

Limitations on Losses, Deductions, and Credits

There are three potential limitations on corporate losses that you can deduct on your return. These limitations and the order in which you must apply them are as follows: the basis rules, the at-risk limitations, and the passive activity limitations. These limitations are discussed below.

Other limitations may apply to specific deductions (for example, the section 179 expense deduction). Generally, specific limitations apply before the basis, at-risk, and passive loss limitations.

Basis Rules

Generally, the deduction for your share of aggregate losses and deductions reported on Schedule K-1 is limited to the basis of your stock (determined with regard to distributions received during the tax year) and loans from you to the corporation. For details and exceptions, see section 1366(d). The basis of your stock is generally figured at the end of the corporation's tax year. Any losses and deductions not allowed this year because of the basis limit can be carried forward indefinitely and deducted in a later year subject to the basis limit for that year.

You are responsible for keeping the information needed to figure the basis of your stock in the corporation. Schedule K-1 provides information to help you figure your stock basis at the end of each corporate tax year. The basis of your stock (generally, its cost) is adjusted as follows and, except as noted, in the order listed. In addition, basis may be adjusted under other provisions of the Internal Revenue Code. You can generally use the Worksheet for Figuring a Shareholder's Stock Basis to figure your aggregate stock basis.

1. Basis is increased by (a) all income (including tax-exempt income) reported on Schedule K-1 and (b) the excess of the deduction for depletion (other than oil and gas depletion) over the basis of the property subject to depletion.



You must report on your return (if you are required to file one) any amount required to be included in gross income for it to increase your basis.



Basis is not increased by income from discharge of your indebtedness in the S corporation (nor by any amount included in income with respect to clean renewable energy, Midwestern tax credit, or (for bonds issued before October 4, 2008) qualified zone academy bonds).

2. Basis is decreased by (a) property distributions (including cash) made by the corporation reported on Schedule K-1, box 16, code D, minus

(b) the amount of such distributions in excess of the basis in your stock.

3. Basis is decreased by (a) nondeductible expenses and (b) the depletion deduction for any oil and gas property held by the corporation, but only to the extent your share of the property's adjusted basis exceeds that deduction.

4. Basis is decreased by all deductible losses and deductions reported on Schedule K-1 adjusted, if the corporation made a charitable contribution of property, by subtracting your share of the property's fair market value and adding your share of the property's adjusted basis.

Worksheet for Figuring a Shareholder's Stock Basis

Keep for Your Records



1. Your stock basis at the beginning of the year	1. _____
Increases:	
2. Money and your adjusted basis in property contributed to the corporation	2. _____
3. Your share of the corporation's income (including tax-exempt income) reduced by any amount included in income with respect to clean renewable energy, Midwestern tax credit, or (for bonds issued before October 4, 2008) qualified zone academy bonds	3. _____
4. Other increases to basis, including your share of the excess of the deductions for depletion (other than oil and gas depletion) over the basis of the property subject to depletion	4. _____
Decreases:	
5. Distributions of money and the fair market value of property (excluding dividend distributions reportable on Form 1099-DIV and distributions in excess of basis (the sum of lines 1 through 4))	5. ()
6. Enter: (a) your share of the corporation's nondeductible expenses and the depletion deduction for any oil and gas property held by the corporation (but only to the extent your share of the property's adjusted basis exceeds the depletion deduction) or (b) if the election under Regulations section 1.1367-1(g) applies, your share of the corporation's deductions and losses (include your entire share of the section 179 expense deduction even if your allowable section 179 expense deduction is smaller) adjusted, if the corporation made a charitable contribution of property as described in (4) under <i>Basis Rules</i>	6. ()
7. If the election under Regulations section 1.1367-1(g) applies, enter the amount from 6(a) above. Otherwise enter the amount from 6(b)	7. ()
8. Enter the smaller of (a) the excess, as of the beginning of the tax year, of the amount you are owed for loans you made to the corporation over your basis in those loans or (b) the sum of lines 1 through 7. This amount increases your loan basis	8. ()
9. Your stock basis in the corporation at the end of the year. Combine lines 1 through 8	9. _____