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HOW TO ELECT S STATUS FOR YOUR CORPORATION

By Victor Sy, CPA, MBA

We discussed the advantages and disadvantages of electing S status in previous issues. This time, let us discuss how to elect S status:

1. You may elect S status at [anytime in the preceding year](#).
2. You may also elect on or before the [15th day of the third month](#) of the current year (March 15 for most corporations). Election is retroactive to the first day of the year. (Good News: The Small Business Act of 1996 allows the IRS to be flexible in allowing S elections to stand even if filed late or inadvertently terminated!)
3. **TIP 1:** If you fail to file the election on time, the election may still be considered timely if such failure was due to a [reasonable cause](#). Request a private letter ruling and pay a user fee to avail of this relief for late election.
4. **TIP 2:** You may not even have to request a letter ruling or pay a user fee if the election is [filed within 12 months of its due date](#) and the original due date for filing your initial 1120S has not yet passed. In this case, write the words "Filed pursuant to Rev. Proc. 98-55" at the top of Form 2553 and attach a statement explaining the reason for filing late.
5. [All shareholders must consent](#) on the day the election is made.
6. Use [form 2553](#) for filing your federal application and form 3560 for your State election. Use a calendar year (December 31) or any other accounting period for which the company can establish a business purpose. You may call our office for a blank Form 2553 and 3560.
7. A [natural business year](#) is permitted if at least 25% of the company's gross receipts were received in the last two months of the taxable year.
8. The corporation may use a [fiscal year](#) if the deferral period is three months or less. In other words, only fiscal years ending September, October or November can qualify under Section 444 of the Internal Revenue Code. File form 8716 by the 15th day of the 5th month (generally May 15).