

Form 7203 & Shareholder Basis



Present by Mary Jane Hourani, MM, EA, NTPI Fellow

Today's Instructor

Mary Jane has a Master of Management from Walsh College of Accountancy and Business Administration as well as Bachelor of Science from Eastern Michigan University in Public Administration with a focus on Organizational Development and Governmental Accounting. Mary Jane has been practicing since 1993 working at a couple larger Tax, Accounting & Audit Firms in the area before transitioning to her own practice in 2005.

She is an Instructor of Tax for Michigan State University Tax School and Clemson University Tax School. Mary Jane is a Contributing Editor and Author of the National Tax Workbook for the Land Grant University Tax Education Foundation. She has written and compiled course packs used by Michigan State University Tax School, as well as Clemson University Tax School. Mary Jane is also an author/speaker for several national CPE providers, including Professional Education Management, CPE Today and Werner-Rocco Seminars Ltd. She is a previous speaker for the Michigan Chapter of the National Association of Tax Professionals, the Michigan Society of Enrolled Agents, several local financial events as well as a former H&R Block Instructor/Trainer.

Mary Jane is credentialed as an Internal Revenue Service Enrolled Agent, allowing her to practice before the IRS. With this credential, she has direct oversight by the IRS Office of Professional Responsibility. She is also an NTPI Fellow.

Mary Jane is a member of the, National Association of Enrolled Agents, Michigan Association of Certified Public Accountants, American Institute of Professional Bookkeepers, National Association of Tax Professionals, and is a Quick Books ProAdvisor.

Disclaimer



This presentation and accompanying course materials are designed to provide accurate and authoritative information as to the subject matter covered.



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If legal advice or other expert advice is required, the services of a competent professional should be sought.



Course Objectives

1. Introduce Form 7203
2. Learn how to complete Form 7203
3. Discuss strategies to reconstruct Shareholder Basis
4. Review loss limitations of §465 & §469
5. Review at-risk rules and limitations



IRS Compliance Campaign

“S corporation shareholders report income, losses and other items passed through from their corporation. The law limits losses and deduction to their basis in the corporation. LB&I has found that shareholders claim losses and deduction to which they are not entitled because they do not have sufficient stock or debt basis to absorb these items. LB&I has developed technical content for this campaign that will aid revenue agents as they examine the issue. The treatment streams for this campaign will be issue-based examinations, soft letters encouraging voluntary self-correction, conducting stakeholder outreach, and creating a new form for shareholders to assist in properly computing their basis.”

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 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"/>

Receive Income and Loss

Nonpassive Income and Loss

Schedule E – beginning 2018

Tax Year 2021

Form 7203

Individual Shareholders of S Corp.

P 3

Attached to Form 1040

Replaces Stock & Debt Basis
Worksheet

Filing Requirement

Loss from Schedule K-1

Prior year loss basis limitation

Received non-dividend distribution

Disposed of stock (gain/loss)

Received a loan repayment

Practitioner Note

P 4



Dividend Distributions



C Corporation prior to S Election



Positive Earnings & Profits



Non-dividend Distributions – everything else

Is Form 7203 Required?

P 4

Cindy Lou – 50% Shareholder

Schedule K-1 detail:

- Ordinary Business Loss = \$ 25,000
- Interest Income = \$ 2,500
- Tax-Exempt income = \$ 100,000
- Distribution = \$ 50,000

Form 7203 is Required

Reasons:

- Ordinary loss of \$ 25,000
- Distribution of \$ 50,000

Schedule K-1 (Form 1120-S)

2023

Department of the Treasury Internal Revenue Service

For calendar year 2023, or tax year

Final K-1 Amended K-1

OMB No. 1545-0123

beginning / / 2023 ending / /

Shareholder's Share of Income, Deductions, Credits, etc. See separate instructions.

Part I Information About the Corporation		Part III Shareholder's Share of Current Year Income, Deductions, Credits, and Other Items	
A Corporation's employer identification number 88-0000000		1 Ordinary business income (loss) -25,000	13 Credits
B Corporation's name, address, city, state, and ZIP code Grinchville Inc 100 Christmas Tree Lane Whooville		2 Net rental real estate income (loss)	
C IRS Center where corporation filed return e-file		3 Other net rental income (loss)	
D Corporation's total number of shares Beginning of tax year 10000 End of tax year 10000		4 Interest income 2,500	
Part II Information About the Shareholder		5a Ordinary dividends	
E Shareholder's identifying number 200-11-2222		5b Qualified dividends	14 Schedule K-3 is attached if checked <input type="checkbox"/>
F Shareholder's name, address, city, state, and ZIP code Cindy Lou Who 350 Christmas Tree Lane Whooville		6 Royalties	15 Alternative minimum tax (AMT) items
G Current year allocation percentage 50 %		7 Net short-term capital gain (loss)	
		8a Net long-term capital gain (loss)	
		8b Collectibles (28%) gain (loss)	
		8c Unrecaptured section 1250 gain	
		9 Net section 1231 gain (loss)	16 Items affecting shareholder basis B 100,000
		10 Other income (loss)	D 50,000
			17 Other information
		11 Section 179 deduction	

Purpose of Form 7203

P 6

1

Determine
loss
limitations

2

Track outside
stock basis

3

Track loan
basis

4

Apply At-Risk
limitations

5

Apply Passive
Activity
limitations

Observation

P 6

Burden of Proof on the Taxpayer

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graph TD; A[Burden of Proof on the Taxpayer] --> B[NOT with the S Corporation]; B --> C[Individual Income Tax Return Preparer Issue];
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NOT with the S Corporation

Individual Income Tax Return
Preparer Issue

At-risk limitation §465

“...engaged in an activity to which this section applies, any loss from such activity for the taxable year shall be allowed only to the extent of the aggregate amount with respect to which the taxpayer is at risk (within the meaning of subsection (b)) for such activity at the close of the taxable year.”



What else was new in 2018 on Schedule E

Part II

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 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"/>

Receive Income and Loss

Nonpassive Income and Loss

At-risk limitation §465

- What is At-Risk?
 - Money contributed
 - Adjusted basis of property contributed
 - Amounts borrowed
 - Personally liable for repayment
 - Pledged personal property as collateral



Borrowing - § 465(b)(1)(b)

Secured non-business property & personally liable for repayment

Net fair market value of pledged property

Cannot be secured by property already contributed (directly or indirectly)

Determined on date of pledge

Less any prior claims

What's not at-risk

Nonrecourse financing

Guarantees

Stop loss agreement

Other similar arrangements

Publication 925 example

- Commercial feedlot
- Reimburse farmer – loss on sale of federal livestock > stated dollar amount per head
- Stop loss order
 - The investor is at risk for their capital
 - NOT at risk for the reimbursement



Passive activity limitations - §469

Conduct of trade or business



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graph TD; A[Conduct of trade or business] --> B[Anticipation of started a trade or business]; B --> C[Research or experimental -- §174]; C --> D[Taxpayer does not materially participate];
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Anticipation of started a trade or business

Research or experimental -- §174

Taxpayer does not materially participate

Tres. Reg. 1.469-1T(e)(3) & 1.469-1(e)(3)

Material Participation

Participated more than 500 hours during the year.



Your participation for the tax year constituted substantially all the participation in the activity of all individuals.



Participated more than 100 hours during the year, and that participation wasn't less than other's participation.



Participation was significant for more than 500 hours and a minimum of 100 hours.

Tres. Reg. 1.469-1T(e)(3) & 1.469-1(e)(3) Material Participation

Materially participated in at least 5 of 10 tax years immediately preceding the current tax year.



The Activity was a personal service activity and there is material participation for any 3 years preceding the current tax year.



“Based upon the facts and circumstances, you participated in the activity on a regular, continuous, and substantial basis during the tax year”.

Rental Real Estate – Active Participation Special \$ 25,000 loss




MFS – NOT if lived together at any time during the year



At least 10% interest at any time during the year;

RENTAL REAL ESTATE – ACTIVE PARTICIPATION SPECIAL \$ 25,000 LOSS



Must have made management decisions, including scheduling service providers in a significant way. Management decisions may also include approving new tenants, negotiating lease agreements and making decisions regarding capital expenditures; AND

There are MAGI limitations for those taking advantage of this special allowance:

- Less than \$ 100,000 (\$ 50,000 MFS) = up to \$ 25,000
- Between \$ 100,000 - \$ 150,000 (\$50,000 - \$ 75,000 MFS) = up to 50%
- More than \$ 150,000 (\$ 75,000 MFS) = No Special Allowance



