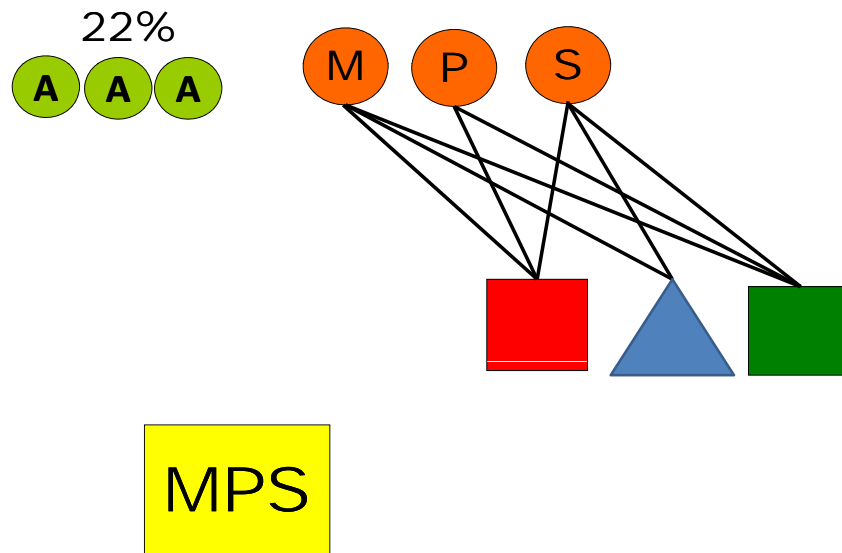
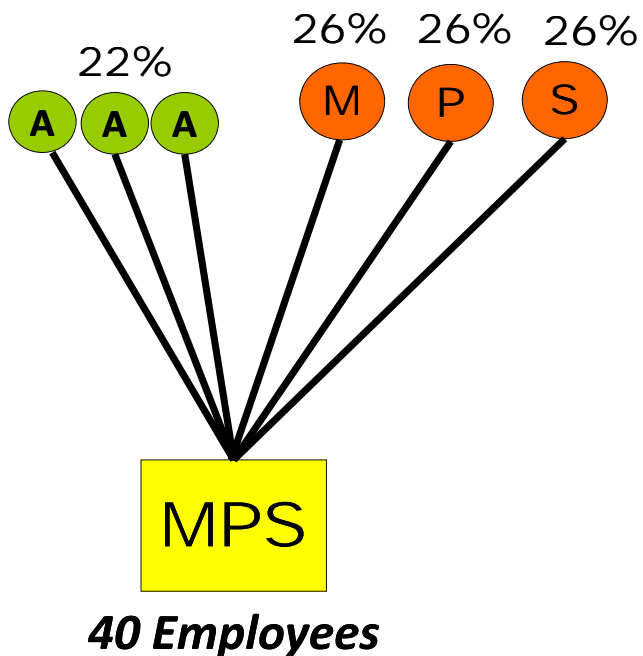
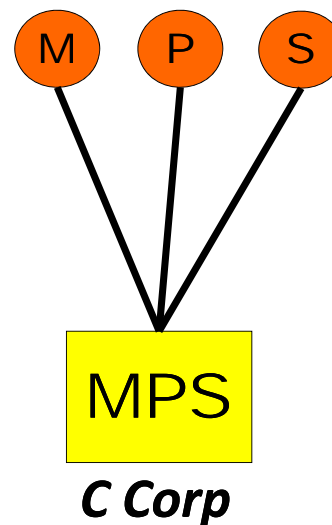


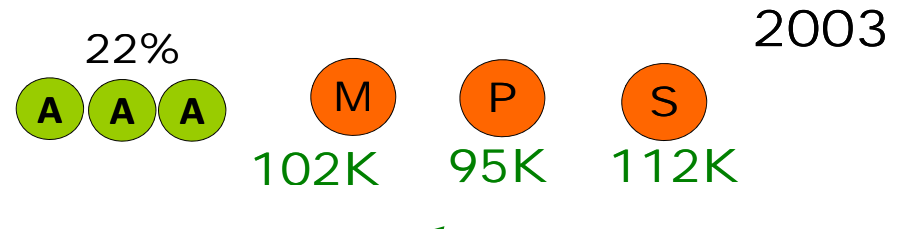
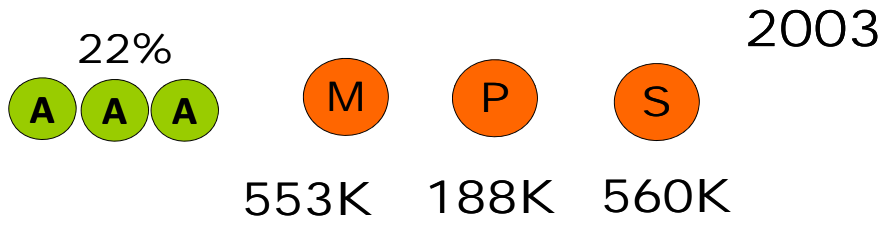
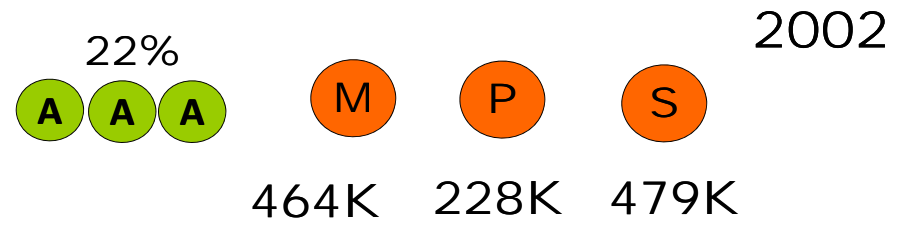
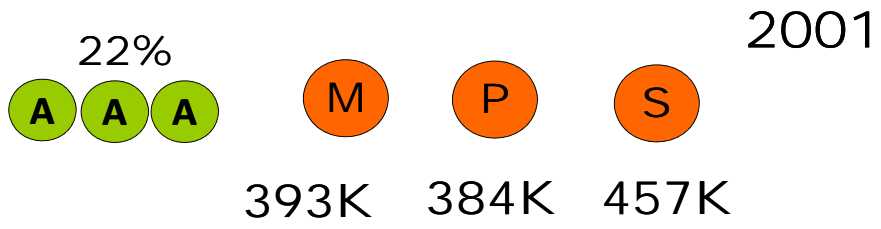
Mulcahy, Pauritsch, Salvador & Co., Ltd.

