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# Instructions for Form 7203

(December 2021)

## S Corporation Shareholder Stock and Debt Basis Limitations

Section references are to the Internal Revenue Code unless otherwise noted.

### Future Developments

For the latest information about developments related to Form 7203 and its instructions, such as legislation enacted after they were published, go to [IRS.gov/Form7203](https://www.irs.gov/Form7203).

### What's New

Form 7203 and its separate instructions are developed to replace the 3-part *Worksheet for Figuring a Shareholder's Stock and Debt Basis* and its related instructions formerly found in the Shareholder's Instructions for Schedule K-1 (Form 1120-S).

## General Instructions

### Purpose of Form

Use Form 7203 to figure potential limitations of your share of the S corporation's deductions, credits, and other items that can be deducted on your return.

### Who Must File

Form 7203 is filed by S corporation shareholders who:

- Are claiming a deduction for their share of an aggregate loss from an S corporation (including an aggregate loss not allowed last year because of basis limitations),
- Received a non-dividend distribution from an S corporation,
- Disposed of stock in an S corporation (whether or not gain is recognized), or
- Received a loan repayment from an S corporation.

**TIP** *It may be beneficial for shareholders to complete and retain Form 7203 even for years it is not required to be filed, as this will ensure their bases are consistently maintained year after year.*

### Limitations on Losses, Deductions, and Credits

There are 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 limitations, the at-risk limitations (Form 6198), the passive activity loss limitations (Form 8582), and the excess business loss limitations (Form 461). See the Shareholder's Instructions for Schedule K-1 (Form 1120-S) for details.

### Basis Limitations

Generally, the deduction for your share of aggregate losses and deductions reported on Schedule K-1 (Form 1120-S) is limited to the basis of your stock 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 (Form 1120-S) 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 annually 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 should generally use this form to figure your aggregate stock and debt basis.

1. Basis is increased by (a) all income (including tax-exempt income) reported on Schedule K-1 (Form 1120-S), and (b) the excess of the deduction for depletion (other than oil and gas depletion) over the basis of the property subject to depletion.



**CAUTION** *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.*

2. Basis is decreased (but not below zero) by (a) property distributions (including cash) made by the corporation reported on Schedule K-1 (Form 1120-S), box 16, code D, minus (b) the amount of such distributions in excess of the basis in your stock.

3. Basis is decreased (but not below zero) 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 (but not below zero) by all losses and deductions reported on Schedule K-1 (Form 1120-S).

You may elect to decrease your basis under (4) prior to decreasing your basis under (3). If you make this election, any amount described under (3) that exceeds the basis of your stock and debt owed to you by the corporation is treated as an amount described under (3) for the following tax year.

To make the election, attach a statement to your timely filed original or amended return that states you agree to the carryover rule of Regulations section 1.1367-1(g) and the name of the S corporation to which the rule applies. Once made, the election applies to the year for which it is made and all future tax years for that S corporation, unless the IRS agrees to revoke your election.

The basis of each share of stock is increased or decreased (but not below zero) based on its pro rata share of the above adjustments. If the total decreases in basis attributable to a share exceed that share's basis, the excess reduces (but not below zero) the remaining bases of all other

shares of stock in proportion to the remaining basis of each of those shares.

**Basis of loans.** The basis of your loans to the corporation is generally the balance the corporation owes you, adjusted for any reductions and restorations of loan basis. See the instructions for box 16, code E, in the Shareholder's Instructions for Schedule K-1 (Form 1120-S). Any amounts described in (3) and (4), earlier, not used to offset amounts in (1), earlier, or to reduce your stock basis, are used to reduce your loan basis (to the extent of such basis prior to such reduction).



*When determining your basis in loans to the corporation, remember that:*

- Distributions don't reduce loan basis, and
- Loans that a shareholder guarantees or co-signs aren't part of a shareholder's loan basis. Shareholders only obtain basis from acting as a guarantee or in a similar capacity to the extent the shareholder makes a payment pursuant to the guarantee.