Stock & debt basis limitations

Ordering rules



ANNUALLY



STOCK BASIS



DEBT BASIS

Stock basis

Acquisition Cost

Income items – ordinary, rental, investment, tax-exempt

Distributions – ordinary, NOT dividends

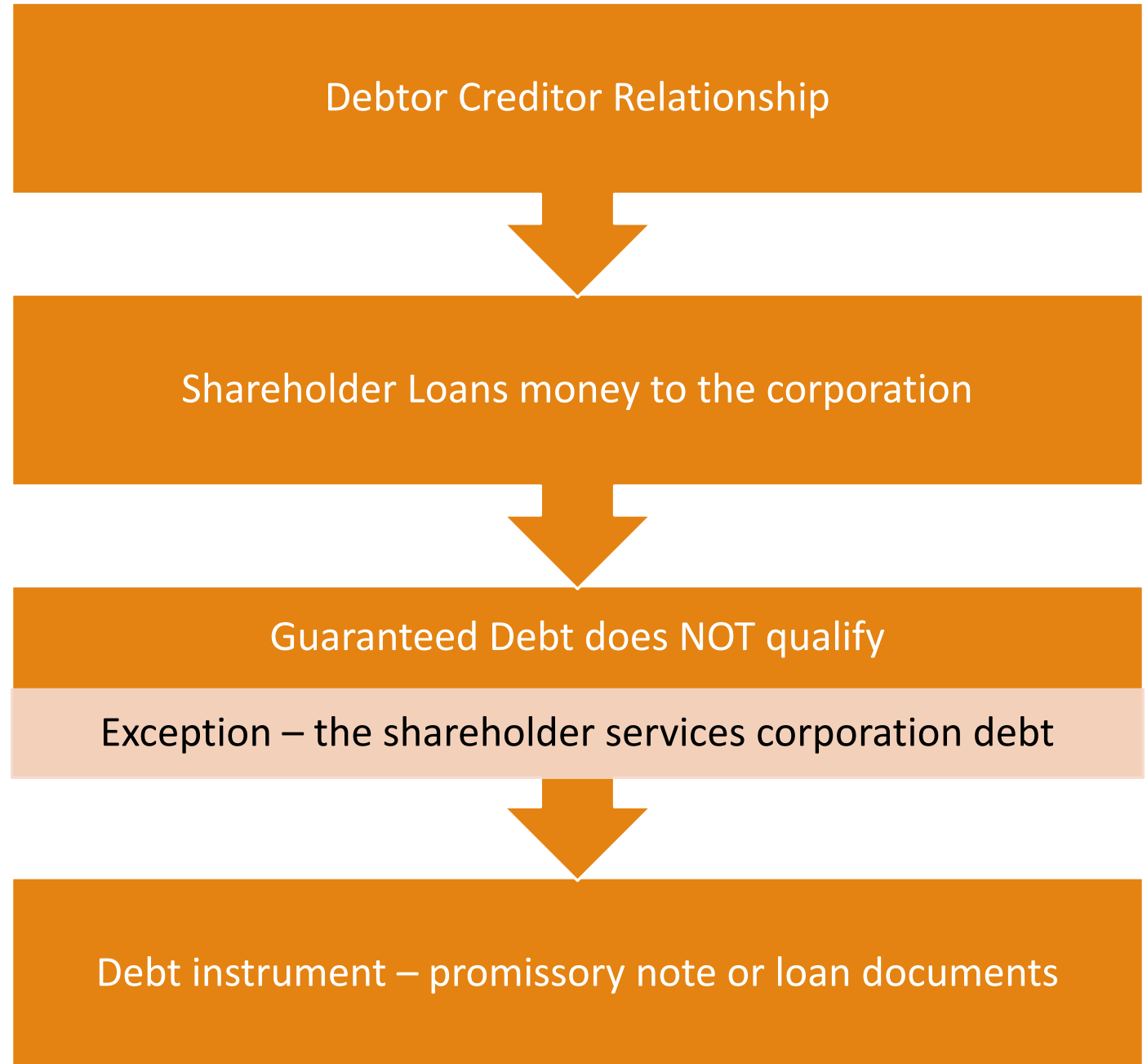
Nondeductible Expenses – noncapital or depletion

Losses

Debt basis

– Tres. Reg.
1.1366-2

P 9



Treas. Reg. 1.1367-2(a)(2)(ii)

- Debt instrument: year end loan balance > \$ 25,000
- NO aggregation for multiple loans
- Separate debt instruments for multiple loans
- Revolving debt – funds contributed and repaid within the same year
- Revolving debt converted to Debt instrument

	<u>Debit</u>	<u>Credit</u>
Current Year Loans from Shareholder	25,001.00	
N/P Loans from Shareholder		25,001.00

Loan Repayment



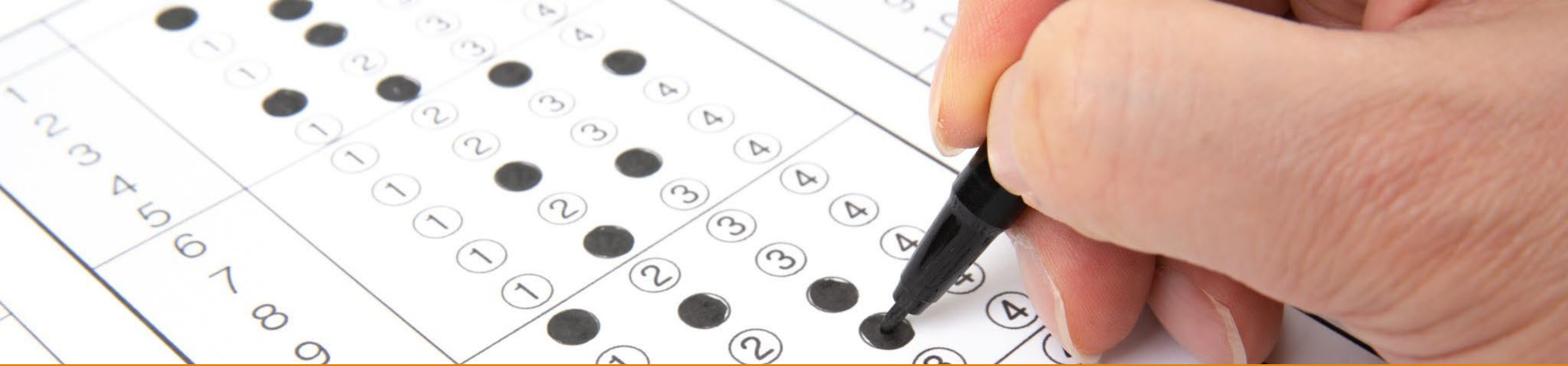
Gain = ordinary

- Report on Form 4797
- No formal debt instrument
- Gain = capital
 - Report on Form 8949 then Schedule D
 - Formal debt instrument
- Multiple Loans
 - Aggregate
 - Prorate over all loans

Debt Basis ordering

**REPAYMENT OF
CURRENT YEAR
DEBT**

**REPAYMENT OF
FORMAL DEBT
INSTRUMENTS**



Completing form 7203
P 10

Part I – Shareholder Stock Basis

Part II – Shareholder Debt Basis

Part III – Shareholder Allowable Loss and Deduction Items

Multiple K-1's = Multiple Form 7203

Sale of different Stock Blocks = Separate Form 7203

Form 7203 Part I

Form **7203**

(Rev. December 2022)
Department of the Treasury
Internal Revenue Service

S Corporation Shareholder Stock and Debt Basis Limitations

Attach to your tax return.
Go to www.irs.gov/Form7203 for instructions and the latest information.

OMB No. 1545-2302

Attachment
Sequence No. **203**

Name of shareholder		Identifying number
A Name of S corporation	B Employer identification number	
C Stock block (see instructions):		
D Check applicable box(es) to indicate how stock was acquired: (1) <input type="checkbox"/> Original shareholder (2) <input type="checkbox"/> Purchased (3) <input type="checkbox"/> Inherited (4) <input type="checkbox"/> Gift (5) <input type="checkbox"/> Other:		
E Check if you have a Regulations section 1.1367-1(g) election in effect during the tax year for this S corporation <input type="checkbox"/>		

Part I Shareholder Stock Basis

1 Stock basis at the beginning of the corporation's tax year		1
2 Basis from any capital contributions made or additional stock acquired during the tax year		2
3a Ordinary business income (enter losses in Part III)	3a	
b Net rental real estate income (enter losses in Part III)	3b	
c Other net rental income (enter losses in Part III)	3c	
d Interest income	3d	
e Ordinary dividends	3e	
f Royalties	3f	
g Net capital gains (enter losses in Part III)	3g	
h Net section 1231 gain (enter losses in Part III)	3h	
i Other income (enter losses in Part III)	3i	
j Excess depletion adjustment	3j	
k Tax-exempt income	3k	
l Recapture of business credits	3l	
m Other items that increase stock basis	3m	
4 Add lines 3a through 3m		4
5 Stock basis before distributions. Add lines 1, 2, and 4		5
6 Distributions (excluding dividend distributions) Note: If line 6 is larger than line 5, subtract line 5 from line 6 and report the result as a capital gain on Form 8949 and Schedule D. See instructions.		6
7 Stock basis after distributions. Subtract line 6 from line 5. If the result is zero or less, enter -0-, skip lines 8 through 14, and enter -0- on line 15		7
8a Nondeductible expenses	8a	
b Depletion for oil and gas	8b	
c Business credits (sections 50(c)(1) and (5))	8c	
9 Add lines 8a through 8c		9
10 Stock basis before loss and deduction items. Subtract line 9 from line 7. If the result is zero or less, enter -0-, skip lines 11 through 14, and enter -0- on line 15		10
11 Allowable loss and deduction items. Enter the amount from line 47, column (c)		11
12 Debt basis restoration (see net increase in instructions for line 23)		12
13 Other items that decrease stock basis		13
14 Add lines 11, 12, and 13		14
15 Stock basis at the end of the corporation's tax year. Subtract line 14 from line 10. If the result is zero or less, enter -0-		15

