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ELIGIBILITY REQUIREMENTS FOR S CORPORATIONS

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For a corporation to be eligible for treatment as an S corporation, it must meet **all of the following requirements:**

1. It must be a **domestic corporation**. It must be a real corporation organized in the U.S.
2. It cannot have more than **100 shareholders** (a whole family can now count as one shareholder).
3. No shareholder is a **non-resident alien**. (A problem arises when a US citizen is married to a non-resident alien and either one resides in a community property state like California. In this case, the non-resident alien is deemed to be part owner of the stock and therefore disqualifies the S election).
4. Recent laws relaxed rules on **stock ownership** by individuals, estates, certain trusts and Electing Small Business Trusts (ESBTs). A corporation cannot be a shareholder in an S corporation.
5. Recent laws also allow greater corporate structuring **flexibility for parent companies and subsidiaries**.