A Guide To The

C Vs. S Corp Analyzer

By Denver Tax Software, Inc.

Denver Tax Software, Inc.
P.O. Box 5308
Denver, CO 80217-5308

Telephone (voice):
    Toll-Free: 1(800)326-6686
    Denver Metro: (303)796-7780

email: info@denvertax.com
Web sites
Information: http://DenverTax.com
Order Online: http://DenverTax.com

FAX:
    Toll-Free: 1 (888)326-6686
    Denver Metro: (303)796-7768

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Overview

Why Use This Program

Purpose

The purpose of this program is to significantly reduce the time needed to determine whether a corporation should be a C or an S-Corporation. This analysis requires a C-Corp tax projection, an S-Corp tax projection and two tax projections for each shareholder. One projection for the shareholders assumes that they are shareholders in a C-Corp, and the other projection assumes that they are shareholders in an S-Corp.

These are not simple computations, and this is better left to this program!

Getting The Most Out Of This Program

Quick Start

Go to the section "Installing and Running" on page 3. We have tried to design the program so that you don't have to refer to this manual! When you are entering inputs, there will be a section of the input screen that discusses what you should be inputting. If you have any questions, please go first to the Tutorial – Example section. See "Tutorial - Example" on page 25.

A discussion about the interpretation of the reports can be found at Analysis Of Reports. See "Analysis Of Reports" on page 20.

The help file is identical to this manual. The help file, accessed by clicking on the **Help** menu choice, has the same Table Of Contents (Contents) and index that this printed manual does. However, the help file has word search features which are not possible with the written manual.

When the program installs, it also installs a copy of this manual in Adobe's Acrobat (.pdf) format. If you want a hard copy of the manual, click on the manual icon in the Denver Tax Software Group (**Start** - **Programs** - **Denver Tax Software Group**). That will bring up the manual in the Acrobat Reader. The manual can be printed from the Acrobat program.

How To Get A Complete Understanding Of This Program

Read this manual! The C vs. S Corp Analysis chapter discusses how the C Vs. S Corp analysis is performed in depth. See: "C Vs. S Corp Analysis" on page 6.

Installing and Running

System Requirements

Operating System: Microsoft® Windows® versions 95, 98, ME, NT 4, 2000 or XP. Please refer to the readme.txt file to see if service packs might be required.

Installation

All commands you need to enter will be typed in **bold** type.

Installing To A Single Machine

For the purpose of these instructions, we are assuming that your CD drive is drive D, if it is not, please make the appropriate changes. To install the program to a single machine, use the following steps:

1. Click on the **Start** button.
2. Click on the **Run** menu item.
3. Type **D:SETUP** and press the **ENTER** key.
4. Follow the instructions in the installation program.

Network Installation

Network installation instructions are provided in a separate document to customers who have purchased rights to use this program on additional desktops.

Starting the C Vs. S Corp Analyzer

The Installation program will create a "Denver Tax Software" Start Group, if it doesn't already exist. The DTS **C Vs. S Corp Analyzer** will be placed within this group.

To start the **C Vs. S Corp Analyzer**, click on the **Start** button, click on the **Programs** button, click on the **Denver Tax Software** program group, then click on the **C Vs. S Corp Analyzer** icon.

Limitations

Due to the complexity of C-Corp, S-Corp and individual income tax computations, it is easier to describe what computations this program can perform. Please refer to the "Capabilities" section that starts on this page.

However, some limitations merit mentioning as follows:

State taxation issues are not addressed.

The liquidation of the corporation is not addressed. In general, a liquidation is taxed twice for the C-Corp and its shareholders and taxed once for the S-Corp and its shareholders. If the liquidation occurs a long time from now, the time value of money effectively reduces the impact of any difference in taxation.

This is a Quantitative Analysis not a Qualitative Analysis. Thus, the program's focus is the monetary cost or benefit of being a C vs. S-Corp. Qualitative issues may be important. Examples of Qualitative issues might be a need for a second class of stock or a requirement to have so many shareholders that the corporation would not qualify to either elect or stay as an S-Corp.

The program does not make any S-Corp basis adjustments or keep track of the shareholders adjusted basis.

Capabilities

C-Corp Tax Computations

This program:

Uses either regular corporate or Personal Service Corporation (PSC) current year tax rates.

Capital losses are appropriately limited.

§1231 gains are treated as capital gains and losses are treated as ordinary losses.

NOLs from prior years are applied if appropriate.

Charitable contributions are limited if appropriate.