Form 7203 Part II

Part II Shareholder Debt Basis				
Section A—Amount of Debt (If more than three debts, see instructions.)				
Description	(a) Debt 1	(b) Debt 2	(c) Debt 3	(d) Total
	<input type="checkbox"/> Formal note <input type="checkbox"/> Open account	<input type="checkbox"/> Formal note <input type="checkbox"/> Open account	<input type="checkbox"/> Formal note <input type="checkbox"/> Open account	
16 Loan balance at the beginning of the corporation's tax year				
17 Additional loans (see instructions)				
18 Loan balance before repayment. Add lines 16 and 17				
19 Principal portion of debt repayment (this line doesn't include interest)				
20 Loan balance at the end of the corporation's tax year. Subtract line 19 from line 18				

For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 56396V **Form 7203** (Rev. 12-2022)

Page **2**

Part II Shareholder Debt Basis (continued)				
Section B—Adjustments to Debt Basis				
Description	(a) Debt 1	(b) Debt 2	(c) Debt 3	(d) Total
21 Debt basis at the beginning of the corporation's tax year				
22 Enter the amount, if any, from line 17				
23 Debt basis restoration (see instructions)				
24 Debt basis before repayment. Add lines 21, 22, and 23				
25 Divide line 24 by line 18				
26 Nontaxable debt repayment. Multiply line 25 by line 19				
27 Debt basis before nondeductible expenses and losses. Subtract line 26 from line 24				
28 Nondeductible expenses and oil and gas depletion deductions in excess of stock basis				
29 Debt basis before losses and deductions. Subtract line 28 from line 27. If the result is zero or less, enter -0-				
30 Allowable losses in excess of stock basis. Enter the amount from line 47, column (d)				
31 Debt basis at the end of the corporation's tax year. Subtract line 30 from line 29. If the result is zero or less, enter -0-				
Section C—Gain on Loan Repayment				
32 Repayment. Enter the amount from line 19				
33 Nontaxable repayments. Enter the amount from line 26				
34 Reportable gain. Subtract line 33 from line 32				

Form 7203 Part III

Part III Shareholder Allowable Loss and Deduction Items					
	(a) Current year losses and deductions	(b) Carryover amounts (column (e)) from the previous year	(c) Allowable loss from stock basis	(d) Allowable loss from debt basis	(e) Carryover amounts
35	Ordinary business loss				
36	Net rental real estate loss				
37	Other net rental loss				
38	Net capital loss				
39	Net section 1231 loss				
40	Other loss				
41	Section 179 deductions				
42	Charitable contributions				
43	Investment interest expense				
44	Section 59(e)(2) expenditures				
45	Other deductions				
46	Foreign taxes paid or accrued				
47	Total loss. Add lines 35 through 46 for each column. Enter the total loss in column (c) on line 11 and enter the total loss in column (d) on line 30				

Example #1

- Cindy Lou is 50% Shareholder
- Ordinary Business Loss = \$ 25,000
- Interest Income = \$ 2,500
- Tax-Exempt income = \$ 100,000
- Distribution = \$ 50,000

S Corporation Shareholder Stock and Debt Basis Limitations

▶ Attach to your tax return.

▶ Go to www.irs.gov/Form7203 for instructions and the latest information.

Name(s) shown on return Cindy Lou	Identifying number
Name of S corporation Whoville Candy Shop	Employer identification number

Stock block (see instructions) ▶

Part I Shareholder Stock Basis			
1 Stock basis at the beginning of the corporation's tax year		1	5,000
2 Basis from any capital contributions made or additional stock acquired during the tax year		2	
3a Ordinary business income (enter losses in Part III)	3a		
b Net rental real estate income (enter losses in Part III)	3b		
c Other net rental income (enter losses in Part III)	3c		
d Interest income	3d	2,500	
e Ordinary dividends	3e		
f Royalties	3f		
g Net capital gains (enter losses in Part III)	3g		
h Net section 1231 gain (enter losses in Part III)	3h		
i Other income (enter losses in Part III)	3i		
j Excess depletion adjustment	3j		
k Tax-exempt income	3k	100,000	
l Recapture of business credits	3l		
m Other items that increase stock basis	3m		
4 Add lines 3a through 3m		4	102,500
5 Stock basis before distributions. Add lines 1, 2, and 4		5	107,500
6 Distributions (excluding dividend distributions)		6	50,000
Note: If line 6 is larger than line 5, subtract line 5 from line 6 and report the result as a capital gain on Form 8949 and Schedule D. See instructions.			
7 Stock basis after distributions. Subtract line 6 from line 5. If the result is zero or less, enter -0-, skip lines 8 through 14, and enter -0- on line 15		7	57,500
8a Nondeductible expenses	8a		
b Depletion for oil and gas	8b		
c Business credits (sections 50(c)(1) and (5))	8c		
9 Add lines 8a through 8c		9	
10 Stock basis before loss and deduction items. Subtract line 9 from line 7. If the result is zero or less, enter -0-, skip lines 11 through 14, and enter -0- on line 15		10	57,500
11 Allowable loss and deduction items. Enter the amount from line 47, column (c)		11	25,000
12 Debt basis restoration (see net increase in instructions for line 23)		12	
13 Other items that decrease stock basis		13	
14 Add lines 11, 12, and 13		14	25,000
15 Stock basis at the end of the corporation's tax year. Subtract line 14 from line 10. If the result is zero or less, enter -0-		15	32,500

Part II Shareholder Debt Basis
Section A—Amount of Debt (If more than three debts, see instructions.)

Description	Debt 1		Debt 2		Debt 3		Total
	<input type="checkbox"/> Formal note	<input type="checkbox"/> Open account debt	<input type="checkbox"/> Formal note	<input type="checkbox"/> Open account debt	<input type="checkbox"/> Formal note	<input type="checkbox"/> Open account debt	
16 Loan balance at the beginning of the corporation's tax year							
17 Additional loans (see instructions)							
18 Loan balance before repayment. Combine lines 16 and 17							
19 Principal portion of debt repayment (this line doesn't include interest)							
20 Loan balance at the end of the corporation's tax year. Combine lines 18 and 19							

Part II Shareholder Debt Basis (continued)

Section B—Adjustments to Debt Basis

Description	Debt 1	Debt 2	Debt 3	Total
21 Debt basis at the beginning of the corporation's tax year				
22 Enter the amount, if any, from line 17				
23 Debt basis restoration (see instructions)				
24 Debt basis before repayment. Combine lines 21, 22, and 23				
25 Divide line 24 by line 18				
26 Nontaxable debt repayment. Multiply line 25 by line 19				
27 Debt basis before nondeductible expenses and losses. Subtract line 26 from line 24				
28 Nondeductible expenses and oil and gas depletion deductions in excess of stock basis				
29 Debt basis before losses and deductions. Subtract line 28 from line 27. If the result is zero or less, enter -0-				
30 Allowable losses in excess of stock basis. Enter the amount from line 47, column (d)				
31 Debt basis at the end of the corporation's tax year. Subtract line 30 from line 29. If the result is zero or less, enter -0-				

Section C—Gain on Loan Repayment

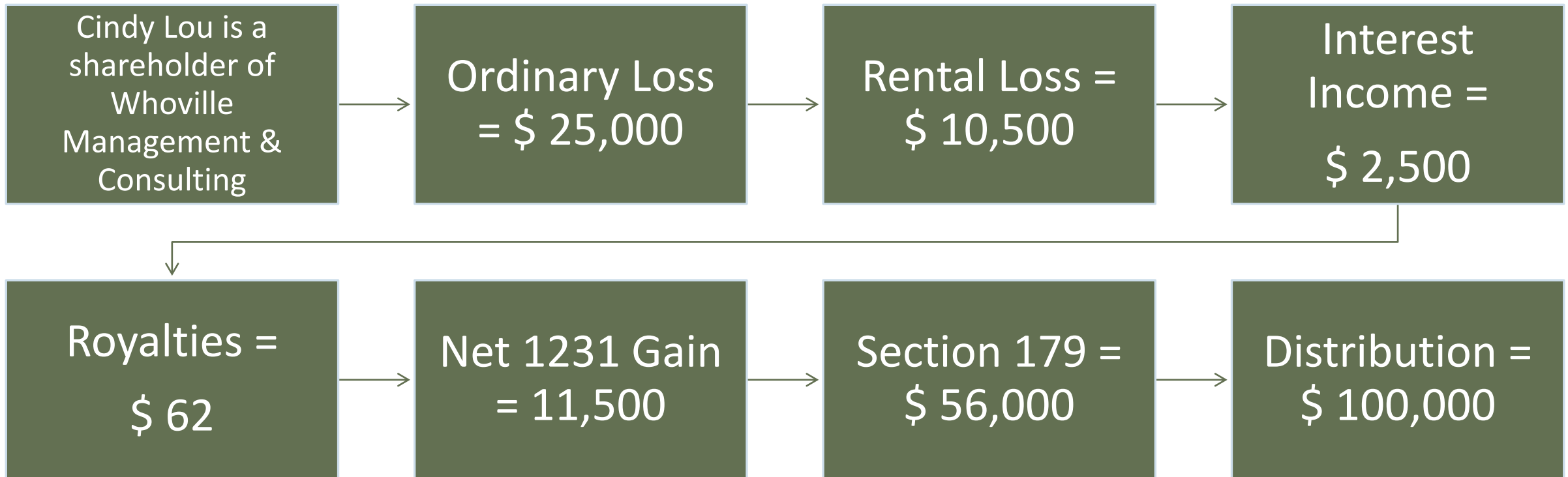
32 Repayment. Enter the amount from line 19				
33 Nontaxable repayments. Enter the amount from line 26				
34 Reportable gain. Subtract line 33 from line 32				

Part III Shareholder Allowable Loss and Deduction Items

Description	(b) Carryover year losses and deductions	(b) Carryover amounts (column (e)) from the previous year	(c) Allowable loss from stock basis	(d) Allowable loss from debt basis	(e) Carryover amounts
35 Ordinary business loss	25,000		25,000		
36 Net rental real estate loss					
37 Other net rental loss					
38 Net capital loss					
39 Net section 1231 loss					
40 Other loss					
41 Section 179 deductions					
42 Charitable contributions					
43 Investment interest expense					
44 Section 59(e)(2) expenditures					
45 Other deductions					
46 Foreign taxes paid or accrued					
47 Total loss. Combine lines 35 through 46 for each column. Enter the total loss in column (c) on line 11 and enter the total loss in column (d) on line 30	25,000		25,000		

Example #2

P 12 - 13



**Schedule K-1
(Form 1120-S)**

Department of the Treasury
Internal Revenue Service

2021

For calendar year 2021, or tax year

beginning / / 2021 ending / /

Shareholder's Share of Income, Deductions, Credits, etc.
▶ See separate instructions.

