

Summary of Principal Changes Made by H.R. 6055

<u>Subject</u>	<u>Present Law</u>	<u>H.R. 6055</u>
Maximum number of shareholders	25	35
Classes of stock	One	One, but stock may differ in voting rights.
Passive Income test	Passive income may not exceed 20% of gross receipts.	Repealed for new corporations and corporations without accumulated earnings and profits. Retained for corporations with accumulated earnings and profits.
Terminations	Generally, effective for entire taxable year.	Generally, effective only prospectively; 2 short taxable years result.
Inadvertent termination	No relief provision.	Allows Secretary to waive inadvertent terminations.
Revocations	All shareholders must agree; new shareholders may terminate election.	Only shareholders together holding more than 50% of stock may terminate election.
Choice of taxable year	No restrictions.	Only calendar year permitted unless corporation can show business purpose for other accounting period. Existing corporations "grandfathered" unless more than 50% change of ownership occurs.
Pass-through of items	Character of items (other than net long-term capital gain) not passed through.	Character of every item of income, deduction, gain, or loss passed through to shareholders, generally like a partnership.
Allocation method	Undistributed taxable income allocated only to shareholders as of end of taxable year; net operating loss allocated on per-share, per-day basis.	All items allocated on per-share, per-day basis.
Loss limitation	Deductible losses cannot exceed shareholder basis in stock and	Generally the same except that excess losses may be carried forward.

<u>Subject</u>	<u>Present Law</u>	<u>H.R. 6055</u>
Basis of stock and debt	Basis of stock increased by undistributed taxable income and decreased by losses and distributions of undistributed taxable income and previously taxed income.	Basis of stock increased by items of income; decreased by deductions and distributions.
	Basis of debt decreased by losses after basis of stock reduced to zero, no restoration.	Basis of debt decreased by losses after basis of stock reduced to zero; may be restored by subsequent income.
Deferred compensation	Contributions to qualified shareholder-employees subject to Keogh limitations.	Generally same as all Keogh limitations.
Fringe benefits	No provision.	Partnership rules apply; 2% or more shareholder treated as partner.
Audit	Determination made at shareholder level.	Items determined at corporate level.
Distributions	Distributions from current earnings taxed as a dividend: Provision allows cash distribution of previously taxed income tax-free.	For corporations without accumulated earnings, distributions are tax-free to extent of basis in stock; corporation with accumulated earnings may distribute subchapter S income tax-free before distributions of accumulated earnings.
Distributions of appreciated property	Generally no gain recognized on distribution.	Gain recognized on distributions of appreciated property.
Effective date	--	Generally, taxable years beginning after December 31, 1982.