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treatment of S corporations with C corporations.

Sep. 24, 2015



The [American Institute of CPAs](#) (AICPA) submitted a comment [letter](#) on Sept. 18 to the Internal Revenue Service (IRS) and the Department of the Treasury recommending that S corporations be allowed an ordinary loss deduction treatment for worthless stocks under Internal Revenue Code (IRC) section 165(g)(3) rather than a capital loss treatment under section 165(g)(1).

If adopted, the recommendation would equalize the worthless stock deductions

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any loss sustained during the taxable year and not compensated for by insurance or otherwise. Section 165(g)(1) provides that, if any security that is a capital asset becomes worthless during the taxable year, the loss from worthlessness is treated as a loss from the sale or exchange, on the last day of the taxable year, of a capital asset.

In the letter, Troy K. Lewis, chair of the AICPA Tax Executive Committee, stated, "We encourage the IRS and Treasury to provide guidance that an S corporation is entitled to the benefits of section 165(g)(3) to the same extent as a C corporation. We believe our proposed approach offers equity and fairness, which is a principle of good tax policy that advocates for similarly situated taxpayers to have similar taxation."

This specific item is listed in the Department of the Treasury 2015-2016 Priority Guidance Plan as the first priority of the S corporations category.

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