

## Can I change my business from an S corporation to a C corporation?

### Answer:

Yes. In general, you can convert an S corporation to a C corporation by voluntarily revoking the S election at any time.

You and other shareholders may want to convert to a C corporation because of changes in the tax laws or to provide the corporation with more flexibility as the business evolves. Converting to a C corporation offers greater potential for broadening the investor base and raising capital (if the corporation decides to go public). It also allows the business to offer a wider range of tax-deductible fringe benefits.

No specific form must be filed with the IRS to revoke the S election. It is sufficient for the corporation to file a statement titled Revocation of S Corporation Status with the IRS and signed by the person authorized to do so. Attached to this should be a statement of consent signed by shareholders that, as a group, own more than 50 percent of the issued and outstanding stock of the corporation. However, to be effective on the 1st day of the corporation's taxable year (e.g., January 1), you must revoke the S election by the 15th day of the 3rd month of that tax year (e.g., March 15).

Keep in mind that the IRS can also automatically terminate the S election if you violate one of the following S corporation eligibility requirements:

- ▶ More than 100 shareholders
- ▶ One or more ineligible shareholders
- ▶ More than one class of stock
- ▶ Accumulated earnings, profits, and passive investment income that exceed 25 percent of gross income for the past three consecutive years

Violations of S corporation eligibility requirements are often found during audits of tax returns from previous years. However, the IRS has adopted a relief provision that may allow the S election to continue uninterrupted even if a violation is found. As a general rule, though, if a corporation terminates its S election (whether intentionally or inadvertently), the corporation will not be eligible to make another S election until the 5th tax year beginning after the 1st tax year that the termination was effective.

Because of the tax implications of revoking a corporation's S election, consult an experienced tax professional before you commit to this decision.