Final K-1

Amended K-1

OMB No. 1545-0123

Part I Information About the Corporation	
A Corporation's employer identification number	
B Corporation's name, address, city, state, and ZIP code	
C IRS Center where corporation filed return	
D Corporation's total number of shares Beginning of tax year End of tax year	
Part II Information About the Shareholder	
E Shareholder's identifying number	
F Shareholder's name, address, city, state, and ZIP code	
G Current year allocation percentage %	
H Shareholder's number of shares	

Part III Shareholder's Share of Current Year Income, Deductions, Credits, and Other Items			
1	Ordinary business income (loss)	13	Credits
	-25,000		
2	Net rental real estate income (loss)		
	-10,500		
3	Other net rental income (loss)		
4	Interest income		
	2500		
5a	Ordinary dividends		
5b	Qualified dividends	14	Schedule K-3 is attached if checked <input type="checkbox"/>
6	Royalties	15	Alternative minimum tax (AMT) items
	62		
7	Net short-term capital gain (loss)		
8a	Net long-term capital gain (loss)		
8b	Collectibles (28%) gain (loss)		
8c	Unrecaptured section 1250 gain		
9	Net section 1231 gain (loss)	16	Items affecting shareholder basis
	11,500		
10	Other income (loss)		
		D	100,000
11	Section 179 deduction		
	56,000		
		17	Other information

Why Is Cindy Lou Required to file form 7203?

Ordinary Loss

Non-Dividend
Distribution

Stock Basis Limitation

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graph TD; A[Stock Basis Limitation] --> B[NO Debt Basis]; B --> C[Carryover Loss]
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NO Debt Basis

Carryover Loss

Example #2

P 12 - 13

Stock Limitation

P 14

Form 7203 <small>(December 2021)</small> Department of the Treasury Internal Revenue Service	S Corporation Shareholder Stock and Debt Basis Limitations Attach to your tax return. Go to www.irs.gov/Form7203 for instructions and the latest information.	OMB No. 1545-XXXX Attachment Sequence No. 203
Name(s) shown on return Cindy Lou		Identifying number
Name of S corporation Whoville Management & Consulting		Employer identification number

Stock block (see instructions) ▶

Part I Shareholder Stock Basis			
1	Stock basis at the beginning of the corporation's tax year	1	5000
2	Basis from any capital contributions made or additional stock acquired during the tax year	2	
3a	Ordinary business income (enter losses in Part III)	3a	
b	Net rental real estate income (enter losses in Part III)	3b	
c	Other net rental income (enter losses in Part III)	3c	
d	Interest income	3d	2500
e	Ordinary dividends	3e	
f	Royalties	3f	62
g	Net capital gains (enter losses in Part III)	3g	
h	Net section 1231 gain (enter losses in Part III)	3h	11500
i	Other income (enter losses in Part III)	3i	
j	Excess depletion adjustment	3j	
k	Tax-exempt income	3k	
l	Recapture of business credits	3l	
m	Other items that increase stock basis	3m	
4	Add lines 3a through 3m	4	14062
5	Stock basis before distributions. Add lines 1, 2, and 4	5	19062
6	Distributions (excluding dividend distributions) <small>Note: If line 6 is larger than line 5, subtract line 5 from line 6 and report the result as a capital gain on Form 8949 and Schedule D. See instructions.</small>	6	100000
7	Stock basis after distributions. Subtract line 6 from line 5. If the result is zero or less, enter -0-, skip lines 8 through 14, and enter -0- on line 15	7	0
8a	Nondeductible expenses	8a	
b	Depletion for oil and gas	8b	
c	Business credits (sections 50(c)(1) and (5))	8c	
9	Add lines 8a through 8c	9	
10	Stock basis before loss and deduction items. Subtract line 9 from line 7. If the result is zero or less, enter -0-, skip lines 11 through 14, and enter -0- on line 15	10	
11	Allowable loss and deduction items. Enter the amount from line 47, column (c)	11	
12	Debt basis restoration (see net increase in instructions for line 23)	12	
13	Other items that decrease stock basis	13	
14	Add lines 11, 12, and 13	14	
15	Stock basis at the end of the corporation's tax year. Subtract line 14 from line 10. If the result is zero or less, enter -0-	15	0

Part II Shareholder Debt Basis		Section A—Amount of Debt (If more than three debts, see instructions.)			
Description		Debt 1	Debt 2	Debt 3	Total
		<input type="checkbox"/> Formal note <input type="checkbox"/> Open account debt	<input type="checkbox"/> Formal note <input type="checkbox"/> Open account debt	<input type="checkbox"/> Formal note <input type="checkbox"/> Open account debt	
16	Loan balance at the beginning of the corporation's tax year				
17	Additional loans (see instructions)				
18	Loan balance before repayment. Combine lines 16 and 17				
19	Principal portion of debt repayment (this line doesn't include interest)	()	()	()	()
20	Loan balance at the end of the corporation's tax year. Combine lines 18 and 19				

Part II Shareholder Debt Basis (continued)**Section B—Adjustments to Debt Basis**

Description	Debt 1	Debt 2	Debt 3	Total
21 Debt basis at the beginning of the corporation's tax year				
22 Enter the amount, if any, from line 17				
23 Debt basis restoration (see instructions)				
24 Debt basis before repayment. Combine lines 21, 22, and 23				
25 Divide line 24 by line 18				
26 Nontaxable debt repayment. Multiply line 25 by line 19				
27 Debt basis before nondeductible expenses and losses. Subtract line 26 from line 24				
28 Nondeductible expenses and oil and gas depletion deductions in excess of stock basis				
29 Debt basis before losses and deductions. Subtract line 28 from line 27. If the result is zero or less, enter -0-				
30 Allowable losses in excess of stock basis. Enter the amount from line 47, column (d)				
31 Debt basis at the end of the corporation's tax year. Subtract line 30 from line 29. If the result is zero or less, enter -0-				

Section C—Gain on Loan Repayment

32 Repayment. Enter the amount from line 19				
33 Nontaxable repayments. Enter the amount from line 26				
34 Reportable gain. Subtract line 33 from line 32				

Part III Shareholder Allowable Loss and Deduction Items

Description	(b) Carryover year losses and deductions	(b) Carryover amounts (column (e)) from the previous year	(c) Allowable loss from stock basis	(d) Allowable loss from debt basis	(e) Carryover amounts
35 Ordinary business loss	25000				25000
36 Net rental real estate loss	10500				10500
37 Other net rental loss					
38 Net capital loss					
39 Net section 1231 loss					
40 Other loss					
41 Section 179 deductions	56000				56000
42 Charitable contributions					
43 Investment interest expense					
44 Section 59(e)(2) expenditures					
45 Other deductions					
46 Foreign taxes paid or accrued					
47 Total loss. Combine lines 35 through 46 for each column. Enter the total loss in column (c) on line 11 and enter the total loss in column (d) on line 30	91500				91500

Carryover losses

P 15

Example #3

P 16

Same facts as
Example #2

Cindy Lou
loaned
\$ 75,000

Stock & Debt Basis

P 16

Form 7203 (December 2021) Department of the Treasury Internal Revenue Service	S Corporation Shareholder Stock and Debt Basis Limitations	OMB No. 1545-XXXX
▶ Attach to your tax return. ▶ Go to www.irs.gov/Form7203 for instructions and the latest information.		
Name(s) shown on return Cindy Lou	Identifying number	
Name of S corporation Whoville Management & Consulting	Employer identification number	

Part I Shareholder Stock Basis

1 Stock basis at the beginning of the corporation's tax year		1	5000
2 Basis from any capital contributions made or additional stock acquired during the tax year		2	
3a Ordinary business income (enter losses in Part III)	3a		
b Net rental real estate income (enter losses in Part III)	3b		
c Other net rental income (enter losses in Part III)	3c		
d Interest income	3d	2500	
e Ordinary dividends	3e		
f Royalties	3f	62	
g Net capital gains (enter losses in Part III)	3g		
h Net section 1231 gain (enter losses in Part III)	3h	11500	
i Other income (enter losses in Part III)	3i		
j Excess depletion adjustment	3j		
k Tax-exempt income	3k		
l Recapture of business credits	3l		
m Other items that increase stock basis	3m		
4 Add lines 3a through 3m		4	14062
5 Stock basis before distributions. Add lines 1, 2, and 4		5	19062
6 Distributions (excluding dividend distributions) <i>Note: If line 6 is larger than line 5, subtract line 5 from line 6 and report the result as a capital gain on Form 8949 and Schedule D. See instructions.</i>		6	10000
7 Stock basis after distributions. Subtract line 6 from line 5. If the result is zero or less, enter -0-, skip lines 8 through 14, and enter -0- on line 15		7	0
8a Nondeductible expenses	8a		
b Depletion for oil and gas	8b		
c Business credits (sections 50(c)(1) and (5))	8c		
9 Add lines 8a through 8c		9	
10 Stock basis before loss and deduction items. Subtract line 9 from line 7. If the result is zero or less, enter -0-, skip lines 11 through 14, and enter -0- on line 15		10	
11 Allowable loss and deduction items. Enter the amount from line 47, column (c)		11	
12 Debt basis restoration (see net increase in instructions for line 23)		12	
13 Other items that decrease stock basis		13	
14 Add lines 11, 12, and 13		14	
15 Stock basis at the end of the corporation's tax year. Subtract line 14 from line 10. If the result is zero or less, enter -0-		15	0

Part II Shareholder Debt Basis

Section A—Amount of Debt (If more than three debts, see instructions.)