See Regulations section 1.1366-2(a) and section 1367 and its regulations for more details.

## Specific Instructions



**Stock block.** When a shareholder has a different basis in different blocks of stock, pass-through items are generally allocated pro rata to all shares, regardless of their different bases. If there is a partial stock sale or partial redemption, you may file more than one form and provide a description of what period the form covers. See Regulations section 1.1367-1(b)(2) and (c)(3) for details.

## Part I. Shareholder Stock Basis



*Part I of Form 7203 addresses adjustments to stock basis as provided under section 1367. Other code sections might also cause a reduction in S corporation stock basis.*

**Line 1.** Enter your basis in the stock of the S corporation at the beginning of the corporation's tax year. Unless this is your initial year owning stock in the S corporation, this amount should be the same as your ending stock basis from the prior tax year.

Stock basis can't be less than zero.

Don't include any basis from indebtedness on this line. Stock basis and debt basis must be figured separately. Debt basis is addressed in Part II of this form.

**Line 2.** Enter any additional contributions to the capital of the S corporation or any additional acquisitions of stock. Don't include any loans to the S corporation.

The basis of stock you purchased is usually its cost.

If you contributed property to the S corporation in exchange for stock in a section 351 transaction, your stock basis is generally figured by taking the carryover basis of assets transferred to the corporation, less the liabilities assumed by the corporation. If the assumed liabilities exceed the adjusted tax basis of the contributed assets, see section 357(c). See section 358 for more information on the basis of stock received in a section 351 transaction.

The basis of inherited property is generally the fair market value (FMV) at the date of death or the alternate valuation date. See section 1014 and Regulations section 1.1014-4.

The basis of stock acquired by gift is generally the basis of the stock in the hands of the donor. There are special rules if the FMV of the stock is less than the donor's adjusted basis. See Regulations sections 1.1015-1, 1.1366-2(a)(6), and 1.1366-2(a)(7).

The basis for stock received as compensation is the FMV on the date the compensation is included in income. See Pub. 551 for details.

**Line 3.** Enter on lines 3a through 3m all separately figured and non-separately figured items of income from Schedule K-1 (Form 1120-S). See below for specific instructions.

**Reminder.** Enter only positive amounts from Schedule K-1 (Form

1120-S) on line 3. Negative amounts (decreases to stock basis) are entered in Part III.

**Line 3i.** Enter the amount of other income that increases basis.

Under Notice 2020-69, increase stock basis under section 961(a) when the U.S. shareholder has a subpart F inclusion (as defined in section 959(a)(2)) or global intangible low-taxed income (GILTI) inclusion amount (as defined in section 951A) attributable to an S corporation-owned controlled foreign corporation (CFC).

**Line 3j.** Enter the amount by which your cumulative depletion deduction exceeds your proportionate share of basis in the property subject to depletion. See information reported in Schedule K-1 (Form 1120-S), box 15, using code C.

For oil and gas depletion, don't enter an amount. See the instructions for line 8b for the decrease to basis.

**Line 3k.** Enter the sum of the amounts from Schedule K-1 (Form 1120-S), box 16, codes A and B.



*Basis isn't increased by excluded discharge of indebtedness income of the S corporation under sections 108(a) and 108(d)(7)(A).*

The income reported on line 3 should be reported on the appropriate areas of your return. See the Shareholder's Instructions for Schedule K-1 (Form 1120-S) for details.

**Line 6.** Enter the distributions reported on Schedule K-1 (Form 1120-S), box 16, code D. Don't include any Form 1099-DIV distributions (dividend distributions from the accumulated earnings and profits while a C corporation) on this line.

**Note.** If the amount of the distribution is more than the stock basis before distributions, report the excess amount as a capital gain on Form 8949, Sales and Other Dispositions of Capital Assets, and Schedule D. Don't increase your stock basis for the amount of capital gain reported for the excess. See *Nondividend distributions* in the Instructions for Form 8949.