Determines Employers' FICA tax.

S-Corp Tax Computations

This program:

Has a simple computation of Built-In-Gains.

Has a simple computation of Passive Investment Income Tax.

Reduces the pass through of Ordinary Income by Built-In-Gains and Passive Investment Income Tax.

Allocates Ordinary Income, §1231 items, Capital Gains (losses) and Charitable Contributions to the shareholders.

Treats fringe benefits that would be tax –free in a C-Corp as compensation to the shareholders.

Determines Employers' FICA tax.

Individual Tax Computations

For each shareholder, this program:

Computes Income Tax using regular current year tax rates.

Supports the Joint, Single, Married Filing Separately and Head Of Household filing statuses.

Computes tax on C-Corp Dividends and Net Long-Term Capital gains at the rates that are used after May 5, 2003.

Limits Capital Losses appropriately.

Treats §1231 gains as Long-Term Capital Gains and losses as Ordinary Income.

Deducts Self-Employed Medical Insurance. This program does not check to see if the Self-Employment Income limitation applies.

Computes any Medical Deduction using appropriate limitations.

Computes Itemized Miscellaneous Deduction using appropriate limitations.

Determines any phase-out of Itemized Deductions.

Determines the Standard Deduction, and deducts the larger of Itemized Deductions or the Standard Deduction.

Determines the Exemption Deduction and any phase-out reduction.

Determines FICA taxes.

C Vs. S Corp Analysis

Overview

This program uses a Quantitative Analysis to determine the costs or benefits of being a C or an S-Corp. It is not enough to consider how the corporation is taxed. Since the tax consequences to the shareholders will be different if the corporation is an S-Corp rather than a C-Corp, the shareholders' tax consequences must be considered.

The program does not consider Qualitative issues. For example, in general, S-Corps are not allowed to have a second class of stock. If the corporation has reason to have a second class of stock, regardless of any results this program might indicate, the corporation will not be an S-Corp.

Among other analysis, this program will show the cost or benefit of either reducing or increasing wages for S-Corp shareholders. Some have advocated that shareholders in S-Corps should take lower wages and higher S-Corp dividends. This program will show the cost and benefit of such strategy. However, Denver Tax Software, Inc. is not recommending reducing S-Corp wages. This strategy could result in additional payroll tax and payroll tax penalties. The user of this program should either be a tax professional or consult a tax professional about issues like this.

Corporate Analysis

C-Corporation Analysis

The C-Corp pays the corporate tax.

Factors that effect the C-Corp tax are as follows:

The Taxable Income.

Whether the business is a Personal Service Corporation (PSC) taxed at higher rates.

Capital Loss limitations.

Charitable Contribution limitations.

NOL Deductions.

Treatment of §1231 items.

S-Corporation Analysis

In general, the shareholders pay tax on S-Corp income. The exceptions are Built-In-Gains Tax and Passive Investment Income Tax. If the S-Corp pays either Built-In-Gains Tax and Passive Investment Income Tax, the pass through of Ordinary Income is reduced by the shareholder's share of those taxes.

S-Corps do pay the employer's share of FICA taxes.

There are some types of C-Corp fringe benefits that are not taxable to C-Corp shareholder – employees that are treated as compensation to S-Corp shareholder – employees. These items are treated in this program as increases to S-Corp wages. Any Medical Insurance Premiums in this category may qualify for the Self-Employed Medical Deduction that the shareholders can take. This program will compute the Self-Employed Medical Deduction for you.

S-Corp Pass Throughs to shareholders are as follows:

> Ordinary Income as reduced by any Built-In-Gains Tax and Passive Investment Income Tax.

> Long-Term and Short-Term Capital Gains.

> Charitable Contributions.

> §1231 Gains or Losses.

Reducing S-Corp Shareholder Wages

Reducing S-Corp shareholder wages reduces the corporation's Employers' FICA.

Reducing S-Corp shareholder wages changes the Ordinary Income pass through as follow:

> The reduction in wages increases Ordinary Income.

> The reduction in wages decreases the deduction for Employers' FICA.

Reducing the S-Corp shareholder wages, in addition to the change in the S-Corp Ordinary Income pass through, reduces the Employees' FICA.

Shareholder Analysis

The program makes two shareholder tax projections:

> As a shareholder in a C-Corp.

> As a shareholder in an S-Corp.

In the Detailed Report, each shareholder's projection is on a separate page. That way you can discuss the tax projection with a shareholder without revealing information about other shareholders.