Description	Debt 1	Debt 2	Debt 3	Total
	<input checked="" type="checkbox"/> Formal note <input type="checkbox"/> Open account debt	<input type="checkbox"/> Formal note <input type="checkbox"/> Open account debt	<input type="checkbox"/> Formal note <input type="checkbox"/> Open account debt	
16 Loan balance at the beginning of the corporation's tax year				
17 Additional loans (see instructions)	75000			
18 Loan balance before repayment. Combine lines 16 and 17	75000			
19 Principal portion of debt repayment (this line doesn't include interest)	()	()	()	()
20 Loan balance at the end of the corporation's tax year. Combine lines 18 and 19	75000			

Part II Shareholder Debt Basis (continued)**Section B—Adjustments to Debt Basis**

Description	Debt 1	Debt 2	Debt 3	Total
21 Debt basis at the beginning of the corporation's tax year				
22 Enter the amount, if any, from line 17	75000			
23 Debt basis restoration (see instructions)				
24 Debt basis before repayment. Combine lines 21, 22, and 23	75000			
25 Divide line 24 by line 18	1.00			
26 Nontaxable debt repayment. Multiply line 25 by line 19				
27 Debt basis before nondeductible expenses and losses. Subtract line 26 from line 24	75000			
28 Nondeductible expenses and oil and gas depletion deductions in excess of stock basis				
29 Debt basis before losses and deductions. Subtract line 28 from line 27. If the result is zero or less, enter -0-	75000			
30 Allowable losses in excess of stock basis. Enter the amount from line 47, column (d)	75000			
31 Debt basis at the end of the corporation's tax year. Subtract line 30 from line 29. If the result is zero or less, enter -0-	0			

Section C—Gain on Loan Repayment

32 Repayment. Enter the amount from line 19				
33 Nontaxable repayments. Enter the amount from line 26				
34 Reportable gain. Subtract line 33 from line 32				

Part III Shareholder Allowable Loss and Deduction Items

Description	(b) Carryover year losses and deductions	(b) Carryover amounts (column (e)) from the previous year	(c) Allowable loss from stock basis	(d) Allowable loss from debt basis	(e) Carryover amounts
35 Ordinary business loss	25000			20490	4510
36 Net rental real estate loss	10500			8610	1890
37 Other net rental loss					
38 Net capital loss					
39 Net section 1231 loss					
40 Other loss					
41 Section 179 deductions	56000			45900	10100
42 Charitable contributions					
43 Investment interest expense					
44 Section 59(e)(2) expenditures					
45 Other deductions					
46 Foreign taxes paid or accrued					
47 Total loss. Combine lines 35 through 46 for each column. Enter the total loss in column (c) on line 11 and enter the total loss in column (d) on line 30	91500			75000	16500

Debt Basis & Loss Carry over

P 17



IRS Data Mining

Name	Taxpayer Identification Number ***-**-3333
------	---

Name of Entity Whoville Management & Consulting	EIN **-***0000
Passive Activity Type Not Passive	K1 Unit 1

Shareholder Stock Basis

1. Beginning of year stock basis. Per IRC 1367(a)(2) do not enter an amount below zero	1.	5,000
Increases to stock basis		
2. Capital contributions made or additional stock acquired	2.	
3. Ordinary business income	3.	
4. Net rental real estate income	4.	
5. Other net rental income	5.	
6. Interest, dividends and royalties	6.	2,562
7. Net capital gains	7.	
8. Net section 1231 gain and ordinary business gain	8.	11,500
9. Tax-exempt interest, other tax-exempt income and recapture credits	9.	
10. Other income	10.	
11. Excess of deductions for depletion over basis of property (other than oil and gas)	11.	
12. Other increases to stock basis	12.	
13. Total increases to stock basis. Combine lines 2 through 12	13.	14,062
14. Stock basis before distributions and items of loss or deductions. Add line 1 and line 13 and enter the result here	14.	19,062
Decreases to stock basis		
15. Distributions allowed Total Distributions 100,000	15.	19,062
16. Stock basis after distributions and before items of loss or deductions. Subtract line 15 from line 14. If zero or less, enter - 0 -	16.	0
17. Losses and deductions applied against stock basis. (See Shareholder Basis Worksheet Page 2)	17.	
18. Other decreases to stock basis	18.	
19. Amount used to restore loan basis	19.	
20. Total decreases (other than distributions) to stock basis. Combine lines 17 through 19	20.	0
21. Stock basis at the end of year. (Subtract line 20 from line 16). Per IRC 1367(a)(2) do not enter an amount below zero	21.	0

Shareholder Debt Basis

22. Debt basis at the beginning of corporation's tax year	22.	50,000
23. Additional loans	23.	75,000
24. Debt basis restoration	24.	
25. Nontaxable debt repayment	25.	5,000
26. Debt basis before losses and deductions. Combine lines 22 through 25	26.	120,000
27. Losses and deductions applied against debt basis. (See Shareholder Basis Worksheet Page 3)	27.	91,500
28. Debt basis at the end of year (Subtract line 27 from line 26)	28.	28,499
29. Stock and debt basis at the end of the year (Add lines 21 and line 28)	29.	28,499

Gain Recognized on Excess Distributions

30. Property distributions reported in Box 16, Code D, Schedule K-1 (1120S)	30.	100,000
31. Stock basis before distributions and loss items (line 14) less gain from the entire disposition of stock reported on line 18.	31.	19,062
32. Total gain recognized on excess distributions. (Subtract line 31 from line 30)	32.	80,938
<ul style="list-style-type: none"> ● Sch D/8949, short-term capital gain ● Sch D/8949, long-term capital gain 		80,938

Shareholder's Basis Worksheet P 18

Name _____ Id No. *****-**-3333**
 Entity Name **Whoville Management & Consulting** EIN ****-***0000** Passive Activity Type **Not Passive** K1 Unit **1**

Basis reduced by nondeductible items before loss and deduction items

Shareholder Debt Basis

Form 7203 Line #	Description	Debt 1 2021 Loa		Debt 2 2023 Loa		Debt 3		Debt 4		Debt 5		Debt 6		Total
		<input checked="" type="checkbox"/> Formal note <input type="checkbox"/> Open account		<input checked="" type="checkbox"/> Formal note <input type="checkbox"/> Open account		<input type="checkbox"/> Formal note <input type="checkbox"/> Open account		<input type="checkbox"/> Formal note <input type="checkbox"/> Open account		<input type="checkbox"/> Formal note <input type="checkbox"/> Open account		<input type="checkbox"/> Formal note <input type="checkbox"/> Open account		
16	Loan balance at the beginning of the corporation's tax year		50,000											50,000
17	Additional loans				75,000									75,000
18	Loan balance before repayment. Add lines 16 and 17		50,000		75,000									125,000
19	Principal portion of debt repayment (this line doesn't include interest)		5,000											5,000
20	Loan balance at the end of the corporation's tax year. Subtract lines 19 from line 18		45,000		75,000									120,000
21	Debt basis at the beginning of the corporation's tax year		50,000											50,000
22	Enter the amount, if any, from line 17				75,000									75,000
23	Debt basis restoration (see instructions)													
24	Debt basis before repayment. Add lines 21, 22, and 23		50,000		75,000									125,000
25	Divide line 24 by line 18		1.0000		1.0000									
26	Nontaxable debt repayment. Multiply line 25 by line 19		5,000											5,000
27	Debt basis before nondeductible expenses and losses. Subtract line 26 from line 24		45,000		75,000									120,000
28	Nondeductible expenses and oil and gas depletion deductions in excess of stock basis													
29	Debt basis before losses and deductions. Subtract line 28 from line 27. If the result is zero or less, enter -0-		45,000		75,000									120,000
30	Allowable losses in excess of stock basis. Enter the amount from line 47, column (d)		34,313		57,188									91,500
31	Debt basis at the end of the corporation's tax year. Subtract line 30 from line 29. If the result is zero or less, enter -0-		10,687		17,812									28,499
Gain on Loan Repayment														
32	Repayment. Enter the amount from line 19		5,000											5,000
33	Nontaxable repayments. Enter the amount from line 26		5,000											5,000
34	Reportable gain. Subtract line 33 from line 32													