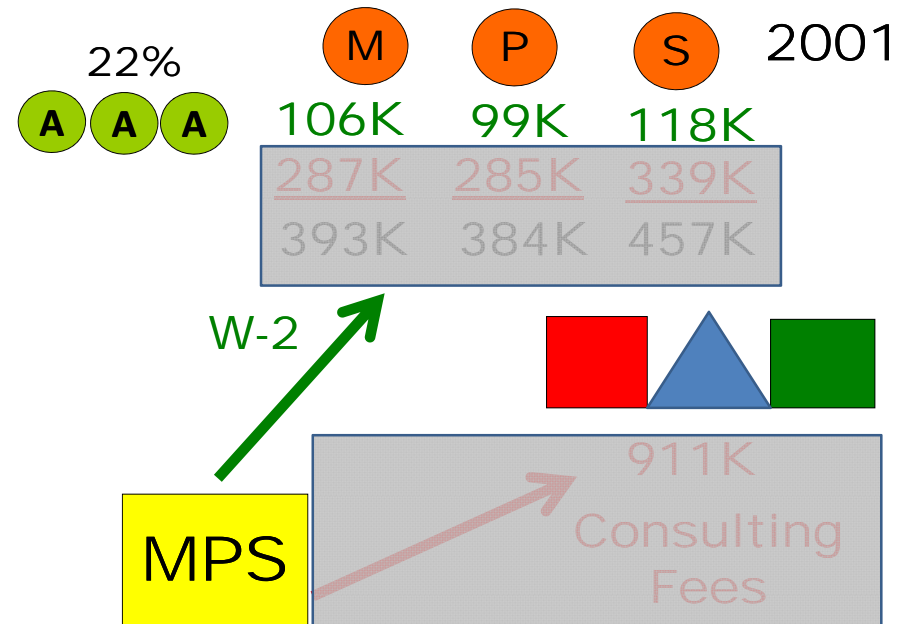
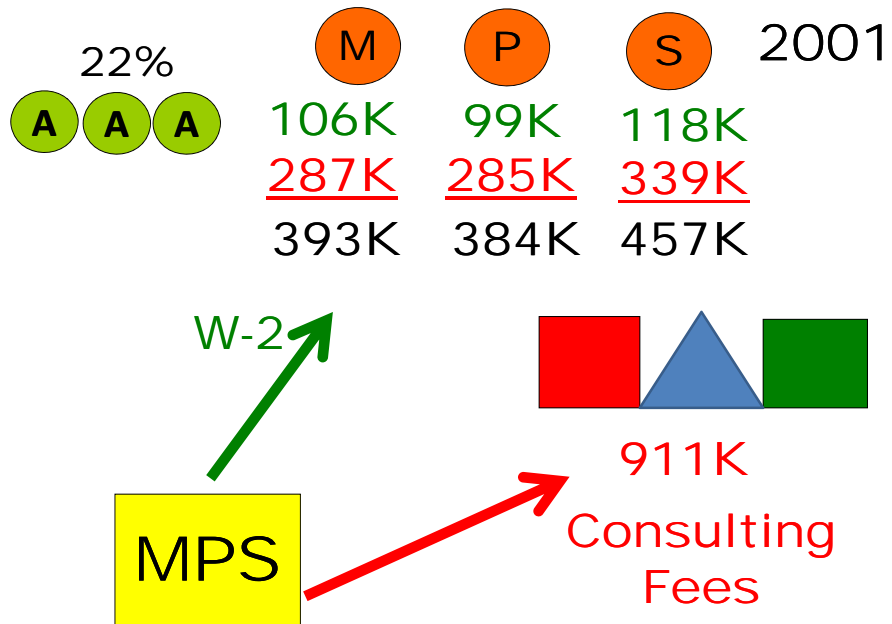
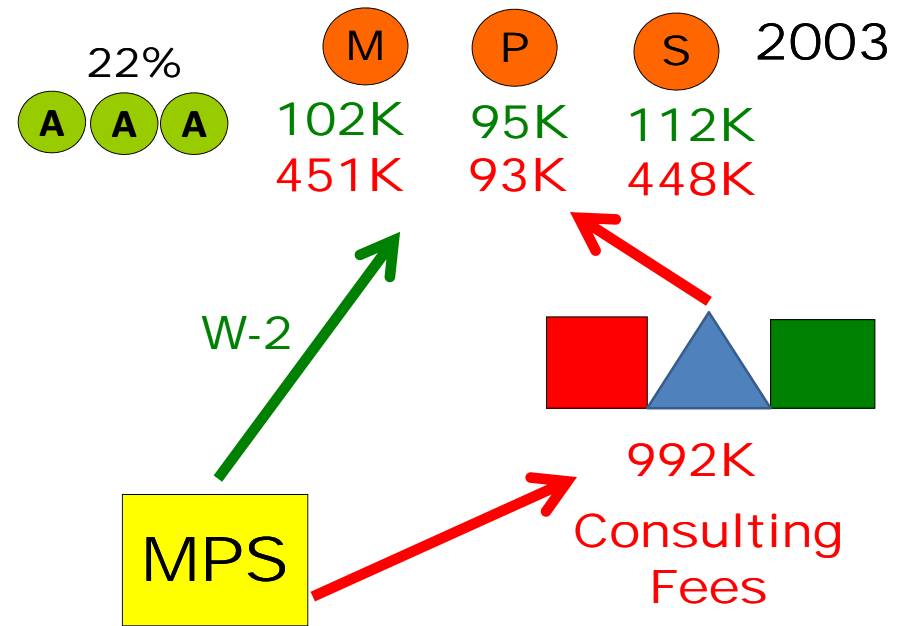
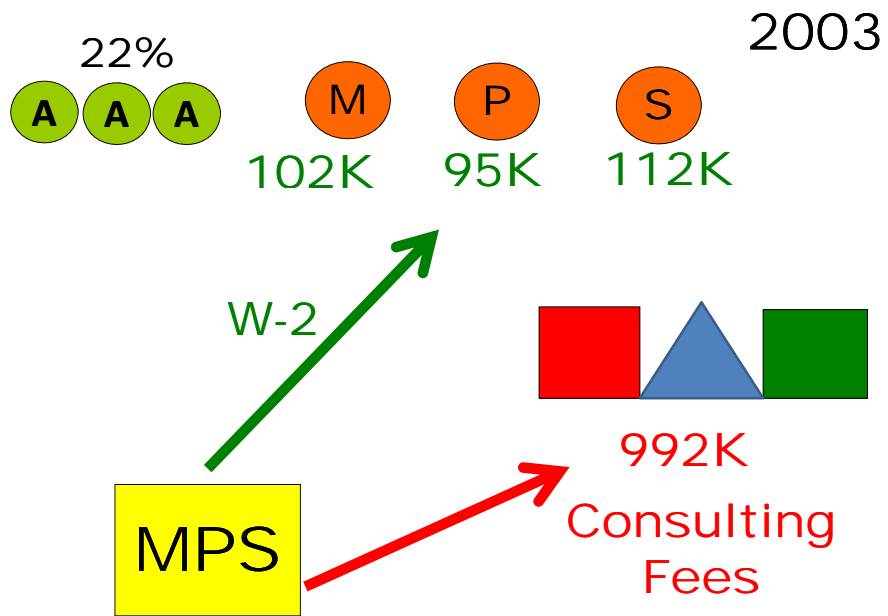
**v.
Comm'r.**

**"Unreasonable"
Compensation
Denied to
Florida CPA Firm**

**Mulcahy,
Pauritsch,
Salvador
& Co.,
Ltd.**







2001 – 2003

\$2.8 million
compensation disallowed

\$980,000
tax deficiency

\$194,000
penalties

4-3

Menard, Inc. v. Comm'r
(7th Cir. 2009)

\$20 million
is
Reasonable Comp

Reasonable Comp

7th Circuit:

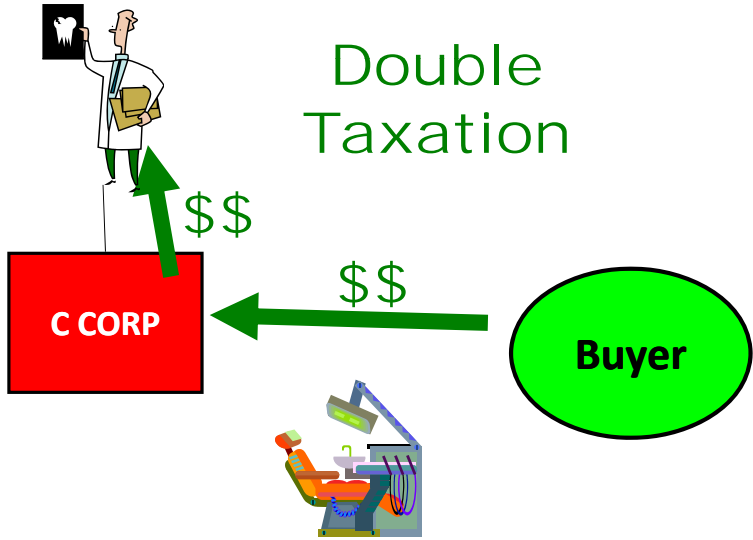
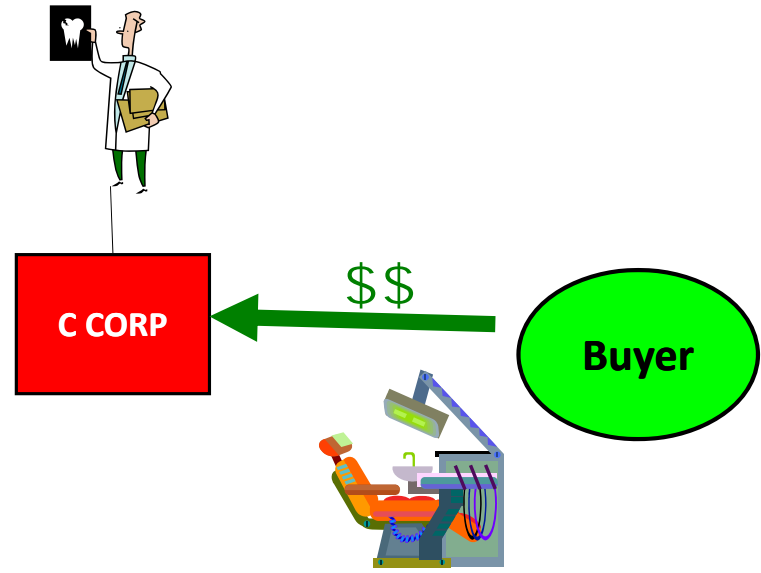
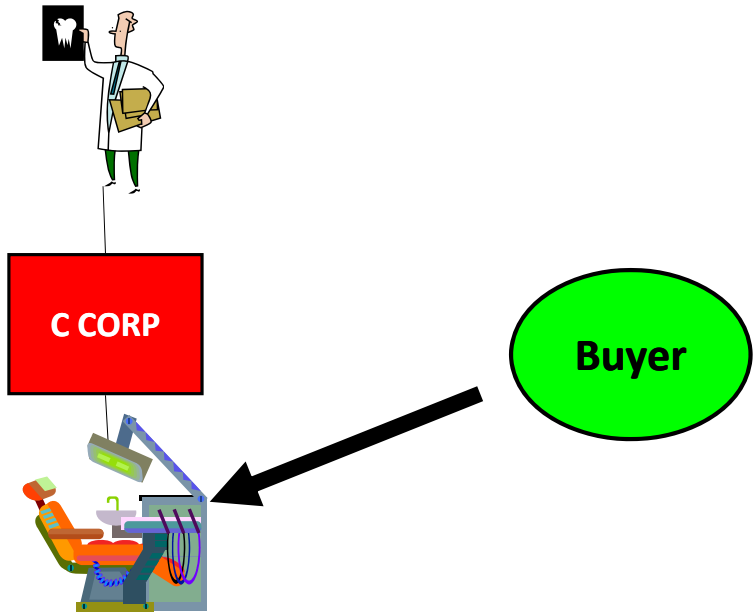
"Independent Investor" Test