For information about what type of Individual Income Tax computations this program can perform see "Individual Tax Computations" on page 5.

Using The C Vs. S Corp Analyzer

The Startup Options Screen

The first screen to appear when starting the program is the About Screen. This is where you will find the program's version. It also has a button that will help you locate information about your system. That information might come in handy if technical support is needed, or if you are simply curious. Click on the OK button.
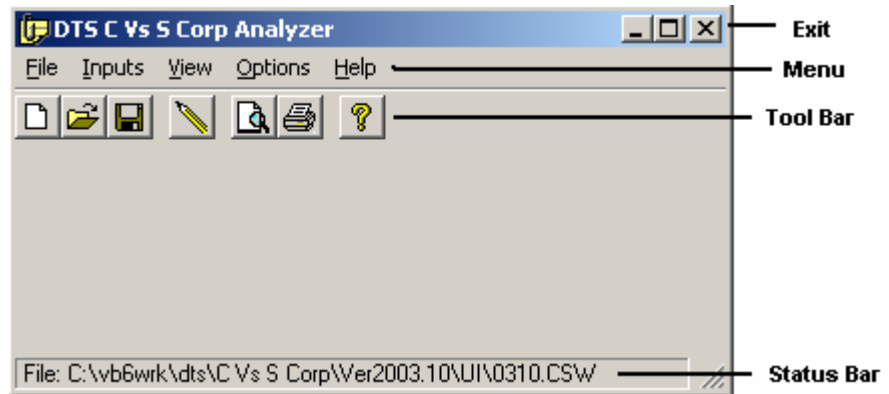
The next screen is the Startup Options Screen.
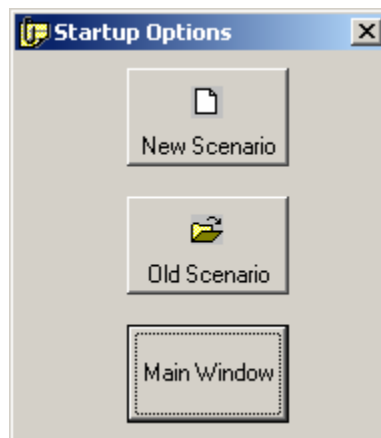
If this is going to be a new scenario, **click** on the **New Scenario** button. If you are going to use a previously saved file, **click** on the **Old Scenario** button.

The next screen that will appear is the Input Screen. The Input Screen is discussed in detail in a separate section. See "Inputs" on page 11.

The Main Window

Basic Parts Of The Main Window

Minimize, Maximize – Restore Size, and Exit Buttons

The upper right portion of the Main Window has the standard buttons to minimize, maximize – restore size and exit. If you have used any other programs designed for 32 bit Windows systems, you are already familiar with these buttons.

Menu File Inputs View Options Help

This is where you can pick menu choices. See "Menu", below.

Tool Bar

Using the Tool Bar is typically the fastest and easiest way to use the program. Tool Bar choices are described with the Menu selections. See "Menu", below.

Status Bar

This displays what file or scenario is active.

Menu

File

New . This brings up a blank input screen.

Open . This brings up a screen where you can choose a previously saved file. Once the file has been selected, the input screen will appear with that file's information.

---

*When you **click** on the Input Screen's **OK** button, the scenario will be automatically saved.*

Save 🖫. This saves the current scenario to the file shown in the Status Bar.

Save As…. This is where you can choose a filename.

Print Preview… 🔍. Use this to display the reports to the screen. You can display any combination of Input Report, Detailed Analysis Report or Summary Report.

Print… 🖨. Prints the reports. You can print any combination of Input Report, Detailed Analysis Report or Summary Report.

Exit. Exit the program.

Inputs

Inputs ✎. Enter information into the program. This will bring up The Input Screen. See "Inputs" on page 11.

View

Reports… 🔍. Displays the reports on the screen. You can display any combination of Input Report, Detailed Analysis Report or Summary Report. See "Analysis Of Reports" on page 20.

Options

Fonts…. You can change the fonts to make the reports appear differently. We recommend staying with Courier or Courier New.

Help

Contents ❓. Displays the table of contents for the help file.

Search For Help On…. This gives you the choice to search the help file using either the index or a keyword search.

About. This displays the information about the DTS C Vs. S Corporation Analyzer . This is where you can find the program's version number and ways to contact DTS.

Inputs

Entering Information

Data Entry

The C Vs. S Corp Analyzer uses the normal input procedures that most Windows programs use. To move from one input to another you can either use the mouse to select the input item you want, or press the **TAB** key to move through them. To exit an input screen you can use the mouse to click on the appropriate button.

