

SBIS, Inc.

Accounting, Tax, and Financial Services

Philip H. Unsworth, EA, MBA, ATA, ABA

Enrolled to Practice Before the IRS

Accredited Tax Advisor (ATA)/Accredited Business Advisor(ABA)

Registered Representative*

Subchapter S Corporation Tax Considerations

Dear Valued Business Client:

An S corporation (or LLC which has elected to be taxed like an S corporation), such as yours, is a pass-through entity that is treated very much like a partnership for federal income tax purposes. As a result, all income is passed through to shareholders and taxed at their individual tax rates. However, unlike a C corporation, an S corporation's income is taxable to the shareholders when it is earned whether or not the corporation distributes the income. Because an S corporation has a unique tax structure that directly impacts shareholders, it is important for you to understand the S corporation distribution and loss limitations, as well as how and when items of income and expense are taxed, before developing your overall tax plan.

These items, as well as income and losses, are passed through to the shareholder on a pro rata basis, which means that the amount passed through to each shareholder is dependent upon that shareholder's stock ownership percentage. However, a shareholder's portion of the losses and deductions may only be used to offset income from other sources to the extent that the total does not exceed the basis of the shareholder's stock and the basis of any debt owed to the shareholder by the corporation. The S corporation losses and deductions are also subject to the passive-activity rules.

Other key points to consider when developing your comprehensive tax strategy include:

- the availability of the Code Sec. 179 deduction at the corporate and shareholder level;
- reporting requirements for the domestic production activities deduction;
- the tax treatment of fringe benefits;
- below-market loans between shareholders and S corporations; and
- IRS scrutiny of distributions to shareholders who have not received compensation.

If you would like us to assist you in identifying and maximizing the potential tax savings, please call our office at 757-898-5000 to arrange an appointment.

Sincerely yours,



Philip H. Unsworth, EA, MBA, ATA, ABA

IRS Circular 230 Notice

Any US tax advice included in this written or electronic communication was not intended to be used, and it cannot be used by the taxpayer, for the purpose of avoiding any penalties that may be imposed under the Internal Revenue Code or the applicable state or local tax laws.

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