Exacto Spring Corp v. Comm'r

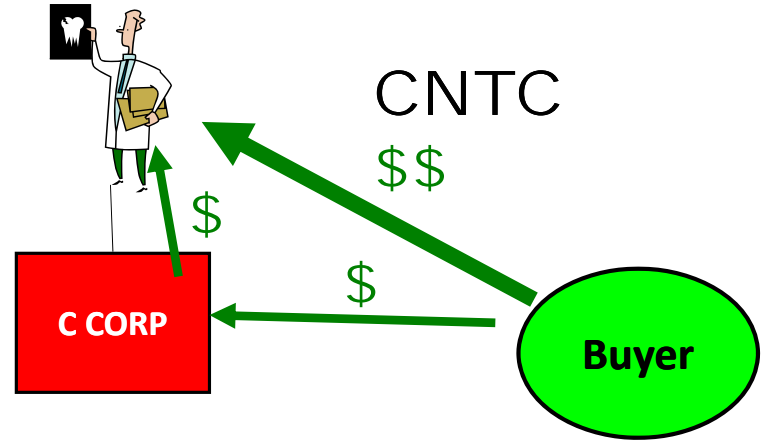
4-4

Howard v. U.S.

No
"Personal Goodwill"
on Sale of
Dentist Practice

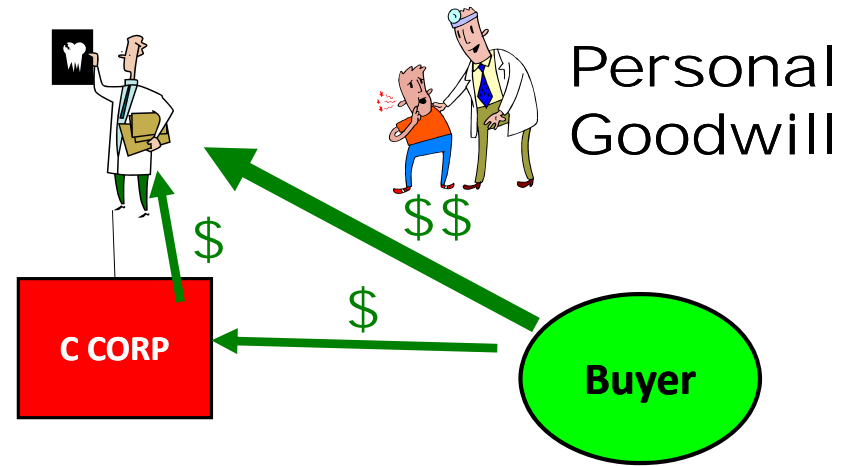
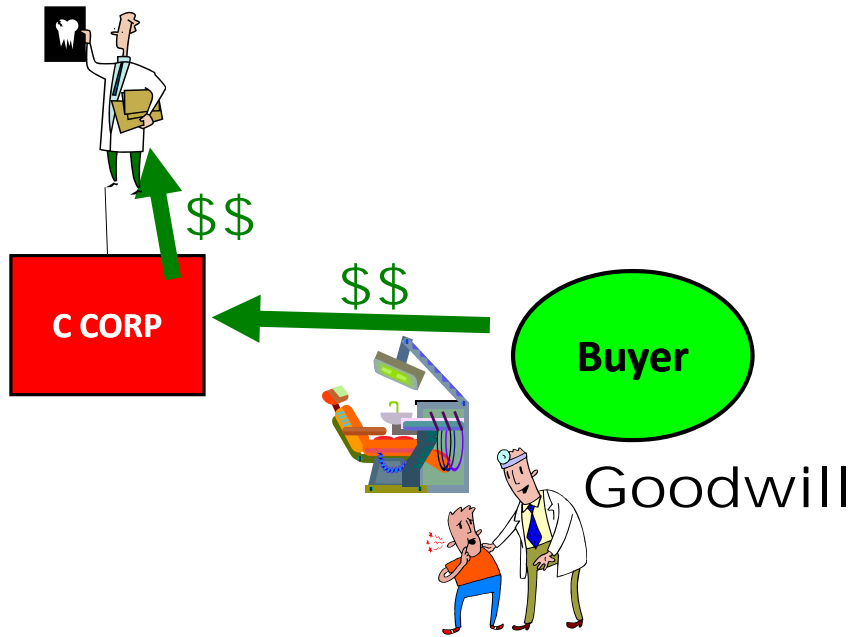


Double Taxation



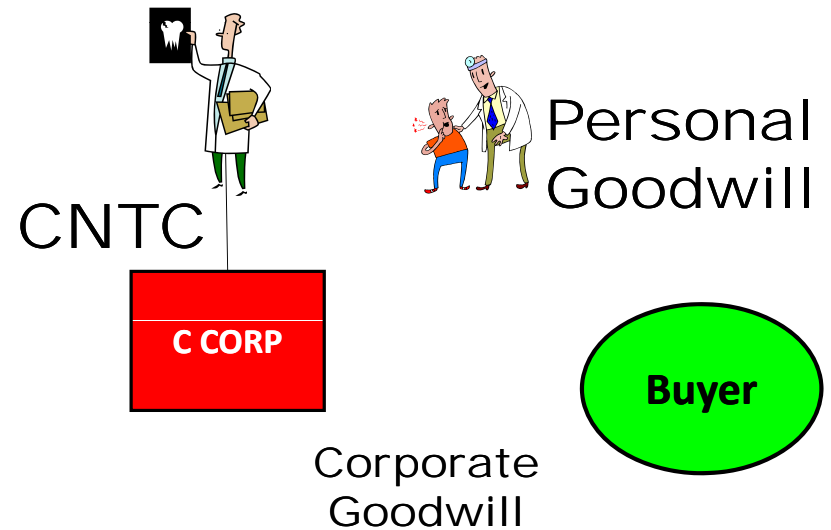
CNTC

Bypass the Corporation



Martin Ice Cream Co.
v.
Comm'r

Norwalk
v.
Comm'r



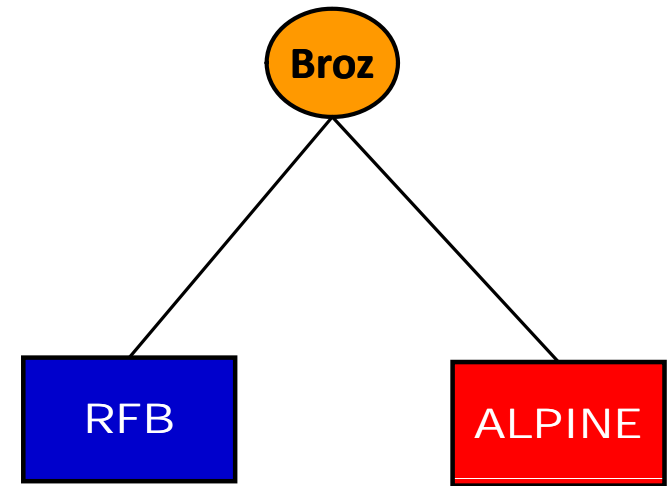
Broz v. Comm'r.