Leave lines 8a, 8b, and 8c blank if you made an election under Regulations section 1.1367-1(g). If an election was made, enter this information on line 13.

**Line 8a.** Enter the amount from Schedule K-1 (Form 1120-S), box 16, code C.

**Line 8b.** Enter the amount of oil and gas depletion claimed on your personal return up to your proportionate share of basis in the property subject to depletion. Any cumulative depletion in excess of your proportionate share of basis in the property subject to depletion won't reduce your basis.

Don't enter an amount for depletion not related to oil and gas property.

**Line 8c.** Certain credits require the reduction of both an S corporation's assets as well as the shareholder's stock basis. See sections 50(c)(1) and (5) for details.

**Line 11.** Use Part III to figure the total allowable loss and deduction items from stock basis. Enter the total from line 47, column (c). This amount can't exceed the amount on line 10.

**Line 12.** Use Part II to figure the debt basis restoration, if any. Enter the total from line 23.

**Line 13.** Enter any other decreases to stock basis not accounted for on the lines above. This includes the reduction to basis for the sale or redemption of part of your stock. If an election is made under Regulations section 1.1367-1(g), enter the amounts on this line as instructed on line 8, including any prior year carryover amounts.



If a portion of your stock is redeemed, sold, or otherwise disposed of during the year, attach two separate forms. Use the first to figure your stock basis at the date of sale and the second to figure your stock and debt basis at year end.

## Part II. Shareholder Debt Basis



If you have more than three loans, use additional copies of Part II. List the total sum of all loans on the first page only.

You must complete this section if you have personally loaned money to the corporation.

You must account for each formal note (notes with a written instrument) made to your S corporation by entering it separately in its own column. You can't aggregate multiple loans into a single column. If you have more than three loans, use additional copies of Part II.

Loans made to the S corporation that aren't evidenced by a written instrument are referred to as an open account debt and aren't separately tracked. If an open account debt has a year-end balance of more than \$25,000, it will be classified as a formal note at the beginning of the next tax year and must be separately tracked.



Loans that a shareholder guarantees or co-signs aren't part of a shareholder's loan basis except to the extent the shareholder makes a payment on the loan guaranteed or co-signed.

**Line 16.** Enter the balance of each loan to the S corporation at the beginning of the corporation's tax year in a separate column.

**Line 17.** Enter any new loans made during the tax year and evidenced by a formal note in a separate column. If a formal note is refinanced, any increase should be entered on line 17 under the same column as the original loan.

Advances and repayments made during the S corporation's tax year on an open account are netted at the close of the S corporation's tax year to determine the amount of any net advance or net repayment. See Regulations section 1.1367-2(d)(2). Enter any net advances on line 17 under the same column as the open account debt. If this is the first year of the open account debt, enter the net advance in its own column on line 17.



Any debt that exceeded \$25,000 at the end of the prior year is treated as a formal note for purposes of calculating the gain on loan repayment. See Regulations section 1.1367-2(a)(2)(ii).

**Line 19.** For a formal note, enter the amount of principal repayment specific to each loan.

For open account debt, if the repayments exceed the advances for the tax year, the net repayment should be entered on line 19.

**Line 21.** Enter the debt basis of your loan(s) to the S corporation at the beginning of the corporation's tax year.

**Line 22.** Enter the amount from line 17 on line 22.

**Line 23.** You have reduced debt basis if line 21 is less than line 16.

Per section 1367(b)(2)(B), if debt basis has been reduced, it can only be restored with a net increase. The net increase is the amount by which the items that increase stock basis per section 1367(a)(1) (for example, income, tax-exempt income, and excess depletion) exceed the items that decrease stock basis per section 1367(a)(2) (for example, losses, deductions, nondeductibles, nondividend distributions, etc.). See Regulations section 1.1367-2(c)(1).

The net increase is figured as follows:

Line 4  
 Minus line 6  
 Minus line 9  
 Minus line 13 (as applicable)  
 Minus line 47(a)  
 Minus line 47(b)

If the net increase figured exceeds the total reduction in debt basis (line 16 minus line 21), then the restoration is limited to the amount needed to restore debt basis to the face of the loan.