You may find it easier to enter numeric information using the numeric keypad. If so, make sure the **Num Lock** key is on.

### How To Move Around The Input Screens

The input screens are broken down into tabbed dividers similar to a tabbed notebook. To move to a different tab simply click on the tab you want to move to. The Main Input screen tabs are *General, C-Corp, S-Corp* and *Stockholders*. The Stockholder Input screen tabs are *Basic Information, Income, Adjustments* and *Deductions*.

How To Exit The Input Screens

When working with an input form, the **OK** button or **ENTER** key will exit the form and save the information you entered to a file. The **Cancel** button is used to exit the screen without saving the information you entered.

Main Inputs

General Tab
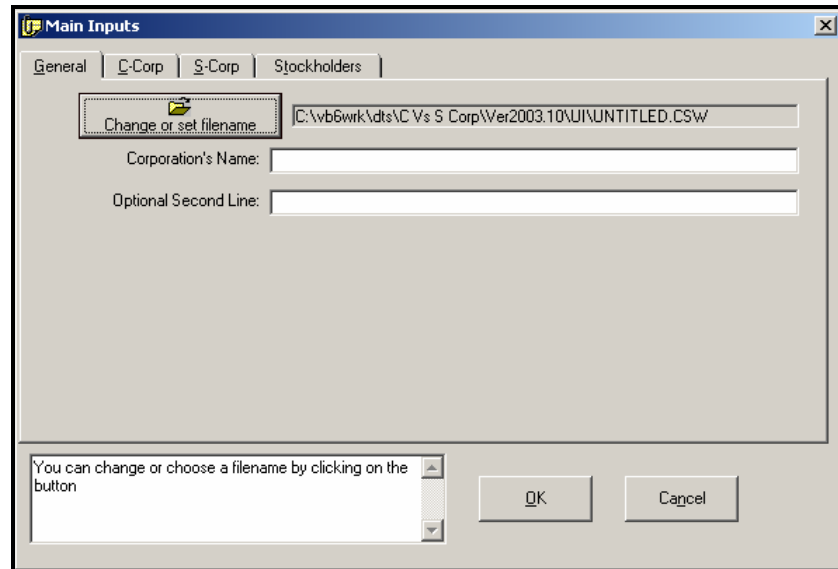
Change or set filename

This is an improvement on the Windows interface. With most Windows programs, when you click on a form's OK button you just move to the next screen. When you click on the OK button in this program, it actually saves your data for you.

Click on the **Change or set filename** button to choose or change a filename.

Corporation's Name

Enter the corporation's name.

Optional Second Line

Enter information that you would want to appear as the second line on the reports.

C-Corp Tab

C-Corp Base Taxable Income

This is C-Corp taxable income, excluding capital gains, Sec. 1231 items, Charitable Deductions and NOL deductions. To indicate a loss, use a minus sign.

Long-Term Capital Gains

Enter Long-Term Capital Gains or Losses. For losses, use a minus sign.

Short-Term Capital Gains

Enter the corporation's Short-Term Capital Gains or Losses. For loss positions, use a minus sign.

Section 1231 Items

Enter the corporation's Section 1231 Gains or Losses. For losses, enter a minus sign.

Charitable Contributions

Enter the corporation's charitable contributions. The program will compute any limitations.

Carryforward Of Prior Year NOLs

Enter any C-Corp NOLs that are carried forward from prior years. If the corporation is an S-Corp, enter any NOL from the last C-Corp year. Enter this amount as a positive number.

Earnings And Profits

C-Corp Earnings and Profits may become a factor in determining how distributions would be taxed. If you are not sure what this number is, you may want to use an estimate.

C-Corp Dividends Paid

Enter any C-Corp dividends that were paid.

S-Corp Tab

Was Always An S-Corp

Check the box if the corporation was always an S-Corp.

Was S-Corp Election Made Before 3/31/88

Check the box if the corporation's Sub S election was made before 3/31/88.

Built-In-Gains Unrealized At Beginning Of Year

Built-In-Gains are gains that have not been realized at the first day a C-Corp switches to an S-Corp. Those gains would be the fair market value of all assets less their adjusted basis at that date. Built-In-Gains would include inventory appreciation and unrealized accounts receivable.

Built-In-Gains Recognized In Current Year

This would be the Built-In-Gains before limitations that were recognized during the current year. This could be from sale of fixed pre S-Corp assets, sale of pre S-Corp inventory, collection of pre S-Corp receivables, etc.

