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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

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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