4-6

No
S Corp Basis
for
Back-to-Back
Loans

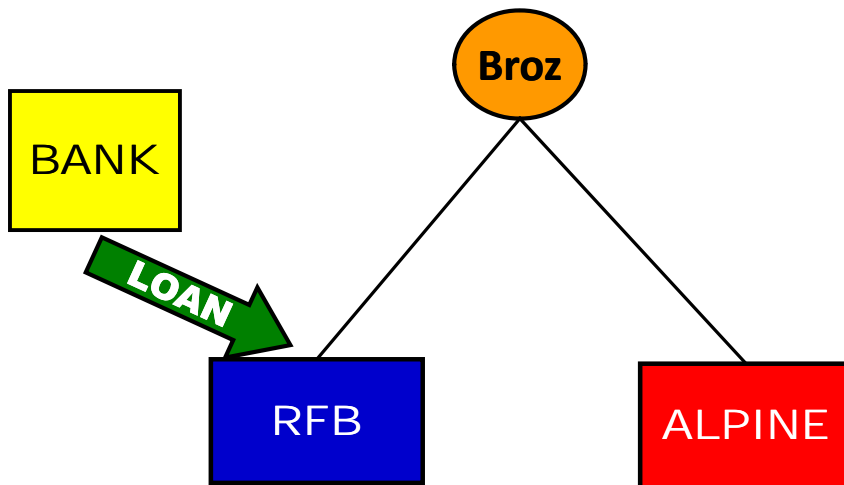
Broz v. Comm'r.

4-6



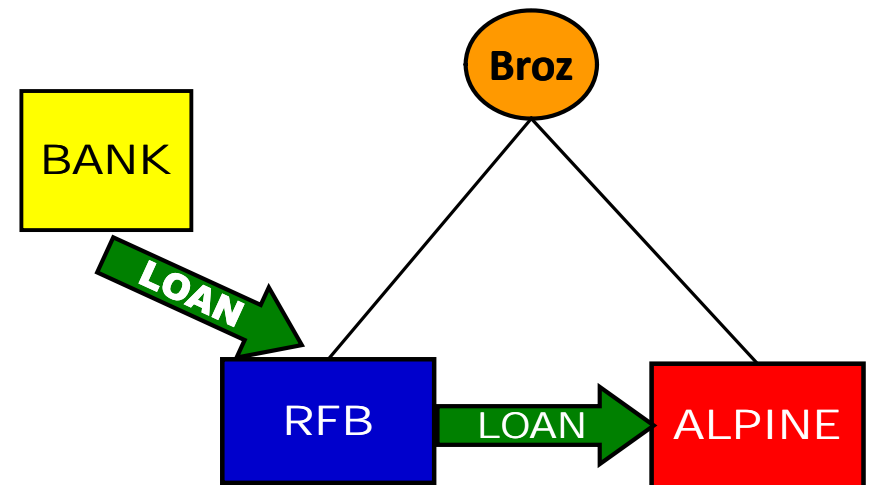
Broz v. Comm'r.

4-6



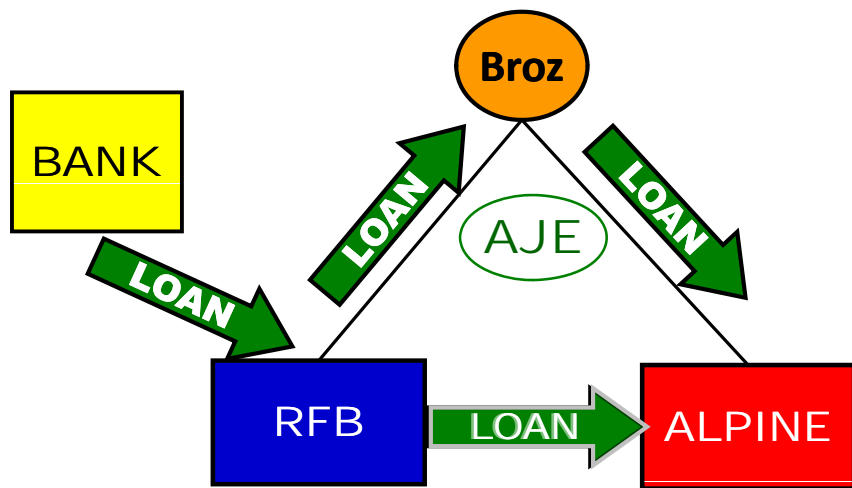
Broz v. Comm'r.

4-6



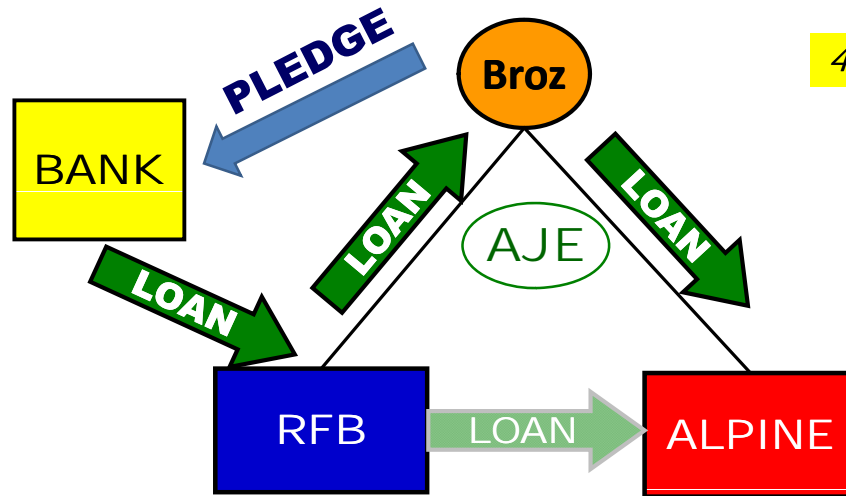
Broz v. Comm'r.

4-6



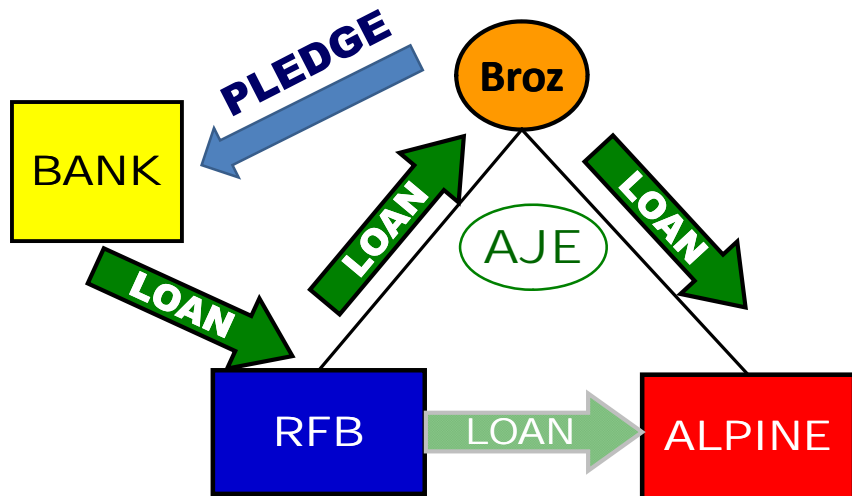
No S Corp Basis Unless/Until Pledge is Called

4-7



At-Risk?

