

**Some S corporations may want to convert to C corporations**

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After last year’s tax reform legislation, some S corporations may choose to revoke their S election to be a C corporation because of the new, flat 21-percent C corporation tax rate. Before taking any action, S corporations should consult their tax advisors.

S Corporations and C Corporations are among the types of business structures. A C corporation is taxed on its earnings, and then the shareholder is taxed when earnings are distributed as dividends. S corporations elect to pass corporate income, losses, deductions and credits through to their shareholders for federal tax purposes. Shareholders of S corporations report the pass-through of income and losses on their personal tax returns and are assessed tax at their individual income tax rates. This allows S corporations to avoid double taxation on the corporate income. S corporations are responsible for tax on certain built-in gains and passive income at the entity level.

The [Tax Cuts and Jobs Act](https://www.irs.gov/tax-reform) includes two changes that affect a corporation’s revocation of an S election to be a C corporation:

* The corporation should report net adjustments attributable to the revocation over six years. For more information see [Revenue Procedure 2018-44](https://www.irs.gov/pub/irs-drop/rp-18-44.pdf).
* Distributions of cash following the post-termination transition period may be treated as coming out of the corporation’s accumulated adjustments account and accumulated earnings and profits proportionally resulting in part of the distributions being non-dividend distributions from the C corporation. The non-dividend distributions may not be subject to tax at the shareholder level if the shareholder has sufficient stock basis. Additional guidance will be coming.

These law changes only apply to a C corporation that:

* Was an S corporation on December 21, 2017,
* Revokes its S corporation election after December 21, 2017, but before December 22, 2019, and
* Has the same owners of stock in identical proportions on the date of revocation and on December 22, 2017.

For more information, see the Corporate Methods of Accounting topic on the [Tax Reform – Businesses page](https://www.irs.gov/newsroom/businesses).

**Additional resources:**

[Tax Reform Business Comparison page](https://www.irs.gov/newsroom/tax-cuts-and-jobs-act-a-comparison-for-businesses#scorporation)

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