

Disclaimer

- Before viewing this deck, we highly recommend that you read our [help article](#) first.

Basis Calculation Example

Year 1

- When you start your S Corp, your basis is always zero:
- At the end of year one, your net taxable income is \$20K:
- Your officer compensation (W-2 wages) was \$36K:
- You took zero distributions:
- Ending basis as of 12/31 year one:

	\$0
	+\$20,000
\$36,000	
	<u>\$0</u>
	\$20,000

Year 2

- Beginning Basis (This is the accumulation of activity from prior years):
- At the end of year two, your net taxable loss is \$5K:
- Your officer compensation (W-2 wages) was \$45K:
- You took \$2,500 distributions:
- Employer Retirement contribution made after 12/31 of \$11,250 (25% of W-2 wages):
- Ending basis as of 12/31 year two:

	\$20,000
	-\$5,000
\$45,000	
	-\$2,500
	<u>-\$11,250</u>
	\$1,250

Year 3

- Beginning Basis (This is the accumulation of activity from prior years):
- At the end of year three, your net taxable income is \$15K:
- Your officer compensation (W-2 wages) was \$36K:
- You took \$10,000 distributions:
- Employer Retirement contribution made after 12/31 of \$9K (25% of W-2 wages):
- **Distributions in Excess of Basis \$2,750 subject to capital gains tax:**
- Ending basis as of 12/31 year three:

	\$1,250
	+\$15,000
\$36,000	
	-\$10,000
	-\$9,000
	<u>+\$2,750</u>
	\$0

Paying Additional Taxes!

In the year 3 example, there were distributions in excess of basis. Because basis cannot be negative, the excess distribution is treated as capital gain income to revert the basis back to zero.