4-7



4-9

RTR Technologies, Inc.
v.
Carlton Helming & Helming, PC

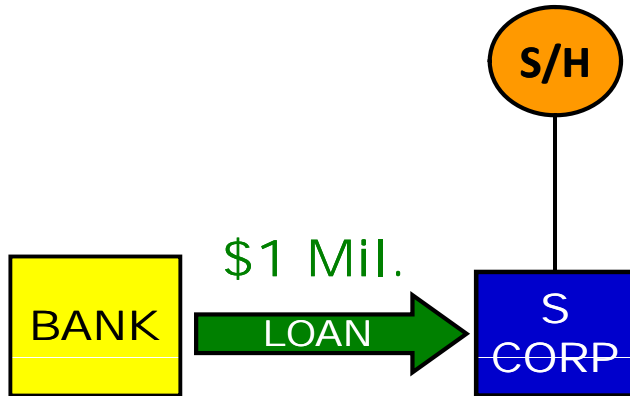
CPA Sued for
Recommending
Reclassification
of S/H Loans

4-9

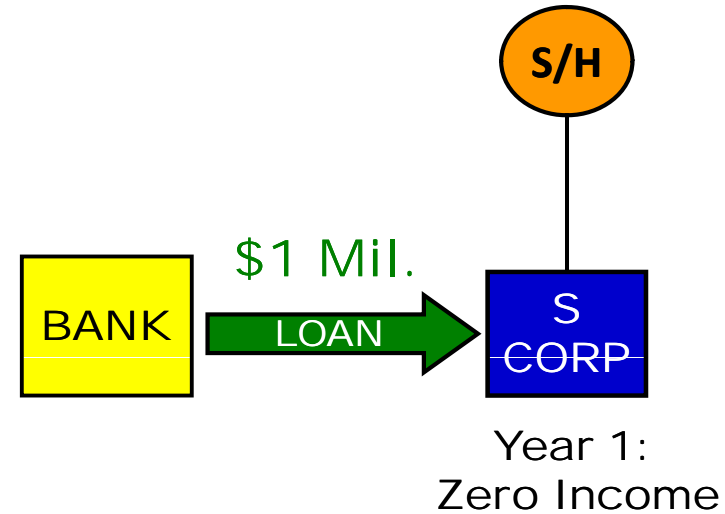
“The background of this case is unusual and, to some extent, disturbing.”

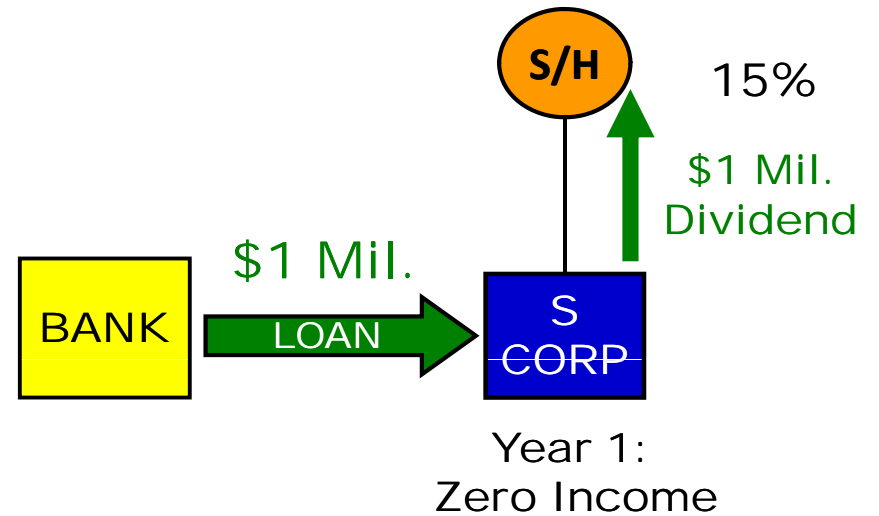
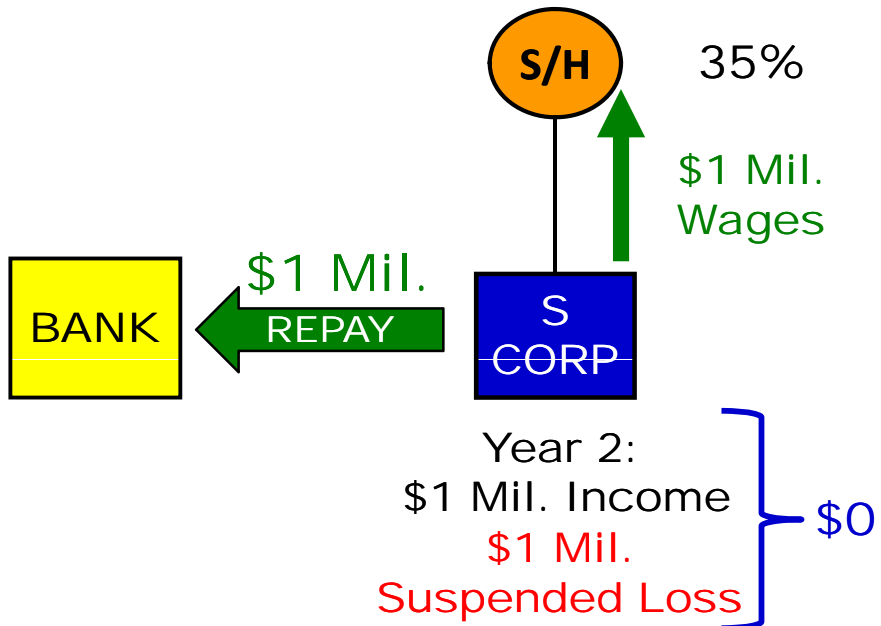
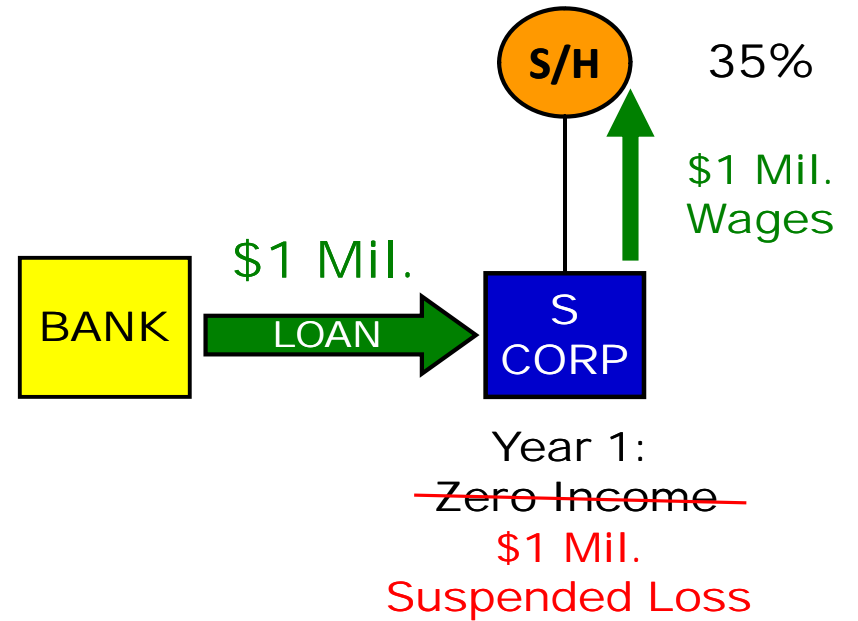
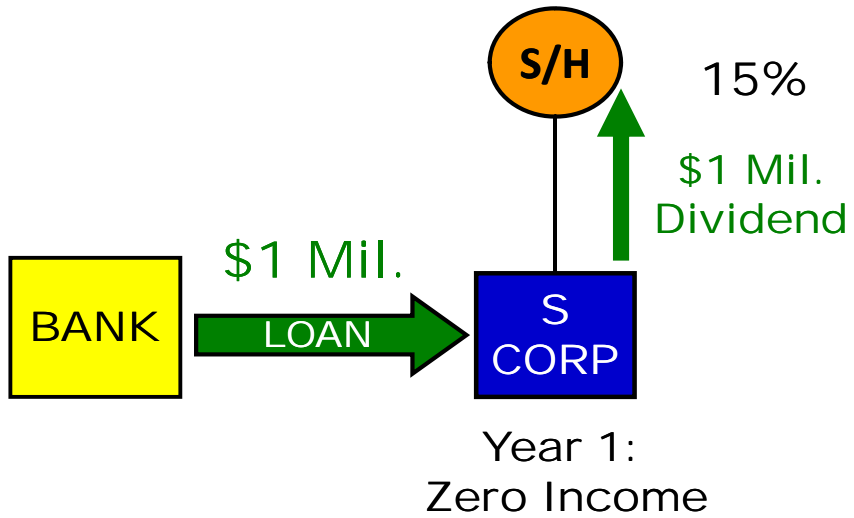
Would they have been better off reporting the withdrawals as **distributions** rather than **compensation**?