Shareholder's Basis Worksheet P 19

Name _____ Id No. *****-**-3333**
 Entity Name **Whoville Management & Consulting** EIN ****-***0000** Passive Activity Type **Not Passive** K1 Unit **1**
Basis reduced by nondeductible items before loss and deduction items

Loss Allocated to Shareholder Stock and Debt Basis

	Suspended Losses	Current Year Loss	Total Loss	Percent	Allowed Stock Loss	Disallowed Stock Loss	Percent	Allowed Loan Loss	Disallowed Loss Carryforward	Total Allowed Loss
Nondeductible noncapital exp & oil/gas depletion deduction:							1.0000			
Losses and deductions:										
Ordinary business loss		25,000	25,000			25,000	0.2732	25,000		25,000
Net rental real estate loss		10,500	10,500			10,500	0.1148	10,500		10,500
Other net rental loss										
Short-term capital loss										
Long-term capital loss										
28% capital loss										
Section 1231 loss										
4797 - Ordinary loss										
Other portfolio loss										
1256 contracts and straddles										
Other losses - Schedule E										
Other losses - 1040 Sch 1										
Section 179 expense		56,000	56,000			56,000	0.6120	56,000		56,000
Cash contributions										
Cash contributions (30%)										
Noncash contributions (50%)										
Noncash contributions (30%)										
Cap gain prop 50% org (30%)										
Cap gain prop (20%)										
Portfolio deductions (other)										
Investment interest expense										
Depletion										
Deductions-royalty income										
Section 59(e)(2) expenditures										
Preproductive period exp.										
Reforestation expense ded.										
Other deductions										
Foreign taxes										
Total losses and deductions		91,500	91,500			91,500	1.0000	91,500		91,500
Total nonded and deductible items		91,500	91,500			91,500		91,500		91,500

Shareholder's Basis Worksheet P 20

Observation

P 20

Distributions
are in-excess
of basis

\$ 80,938
taxable event

No effect to
basis

Form 8949
required

Part II of
Schedule D
required

Distributions in Excess of Basis



Long-term Capital Gain

Form 8949

Part II

Schedule D

Part II Long-Term. Transactions involving capital assets you held more than 1 year are generally long-term (see instructions). For short-term transactions, see page 1.

Note: You may aggregate all long-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS and for which no adjustments or codes are required. Enter the totals directly on Schedule D, line 8a; you aren't required to report these transactions on Form 8949 (see instructions).

You *must* check Box D, E, or F below. Check only one box. If more than one box applies for your long-term transactions, complete a separate Form 8949, page 2, for each applicable box. If you have more long-term transactions than will fit on this page for one or more of the boxes, complete as many forms with the same box checked as you need.

- (D) Long-term transactions reported on Form(s) 1099-B showing basis was reported to the IRS (see Note above)
- (E) Long-term transactions reported on Form(s) 1099-B showing basis **wasn't** reported to the IRS
- (F) Long-term transactions not reported to you on Form 1099-B

1	(a) Description of property (Example: 100 sh. XYZ Co.)	(b) Date acquired (Mo., day, yr.)	(c) Date sold or disposed of (Mo., day, yr.)	(d) Proceeds (sales price) (see instructions)	(e) Cost or other basis. See the Note below and see <i>Column (e)</i> in the separate instructions	Adjustment, if any, to gain or loss. If you enter an amount in column (g), enter a code in column (f). See the separate instructions.		(h) Gain or (loss). Subtract column (e) from column (d) and combine the result with column (g)
						(f) Code(s) from instructions	(g) Amount of adjustment	
	LT Gain on Excess Distributions				80,938	0		80,938
2	Totals. Add the amounts in columns (d), (e), (g), and (h) (subtract negative amounts). Enter each total here and include on your Schedule D, line 8b (if Box D above is checked), line 9 (if Box E above is checked), or line 10 (if Box F above is checked) ▶				80,938	0		80,938

Note: If you checked Box D above but the basis reported to the IRS was incorrect, enter in column (e) the basis as reported to the IRS, and enter adjustment in column (g) to correct the basis. See *Column (g)* in the separate instructions for how to figure the amount of the adjustment.

Form 8949

P 21

Schedule D

P 22

Part II Long-Term Capital Gains and Losses — Generally Assets Held More Than One Year (see instructions)				
See instructions for how to figure the amounts to enter on the lines below. This form may be easier to complete if you round off cents to whole dollars.	(d) Proceeds (sales price)	(e) Cost (or other basis)	(g) Adjustments to gain or loss from Form(s) 8949, Part II, line 2, column (g)	(h) Gain or (loss) Subtract column (e) from column (d) and combine the result with column (g)
8a Totals for all long-term transactions reported on Form 1099-B for which basis was reported to the IRS and for which you have no adjustments (see instructions). However, if you choose to report all these transactions on Form 8949, leave this line blank and go to line 8b				
8b Totals for all transactions reported on Form(s) 8949 with Box D checked				
9 Totals for all transactions reported on Form(s) 8949 with Box E checked				
10 Totals for all transactions reported on Form(s) 8949 with Box F checked	80,938	0	0	80,938
11 Gain from Form 4797, Part I; long-term gain from Forms 2439 and 6252; and long-term gain or (loss) from Forms 4684, 6781, and 8824				11,500
12 Net long-term gain or (loss) from partnerships, S corporations, estates, and trusts from Schedule(s) K-1				
13 Capital gain distributions. See the instructions				
14 Long-term capital loss carryover. Enter the amount, if any, from line 13 of your Capital Loss Carryover Worksheet in the instructions				
15 Net long-term capital gain or (loss). Combine lines 8a through 14 in column (h). Then go to Part III on the back				92,438

For Paperwork Reduction Act Notice, see your tax return instructions. **Schedule D (Form 1040) 2021**

Example # 4

P 22



FACT THE SAME AS
EXAMPLE 2 & 3



BEGINNING LOAN
BALANCE \$ 50,000



LOAN REPAYMENT
\$ 5,000



PRACTITIONER
NOTE

S Corporation Shareholder Stock and Debt Basis Limitations

Attach to your tax return.
Go to www.irs.gov/Form7203 for instructions and the latest information.

A Name of S corporation
Whoville Management & Consulting

B Employer identification number
****-***0000**

C Stock block (see instructions):

D Check applicable box(es) to indicate how stock was acquired:
(1) Original shareholder (2) Purchased (3) Inherited (4) Gifted (5) Other: _____

E Check if you have a Regulations section 1.1367-1(g) election in effect during the tax year for this S corporation

Part I Shareholder Stock Basis

1	Stock basis at the beginning of the corporation's tax year	1	5,000
2	Basis from any capital contributions made or additional stock acquired during the tax year	2	
3a	Ordinary business income (enter losses in Part III)	3a	
3b	Net rental real estate income (enter losses in Part III)	3b	
3c	Other net rental income (enter losses in Part III)	3c	
3d	Interest income	3d	2,500
3e	Ordinary dividends	3e	
3f	Royalties	3f	62
3g	Net capital gains (enter losses in Part III)	3g	
3h	Net section 1231 gain (enter losses in Part III)	3h	11,500
3i	Other income (enter losses in Part III)	3i	
3j	Excess depletion adjustment	3j	
3k	Tax-exempt income	3k	
3l	Recapture of business credits	3l	
3m	Other items that increase stock basis	3m	
4	Add lines 3a through 3m	4	14,062
5	Stock basis before distributions. Add lines 1, 2, and 4	5	19,062
6	Distributions (excluding dividend distributions) <i>Note: If line 6 is larger than line 5, subtract line 5 from line 6 and report the result as a capital gain on Form 8949 and Schedule D. See instructions.</i>	6	100,000
7	Stock basis after distributions. Subtract line 6 from line 5. If the result is zero or less, enter -0-, skip lines 8 through 14, and enter -0- on line 15	7	0
8a	Nondeductible expenses	8a	
8b	Depletion for oil and gas	8b	
8c	Business credits (sections 50(c)(1) and (5))	8c	
9	Add lines 8a through 8c	9	
10	Stock basis before loss and deduction items. Subtract line 9 from line 7. If the result is zero or less, enter -0-, skip lines 11 through 14, and enter -0- on line 15	10	
11	Allowable loss and deduction items. Enter the amount from line 47, column (c)	11	
12	Debt basis restoration (see net increase in instructions for line 23)	12	
13	Other items that decrease stock basis	13	
14	Add lines 11, 12, and 13	14	
15	Stock basis at the end of the corporation's tax year. Subtract line 14 from line 10. If the result is zero or less, enter -0-	15	0

Part II Shareholder Debt Basis

Section A—Amount of Debt (If more than three debts, see instructions.)

