted by their shareholders who were looking for help in putting together their basis schedules.

S Corporations can assist by providing copies of the following documents to their shareholders:

- Copies of prior year K-1s
- Information on prior stock purchases
- Stock histories
- Information on direct loans from the shareholders

Some of our S Corporation clients have decided to maintain complete basis schedules for all shareholders with assistance from us. Please feel free to contact us with questions regarding S Corporation shareholder basis calculations and visit our blog to read more articles on related topics.

You've heard our thoughts... We'd like to hear yours

Our blog exists to create a dialogue on issues that are important to individuals and businesses. While we enjoy sharing our ideas, we're especially interested in what you may have to say. If you have a question or a comment about this article, we hope you'll share it with us. Materials provided are meant for informational purposes only, and it is not to be construed as investment, tax, or legal advice. Please note that individual situations can vary.

About the Author

Hassan Sultan, CPA, CVA, MBA
Shareholder, [Reckenen, Inc.](#)

Hassan Sultan has over 20 years of experience in the areas of taxation, business valuation, and non-profit financial management. His scope includes income tax preparation for individuals and businesses of all types, trusts, and outsourced CFO services to non-profit organizations. He also provides business valuation and litigation support. Hassan earned a bachelor's degree in management from the University of Florida and an MBA from Carnegie Mellon University.

Email: hsultan@reckenen.com

Call: [571-989-1300](tel:571-989-1300)