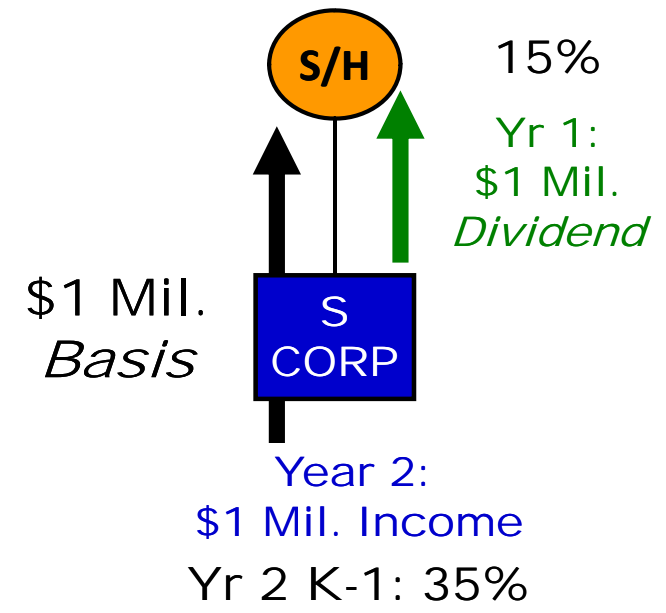
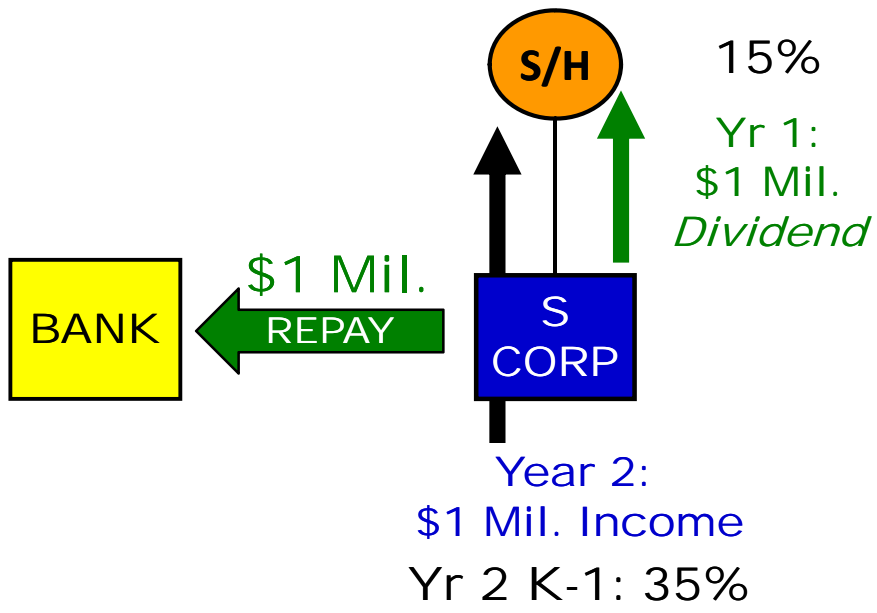
4-11



4-11





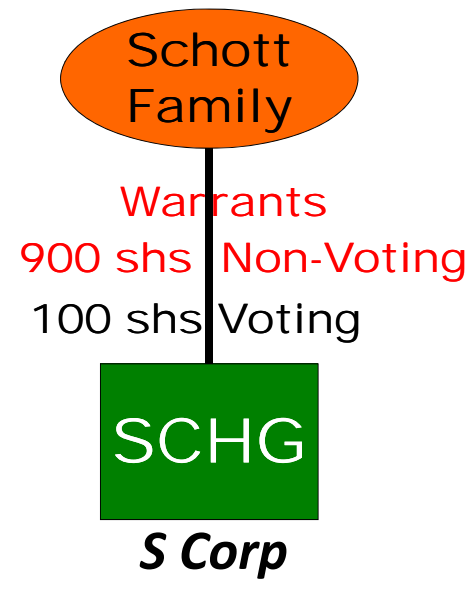


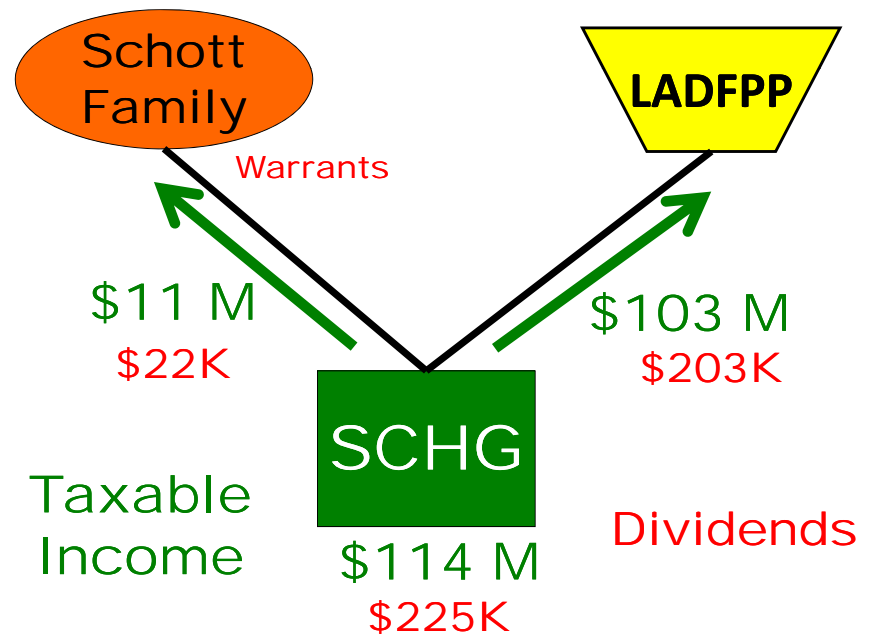
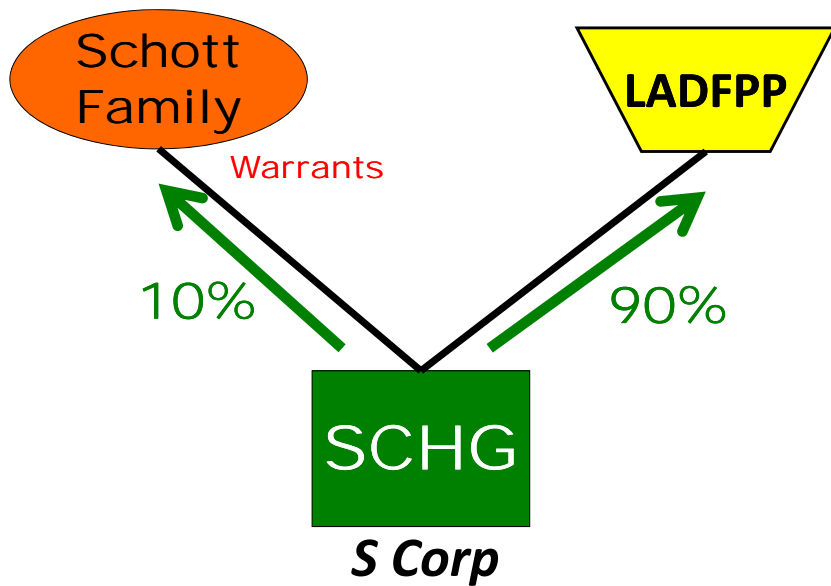
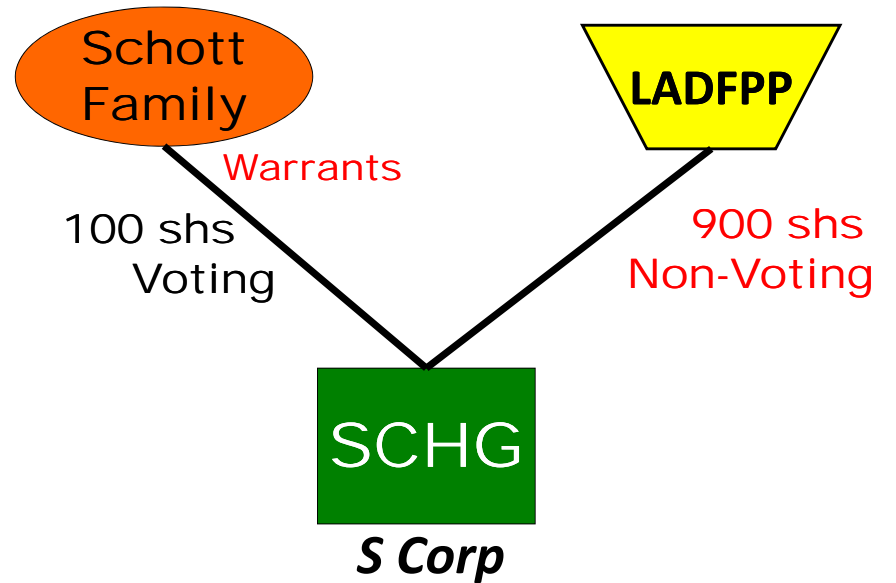
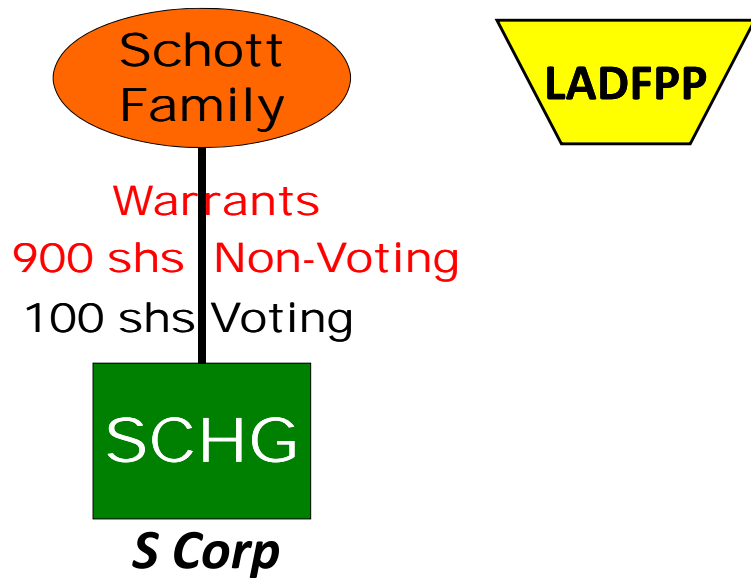
Santa Clara Housing Group, Inc. v. U.S.