Description	(a) Debt 1		(b) Debt 2		(c) Debt 3	(d) Total
	<input checked="" type="checkbox"/> Formal note	<input type="checkbox"/> Open account	<input checked="" type="checkbox"/> Formal note	<input type="checkbox"/> Open account	<input type="checkbox"/> Formal note <input type="checkbox"/> Open account	
16 Loan balance at the beginning of the corporation's tax year		50,000				50,000
17 Additional loans (see instructions)			75,000			75,000
18 Loan balance before repayment. Add lines 16 and 17		50,000	75,000			125,000
19 Principal portion of debt repayment (this line doesn't include interest)		5,000				5,000
20 Loan balance at the end of the corporation's tax year. Subtract lines 19 from line 18		45,000	75,000			120,000

Form 7203

P 23

Part II Shareholder Debt Basis (continued)**Section B—Adjustments to Debt Basis**

Description	(a) Debt 1	(b) Debt 2	(c) Debt 3	(d) Total
21 Debt basis at the beginning of the corporation's tax year	50,000			50,000
22 Enter the amount, if any, from line 17		75,000		75,000
23 Debt basis restoration (see instructions)				
24 Debt basis before repayment. Add lines 21, 22, and 23	50,000	75,000		125,000
25 Divide line 24 by line 18	1.0000	1.0000		
26 Nontaxable debt repayment. Multiply line 25 by line 19	5,000			5,000
27 Debt basis before nondeductible expenses and losses. Subtract line 26 from line 24	45,000	75,000		120,000
28 Nondeductible expenses and oil and gas depletion deductions in excess of stock basis				
29 Debt basis before losses and deductions. Subtract line 28 from line 27. If the result is zero or less, enter -0-	45,000	75,000		120,000
30 Allowable losses in excess of stock basis. Enter the amount from line 47, column (d)	34,313	57,188		91,501
31 Debt basis at the end of the corporation's tax year. Subtract line 30 from line 29. If the result is zero or less, enter -0-	10,687	17,812		28,499

Section C—Gain on Loan Repayment

32 Repayment. Enter the amount from line 19	5,000			5,000
33 Nontaxable repayments. Enter the amount from line 28	5,000			5,000
34 Reportable gain. Subtract line 33 from line 32.	0	0		

Part III Shareholder Allowable Loss and Deduction Items

Description	(a) Current year losses and deductions	(b) Carryover amounts (column (e)) from the previous year	(c) Allowable loss from stock basis	(d) Allowable loss from debt basis	(e) Carryover amounts
35 Ordinary business loss	25,000			25,000	
36 Net rental real estate loss	10,500			10,500	
37 Other net rental loss					
38 Net capital loss					
39 Net section 1231 loss					
40 Other loss					
41 Section 179 deductions	56,000			56,000	
42 Charitable contributions					
43 Investment interest expense					
44 Section 59(e)(2) expenditures					
45 Other deductions					
46 Foreign taxes paid or accrued					
47 Total loss. Add lines 35 through 46 for each column. Enter the total loss in column (c) on line 11 and enter the total loss in column (d) on line 30	91,500			91,500	

Form 7203

P 24

Observation

P 24



Debt Basis is only for loss purposes



Utilizing Debt Basis does not decrease the amount owed to the shareholder



Once Stock Basis is restored, Debt Basis needs to be restored as well

Restoring Debt Basis P 25-26

Form 7203 (Rev. December 2022) Department of the Treasury Internal Revenue Service		S Corporation Shareholder Stock and Debt Basis Limitations Attach to your tax return. Go to www.irs.gov/Form7203 for instructions and the latest information.		OMB No. 1545-2302 Attachment Sequence No. 203	
Name of shareholder Cindy Lou			Identifying number		
A Name of S corporation Whoville Management & Consulting			B Employer identification number		
C Stock block (see instructions):					
D Check applicable box(es) to indicate how stock was acquired: (1) <input checked="" type="checkbox"/> Original shareholder (2) <input type="checkbox"/> Purchased (3) <input type="checkbox"/> Inherited (4) <input type="checkbox"/> Gift (5) <input type="checkbox"/> Other:					
E Check if you have a Regulations section 1.1367-1(g) election in effect during the tax year for this S corporation <input type="checkbox"/>					
Part I Shareholder Stock Basis					
1	Stock basis at the beginning of the corporation's tax year		1	0.00	
2	Basis from any capital contributions made or additional stock acquired during the tax year		2		
3a	Ordinary business income (enter losses in Part III)	3a 150,000			
b	Net rental real estate income (enter losses in Part III)	3b			
c	Other net rental income (enter losses in Part III)	3c			
d	Interest income	3d 2,500			
e	Ordinary dividends	3e			
f	Royalties	3f 62			
g	Net capital gains (enter losses in Part III)	3g			
h	Net section 1231 gain (enter losses in Part III)	3h 11,500			
i	Other income (enter losses in Part III)	3i			
j	Excess depletion adjustment	3j			
k	Tax-exempt income	3k			
l	Recapture of business credits	3l			
m	Other items that increase stock basis	3m			
4	Add lines 3a through 3m		4	164,062	
5	Stock basis before distributions. Add lines 1, 2, and 4		5	164,062	
6	Distributions (excluding dividend distributions) Note: If line 6 is larger than line 5, subtract line 5 from line 6 and report the result as a capital gain on Form 8949 and Schedule D. See instructions.		6	50,000	
7	Stock basis after distributions. Subtract line 6 from line 5. If the result is zero or less, enter -0-, skip lines 8 through 14, and enter -0- on line 15		7	114,062	
8a	Nondeductible expenses	8a			
b	Depletion for oil and gas	8b			
c	Business credits (sections 50(c)(1) and (5))	8c			
9	Add lines 8a through 8c		9		
10	Stock basis before loss and deduction items. Subtract line 9 from line 7. If the result is zero or less, enter -0-, skip lines 11 through 14, and enter -0- on line 15		10	114,062	
11	Allowable loss and deduction items. Enter the amount from line 47, column (c)		11		
12	Debt basis restoration (see net increase in instructions for line 23)		12	91,501	
13	Other items that decrease stock basis		13		
14	Add lines 11, 12, and 13		14	91,501	
15	Stock basis at the end of the corporation's tax year. Subtract line 14 from line 10. If the result is zero or less, enter -0-		15	22,561	
Part II Shareholder Debt Basis					
Section A—Amount of Debt (If more than three debts, see instructions.)					
	Description	(a) Debt 1 <input checked="" type="checkbox"/> Formal note <input type="checkbox"/> Open account	(b) Debt 2 <input checked="" type="checkbox"/> Formal note <input type="checkbox"/> Open account	(c) Debt 3 <input type="checkbox"/> Formal note <input type="checkbox"/> Open account	(d) Total
16	Loan balance at the beginning of the corporation's tax year	45,000	75,000		120,000
17	Additional loans (see instructions)				
18	Loan balance before repayment. Add lines 16 and 17	45,000	75,000		120,000
19	Principal portion of debt repayment (this line doesn't include interest)				
20	Loan balance at the end of the corporation's tax year. Subtract line 19 from line 18	45,000	75,000		120,000

Restoring Debt Basis P 25-26

Part II Shareholder Debt Basis (continued)

Section B—Adjustments to Debt Basis

Description		(a) Debt 1	(b) Debt 2	(c) Debt 3	(d) Total
21	Debt basis at the beginning of the corporation's tax year	10,687	17,812		28,499
22	Enter the amount, if any, from line 17				
23	Debt basis restoration (see instructions)	34,313	57,188		91,501
24	Debt basis before repayment. Add lines 21, 22, and 23	45,000	75,000		120,000
25	Divide line 24 by line 18	1	1		
26	Nontaxable debt repayment. Multiply line 25 by line 19				
27	Debt basis before nondeductible expenses and losses. Subtract line 26 from line 24	45,000	75,000		120,000
28	Nondeductible expenses and oil and gas depletion deductions in excess of stock basis				
29	Debt basis before losses and deductions. Subtract line 28 from line 27. If the result is zero or less, enter -0-	45,000	75,000		120,000
30	Allowable losses in excess of stock basis. Enter the amount from line 47, column (d)				
31	Debt basis at the end of the corporation's tax year. Subtract line 30 from line 29. If the result is zero or less, enter -0-	45,000	75,000		120,000

Section C—Gain on Loan Repayment

32	Repayment. Enter the amount from line 19				
33	Nontaxable repayments. Enter the amount from line 26				
34	Reportable gain. Subtract line 33 from line 32				

Part III Shareholder Allowable Loss and Deduction Items

Description		(a) Current year losses and deductions	(b) Carryover amounts (column (e)) from the previous year	(c) Allowable loss from stock basis	(d) Allowable loss from debt basis	(e) Carryover amounts
35	Ordinary business loss					
36	Net rental real estate loss					
37	Other net rental loss					
38	Net capital loss					
39	Net section 1231 loss					
40	Other loss					
41	Section 179 deductions					
42	Charitable contributions					
43	Investment interest expense					
44	Section 59(e)(2) expenditures					
45	Other deductions					
46	Foreign taxes paid or accrued					
47	Total loss. Add lines 35 through 46 for each column. Enter the total loss in column (c) on line 11 and enter the total loss in column (d) on line 30					

Reconstructing Basis

P27



Initial Stock Basis – I.R.C. § 358(a)

Basis of property contributed

+ Gain recognized by Shareholder

- Boot (property other than stock) received

- Liabilities acquired by the corporation from the Shareholder

= Basis of Stock Received

What do you need to reconstruct?