If you have multiple debts, the net increase is applied first to restore the reduction of basis in any debt repaid in the tax year to the extent necessary to offset any gain that would otherwise be realized. Any remaining net increase is applied to each debt in proportion to its reduced basis. See Regulations section 1.1367-2(c)(2).

**Line 28.** Enter the smaller of the nondeductible expenses and oil and gas depletion deductions in excess of stock basis (line 9 minus line 7) or line 27.

Nondeductible expenses in excess of stock and debt basis don't carry forward (unless an election under

Regulations section 1.1367-1(g) is made).

**Line 30.** Enter the amount from line 47(d) in the total column on line 30.



*If you have more than one loan to the corporation, any allocated reduction is prorated to the loans based on the ratio that each individual loan basis bears to the aggregate bases of the loans. See Regulations section 1.1367-2(b)(3).*

**Line 34.** The character of the gain on repayment is dependent on whether the debt is evidenced by a formal note or is an open account.

Debt evidenced by a formal note will result in capital gain, and should be reported on Form 8949 and Schedule D.

Any open account debt (including debt referenced in Regulations section 1.1367-2(a)(2)(ii)) will result in ordinary gain and should be reported on Form 4797, Sales of Business Property.



*Gain recognized on loan repayment doesn't increase basis.*

### Part III. Shareholder Allowable Loss and Deduction Items

The corporate losses and other deduction items are limited to the sum

of your stock and debt basis. When stock and debt basis is insufficient, and there is more than one type of loss or deduction item that reduces basis, the amounts allowed as a loss or deduction are allocated on a pro rata basis. See Regulations sections 1.1366-2(a)(4) and (5).

Loss and deductions in excess of basis are suspended and carried forward indefinitely and the character of the loss and deduction items is retained.

Part III shows the pro rata allocation and tracks any loss or deduction carryforward.

**Column (a).** Enter the loss and deduction amounts for each item as reported on your Schedule K-1 (Form 1120-S).

**Column (b).** Enter any loss or deduction items disallowed due to basis limitations in prior years that were carried forward.

**Column (c).** If line 10 is zero, skip column (c).

If stock basis, as reported on line 10, is greater than the sum of column (a) and column (b), line 47, enter the sum of each line for column (a) plus column (b) in column (c). If stock basis, as reported on line 10, is less than the sum of column (a) and column (b), line 47, enter the pro rata amount on the corresponding line in column (c). The total allocation

amount reported in column (c), line 47, can't exceed the amount reported on line 10.

**Column (d).** If line 29 is zero, skip column (d).

If column (c), line 47, is less than line 10, skip column (d).

If debt basis, as reported on line 29, is greater than column (a) plus column (b) minus column (c), line 47, enter column (a) plus column (b) minus column (c), in column (d) for each line item. If debt basis, as reported on line 29, is less than column (a) plus column (b) minus column (c), line 47, enter the pro rata amount on the corresponding line in column (d). The total allocation amount reported in column (d), line 47, can't exceed the amount reported on line 29.

The allowable losses and deductions from columns (c) and (d) should be reported on the appropriate areas of your return (subject to any additional limitations).

**Column (e).** If the sum of column (a) plus column (b) exceeds the sum of column (c) plus column (d), enter the excess in column (e) for each line item. If you disposed of all your stock, see Regulations section 1.1366-2(a)(6).

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The time needed to complete and file this form will vary depending on individual circumstances. The estimated burden for individual taxpayers filing this form is approved under OMB control number 1545-0074 and is included in the estimates shown in the instructions for their individual income tax return. The estimated burden for all other taxpayers who file this form is shown below.

<b>Recordkeeping</b> .....	2 hr., 10 min.
<b>Learning about the law or the form</b> .....	15 min.
<b>Preparing and sending the form to the IRS</b> .....	1 hr., 21 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the instructions for the tax return with which this form is filed.