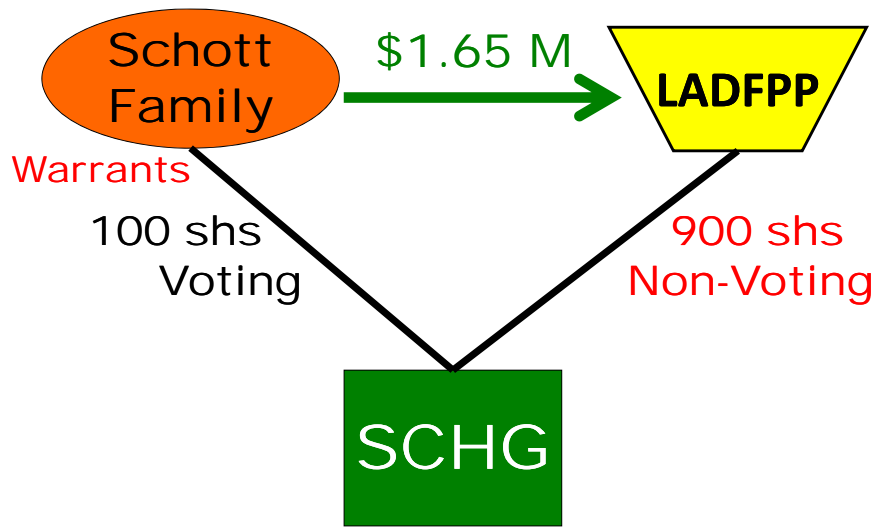
4-13

SC² Tax Shelter
"Schott" Down by Court

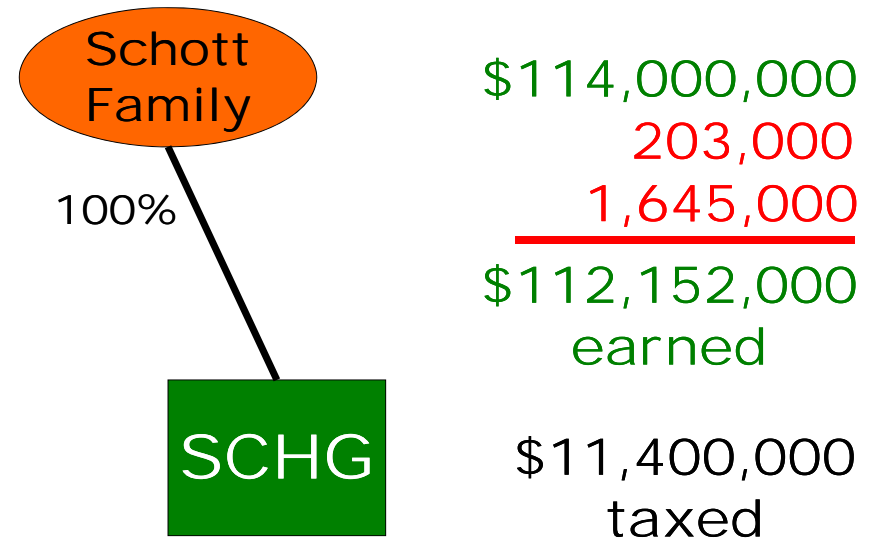
4-13







Repurchase of NV Shares



Notice 2004-30

Listed Transaction

*Sham Transaction:
Disregard Exempt S/H*

*2nd Class of Stock:
Terminate S Election*

4-15

Reg. sec. 1.1361-1(l)(4)(iii) provides that a "call option, warrant, or similar instrument" is treated as a second class of stock if:

- (1) "taking into account all the facts and circumstances," the warrant "is substantially certain to be exercised"; and
- (2) the warrant "has a strike price substantially below the fair market value of the underlying stock on the date that the [warrant] is issued."

Specific Exception:

Warrants/Options
Substantially Certain
to be Exercised

General Rule: Instruments ≠ 2nd Class of Stock

Reg. sec. 1.1361-1(l)(4)(i) provides that in general, "instruments, obligations, or arrangements are not treated as a second class of stock." However, the regulations go on to list exceptions to this general rule. Two of those *exceptions* are as follows:

Reg. sec. 1.1361-1(l)(4)(ii) provides that an "instrument, obligation, or arrangement issued by a corporation" is treated as a second class of stock if:

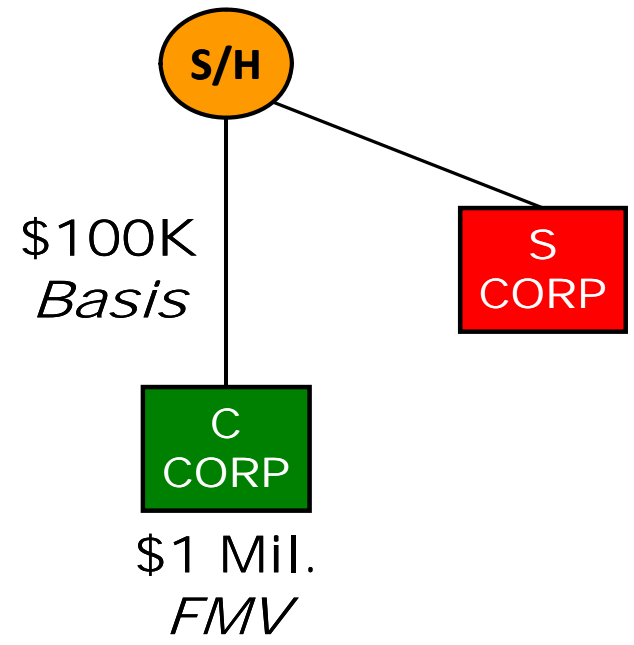
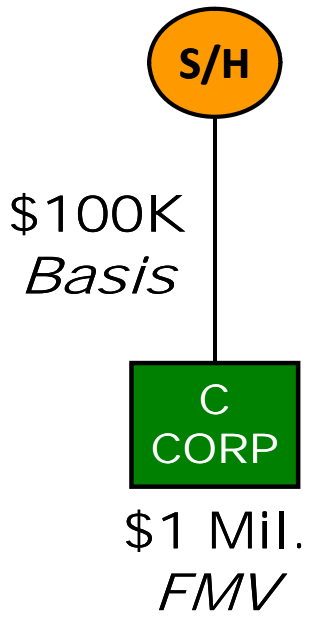
- (1) the instrument "constitutes equity or otherwise results in the holder being treated as the owner of stock under general principles of Federal tax law"; and
- (2) a "principal purpose" of issuing the instrument is "to circumvent the rights to distribution or liquidation proceeds conferred by the outstanding shares of stock."