Stock & Debt Basis worksheet



Prior Year tax returns



Shareholder's recall



Grandpa's written notes



Buy/Sell Agreements



Article of Organization



Corporate Minutes

Initial stock basis – P 27 - 28

How was the stock obtained?	Basis Calculation	I.R.C. or Treas. Reg.
Bought it from another Shareholder	Cost – how much did you pay for it	§1012
Inherited	FMV on date of death or alternative valuation date	§1014
Gift before 01/01/1977	Donor's basis adjusted by gift tax paid or FMV on date of gift, whichever is lower	§1015(d)(1)
Gift after 12/31/1976	Donor's basis adjusted by gift tax paid	§1015(d)(6)
Tax-free reorganization	Basis of stock given up	§358(a)
Compensation	FMV on date included in income	Treas. Reg. §1.86-4(b)

Cindy Lou's beginning stock basis



\$5,000 CASH IN



\$2,000 CASH AND \$
3,000 FMV EQUIPMENT

Annual Ordering Rules

Income items – ordinary, rental, investment, tax-exempt, separately stated, and excess depletion

Distributions – ordinary, NOT dividends

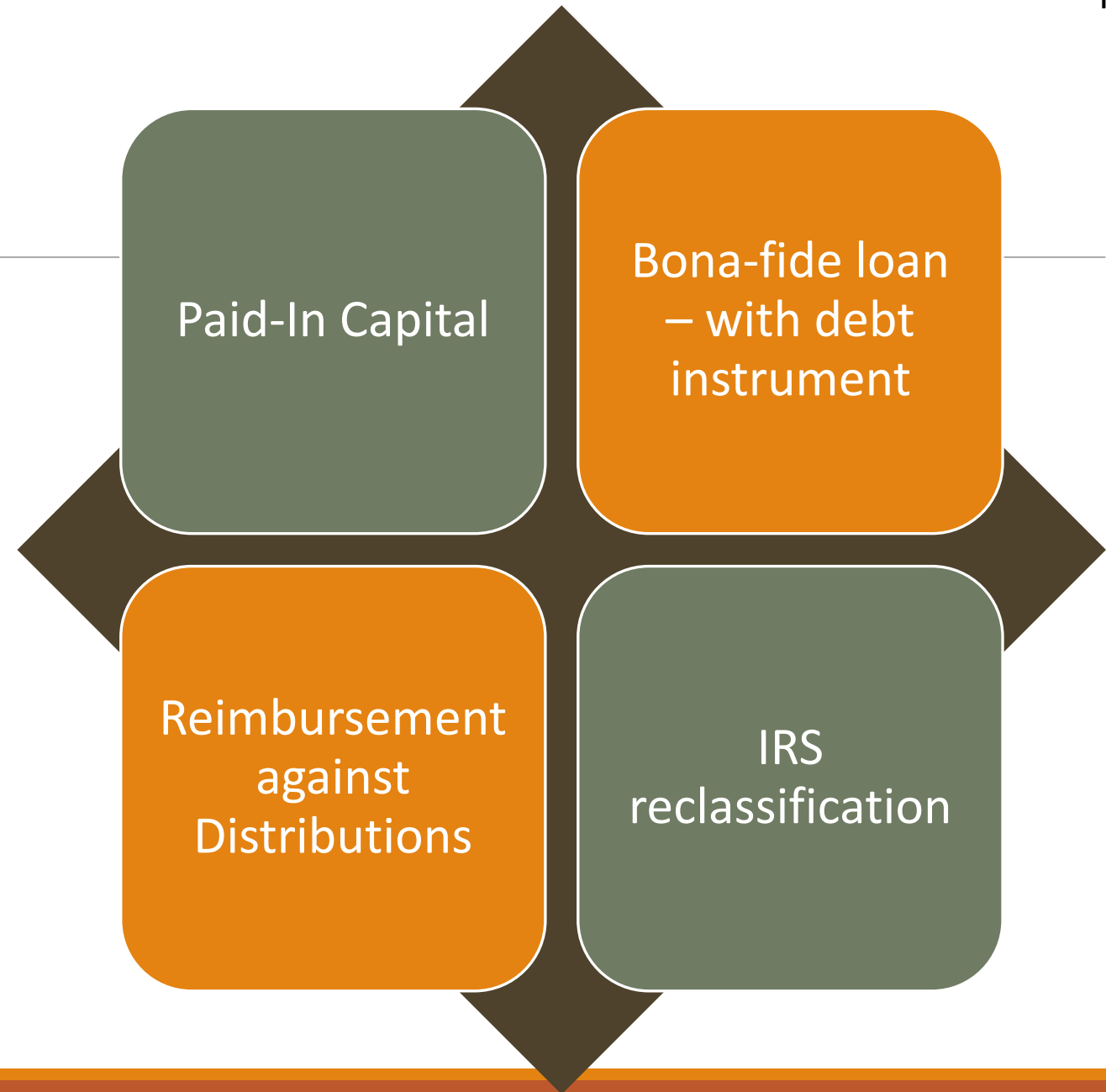
Nondeductible Expenses – noncapital or depletion

Losses and other separately stated loss items

What about expenses paid with personal credit card?



Initial Debt Basis



Stock & Debt Basis Worksheet P29

Worksheet for Figuring a Shareholder's Stock and Debt Basis

Part 1 -- Shareholder Stock Basis

1	Stock basis at the beginning of the corporations tax year		1	0.00
2	Basis from any capital contributions made or additional stock acquired during the tax year		2	
3a	Ordinary business income	a		
b	Net rental real estate income	b		
c	Other net rental income	c		
d	Interest income	d		
e	Ordinary dividends	e		
f	Royalties	f		
g	Net capital gains	g		
h	Net section 1231 gain	h		
i	Other income	i		
j	Excess depletion adjustment	j		
k	Tax-exempt income	k		
l	Recapture of business credits	l		
m	Other items that increase stock basis	m		
4	Add lines 3a through 3m		0.00	
5	Stock basis before distributions. Add lines 1, 2, and 4		5	0.00
6	Distributions (excluding dividend distributions)		6	
	Note: If line 6 is larger than line 5, subtract line 5 from line 6 and report the result as a capital gain on Form 8949 and Schedule D			
7	Stock basis after distributions. Subtract line 6 from line 5. If the result is < zero, enter -0-, skip lines 8 through 14 and enter -0- on line 15		7	0.00
8a	Nondeductible expenses	a		
b	Depletion for oil and gas	b		
9	Add lines 8a and 8b		0.00	
10	Stock basis before loss and deduction items. Subtract line 9 from line 7. If the result is < zero, enter -0-, skip lines 11 through 14, and enter -0- on line 15		10	0.00
11	Allowable loss and deduction items.	11		
12	Debt basis restoration	12		
13	Other items that decrease stock basis	13		
14	Add lines 11, 12, and 13		0.00	
15	Stock basis at the end of the corporations tax year. Subtract line 14 from line 10. If the result is < zero, enter -0-		15	0.00

Other Reconstruction Options

P 30



Gather all Schedule K-1's



Corporate 1120S

M-2 or M-2 Worksheet

Schedule L of 1120S

Balance Sheet or Balance Sheet Worksheet

Balance Sheet	<i>Beginning Balance</i>	<i>Ending Balance</i>
Capital Stock	45,000	60,000
Additional Paid-In Capital		
Retained Earnings	<22,000>	<86,000>

Example – Corporate Balance Sheet P 30

	AAA (Accumulated Adjustments Account)	OAA (Other Adjustments Account)
Beginning Balance	<21,000>	1,000
Ordinary Income		
Other Additions		
Ordinary Losses	<64,000>	
Other Reductions		
Total	<85,000>	1,000
Non-Dividend Distributions		
Ending Balance	<85,000>	1,000

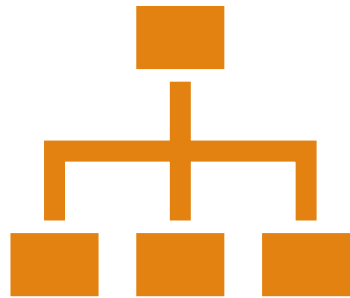
Example – Corporate M-2 P 31

Beginning Capital Stock	45,000
Additional Paid-In Capital	
Beginning Stock	45,000
AAA & OAA difference	<21,000>
Year-end Capital Stock	24,000

Computation of stock basis: <85,000> + 1,000 + 60,000 = 24,000

Example – Corporate Stock Basis

P 31



Shareholder Level



Absence of Records
= 0 Beginning Basis



Court Cases

Jonas R. Bryan, Carmen L. Bryant v. Commissioner

At-Risk §465

Borrowed funds

Not personally liable

Did not pledge property

Frances B. Land and James M. Gaines, as Trustee of the Bankrupt Estate of James A. Lane v. United States of America

Advances (revolving debt)

Loan (bona-fide note)

Capital Contributions (paid-in capital)

Guaranteed Debt – Capital Loss

Factors of At-Risk Limitations



The names given to the certificates evidencing the indebtedness;



The presence or absence of a fixed maturity date;



The source of payment;



The right to enforce payment of principal and interest;

Factors of At-Risk Limitations



Participation in management flowing as a result;



The status of the contribution in relation to regular corporate creditors;



The intent of the parties;



“Thin” or adequate capitalization;

Factors of At-Risk Limitations



Identity of interest between creditors and stockholders;



Source of interest payments;



The ability of the corporation to obtain loans from outside lending institutions;



The extent to which the advance was to acquire capital assets; AND



The failure of the debtor to repay on the due date or to seek a postponement.

*Lawrence R. Uri, Jr. and Cathaleen T. Uri v. Commission of Internal Revenue,
Stevens J. Townsdin and Renate Townsdin v. Commissioner*

Personal Guarantors

Did not make payments

NO bona-fide debt

§1374 applied

Circuit Conflicts

Conflicted Circuits

10th Circuit – Shareholders Circuit

- Personal guarantees do not qualify toward stock or debt basis

11th Circuit

- Pro-rata approach
- If no personal guarantee, there would be no loan to the corporation

4th, 5th, & 6th Circuits

- If shareholders personally service the debt of the corporation for which they are the personal guarantor, they received debt basis



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