Disclaimer

• Before viewing this deck, we highly recommend that you read our <u>help article</u> first.



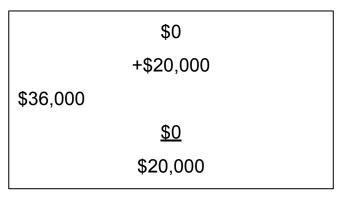
2

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:





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:

\$45,000	\$20,000	
	-\$5,000	
	-\$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 +\$2,750 \$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.