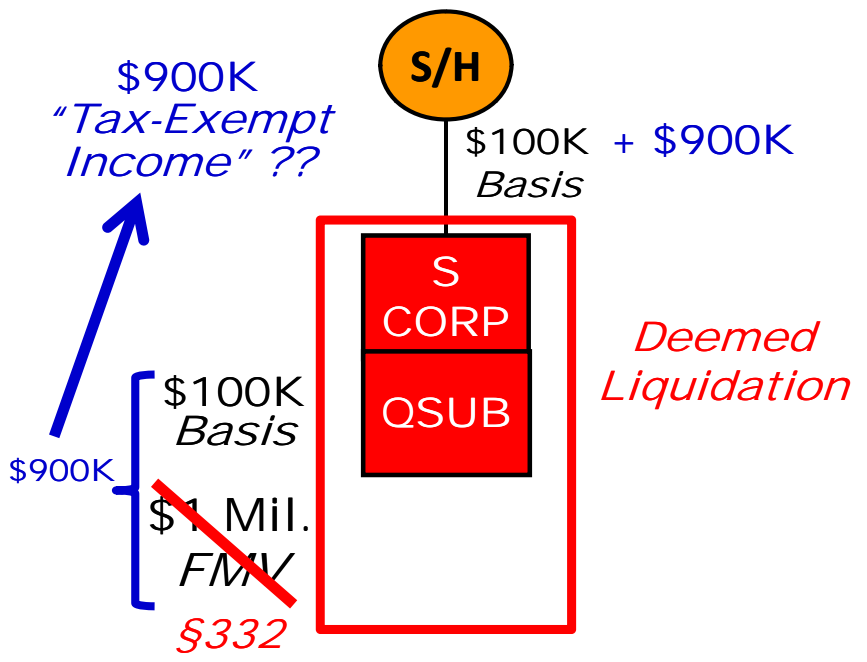
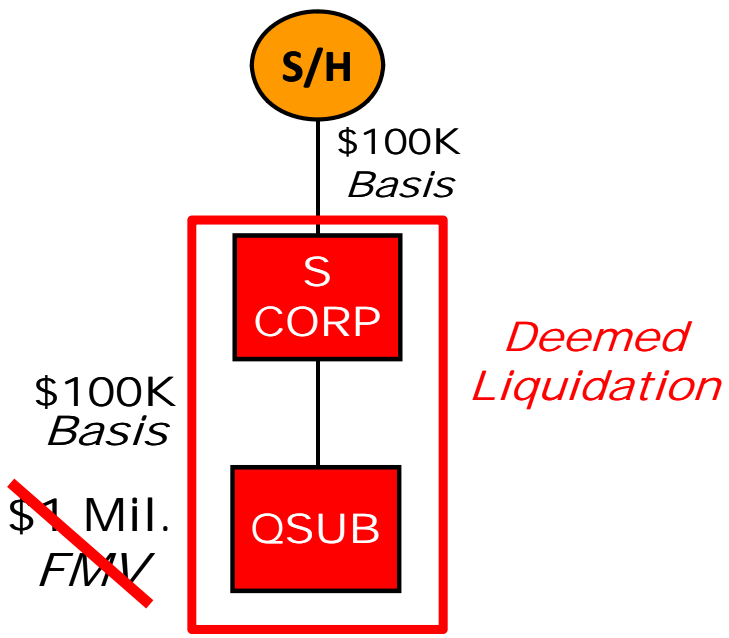
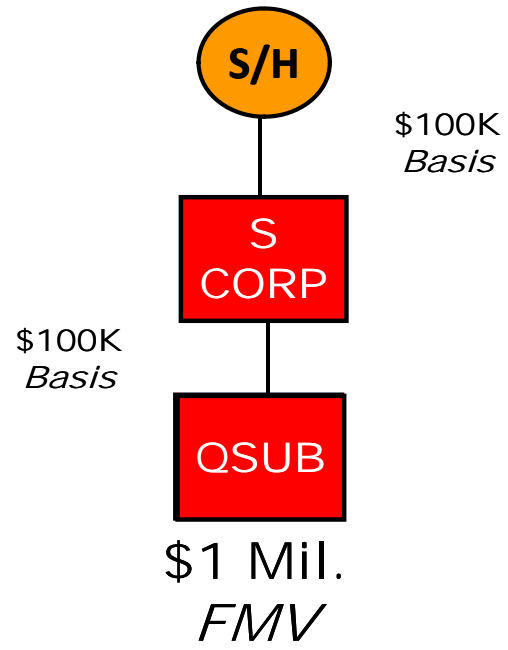
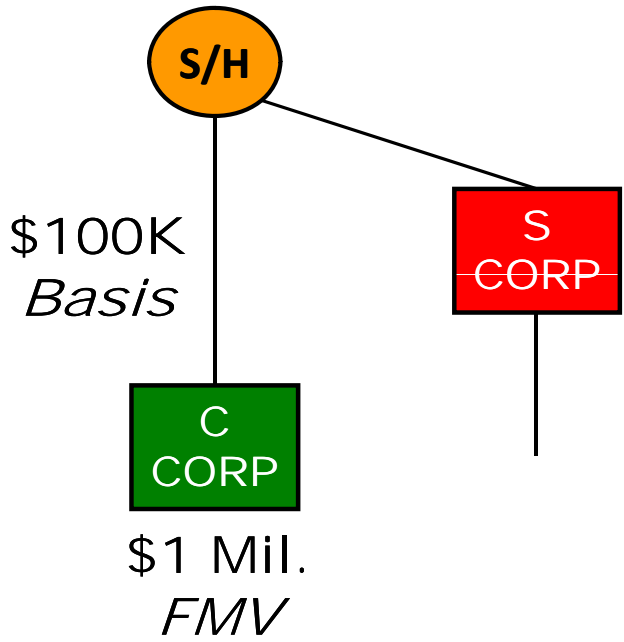
General Exception:

"Equity" Instruments Designed to Circumvent Proportionate Distribution Rules

CCA 201114017

No Basis Step-Up for QSUB Gambit





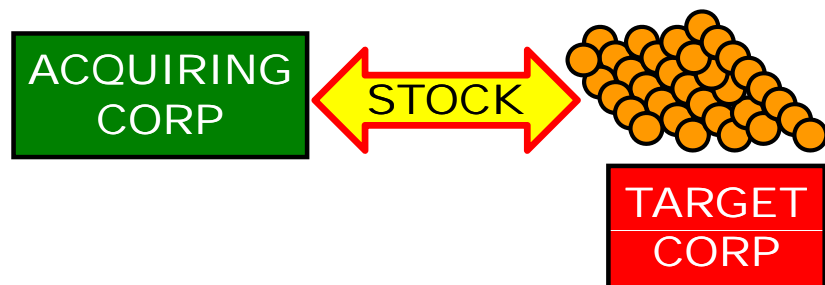
Rev. Proc. 2011-30

Energy Grants
Excluded
under
Sec. 118

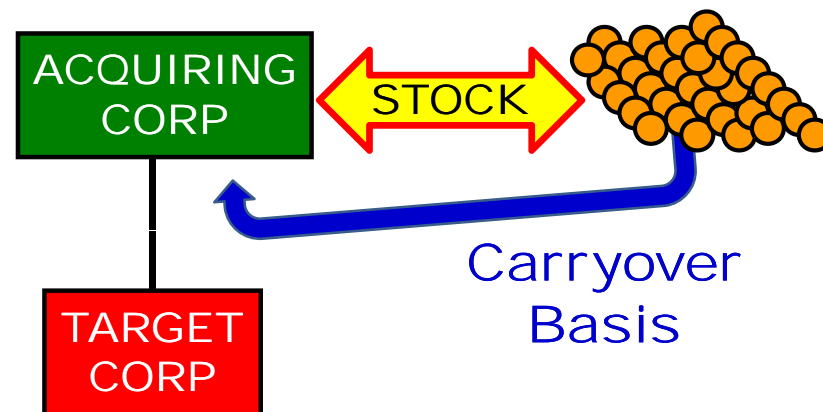
Rev. Proc. 2011-35

Estimating
Stock Basis
in
B Reorgs

B REORG:
STOCK-FOR-STOCK



B REORG:
STOCK-FOR-STOCK



4-19

Cal. TAM 2011-03

OSTC Rules
for
State Taxes
Paid by
S Corps

4-19

California
S Corp Shareholder
Claims **OSTC**
on Form 540
for Share of **Taxes Paid**
by S Corp
to
Another State

4-19

Other State Tax
Paid by the
S Corp
Must be
Measured by
Income or Profits

Texas
Franchise Tax

Ohio
Commercial Activity
Tax

Michigan
Business Tax