**BizBoost News**

**Volume 11, Issue 25**

**For distribution 5/30/22; publication 6/2/22**

**Form 7203 – S Corporation Shareholder Basis**

Form 7203 is a new form developed by IRS to replace the Shareholder’s Stock and Debt Basis worksheet that has previously been generated as part of returns for S corporation shareholders in most tax software programs. While this worksheet was not a required form and was provided for the shareholder’s internal tracking purposes, starting with the 2021 tax year, Form 7203 is a required attachment to Federal income tax returns of S corporation shareholders who:

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

The purpose of this form is to determine and report potential limitations of a shareholder’s share of an S corporation’s deductions, credits, and other items that can be deducted on the tax return, as well as possible taxable gain amounts that would not be readily determinable without the basis details.

The form consists of three sections:

**Part I** **Shareholder Stock Basis**

This section starts out with the shareholder’s stock basis at the beginning of the year (ending basis from prior year), then adds in any items that increase basis (income, interest, dividends, capital gains, etc.) and subtracts items that decrease basis (shareholder distributions, nondeductible expenses, business credits, etc.). Depending on the circumstances there may be amounts from Parts II and III that need to be entered here, but ultimately the ending stock basis for the year is determined on Line 15.

**Part II Shareholder Debt Basis**

This section only applies for shareholders who have loaned money to the corporation and have not been fully paid back, which creates something called debt basis. If that doesn’t apply, Part II can be skipped entirely.

This section starts out with the loan balance(s) at the beginning of the year (balance at end of prior year), adds any additional loans made, and then subtracts the principal amount of the debt repaid, to get to the end-of-year loan balance.

Then, the debt *basis* from beginning to end of year is calculated, which may be adjusted by any amount repaid by the company, any basis restored from previous losses that were deducted using debt basis (when no stock basis was available), and any current year losses in excess of stock basis that are being deducted as a result of having debt basis available. The ending debt basis is reported on Line 31.

If debt basis is less than the actual debt balance and any of the debt was repaid during the year, a portion of the repayment will be taxable – the reportable gain is calculated at the end of this section.

**Part III Shareholder Allowable Loss and Deduction Items**

This section is where the shareholder’s allowable loss and deduction items are calculated. The current year losses and deductions are combined with carryover loss/deduction items from prior years, and then the allowable current year amounts are determined based on the stock or debt basis available, with any carryover amounts (not usable in current year) reflected in the final column. As noted above, any allowable losses or deduction items that impact stock or debt basis will be reported in Part I and Part II, respectively, so that the correct ending basis balances are calculated.

**Form 7203**

Along with calculating the deductible amount of any loss/deduction items and helping to keep track of basis from year to year, this form will help IRS recognize when

a) a shareholder has taken distributions in excess of available basis, in which case the excess amount is reportable as a long-term capital gain, and

b) a shareholder has received repayment on a loan made to the company, but has a reduced debt basis because of previously claiming losses against that debt basis (in which case a portion of the loan repayment is taxable as a capital gain).

In the past, these items were not as easily recognizable by IRS and had a higher potential of getting missed in the reporting process.

Although this form reports information related to S corporation activity, it is generated with the shareholder’s 1040 (individual) return and not the 1120-S return. Most tax programs will likely still generate the basis worksheet with 1120-S returns as has been done in the past, and it’s important to make sure they are consistent with each other and that the information on each is accurate.

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Form 7203 is a new form developed by IRS to replace the Shareholder’s Stock and Debt Basis worksheet that has previously been generated as part of returns for S corporation shareholders in most tax software programs. Learn more in our latest blog article: [link]

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Learn more in our latest blog article: [link]

The purpose of Form 7203 is to determine and report potential limitations of a shareholder’s share of an S corporation’s deductions, credits, and other items that can be deducted on the tax return, as well as possible taxable gain amounts that would not be readily determinable without the basis details. Learn more here: [link]

Form 7203 consists of three parts:

* Shareholder Stock Basis
* Shareholder Allowable Loss and Deduction Items
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Learn more about this new form here: [link]

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Do you know how the new Form 7203 works? Sign up for our newsletter to access our latest article: [link]