Passive Investment Income Gross Receipts

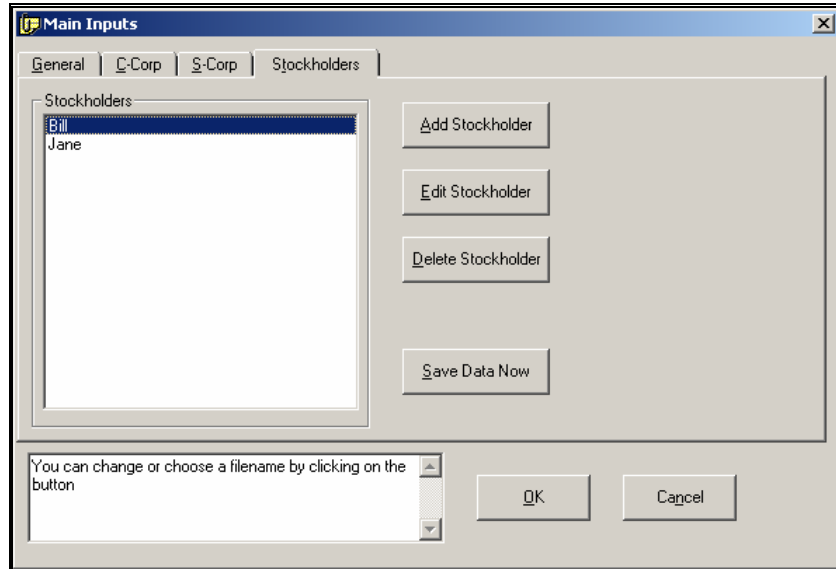Enter Passive Investment Income.

Expenses Related To Passive Investment Income

Enter any investment expenses related to earning Passive Investment Income.

Total Gross Receipts

Enter the corporations total Gross Receipts. This is used in the computation of the Passive Investment Income Tax.

Stockholders Tab

Stockholders List Box

This lists the stockholders. If you need to edit or delete a stockholder's information, click on the Stockholder's name before clicking on the **Edit** or **Delete** buttons

Add Stockholder Button

Click on this button to add a stockholder and enter that stockholder's information. If both spouse's are shareholders, enter them as one shareholder for the purpose of this program.

Edit Stockholder Button

To edit a stockholder's information, first, click on the stockholder's name in the **Stockholder List Box**, and second click on the **Edit Stockholder** button.

Delete Stockholder Button

To delete a stockholder's information, first, click on the stockholder's name in the **Stockholder List Box**, and second click on the **Delete Stockholder** button.

Save Data Now

Click on this button to save all your data now. After clicking on this button, you will be able to resume entering data in this screen.

Stockholder Input Screen

General Tab

Stockholder

Enter the shareholder's name.

Ownership Percent(50%=50)

Enter the ownership percent. For example, enter 50.5% as 50.5. Remember all the ownership percentages needs to total to 100!

Filing Status

Click on the appropriate Filing Status choice.

Exemptions

Enter the number of exemptions. Mom, Dad & Junior = 3.

Spouse 1 is Blind, Spouse 1 is 65 or Older, Spouse 2 is Blind, Spouse 2 is 65 or Older

Check all that apply.

Income Tab

Total Income Before S-Corp Items

Enter the Total Income as if this was a stockholder in a C-Corp.
EXCLUDE from this ALL Capital Gains, Dividends from the C-Corp
and Section 1231 items. **INCLUDE** wages as if this was a stockholder
in a C-Corp. Also, dividends from other corporations, e.g. GE or IBM
should be included.

C-Corp Wages – Spouse 1

Enter the Spouse 1's wages as if they were a stockholder in a C-Corp.

S-Corp Wages – Spouse 1

Enter the Spouse 1's wages as if they were a stockholder in an S-Corp.

C-Corp Wages – Spouse 2

Enter the Spouse 2's wages as if they were a stockholder in a C-Corp.

S-Corp Wages – Spouse 2

Enter the Spouse 2's wages as if they were a stockholder in an S-Corp.

Free C-Corp Fringes – Spouse 1

Total fringe benefits that would be tax-free to Spouse 1, if the corporation is
a C-Corp, but not tax-free if it is an S-Corp. Include Self-Employed
Health Insurance Premiums in this amount, even though the program
will need Self-Employed Health Insurance Premiums later.

Free C-Corp Fringes – Spouse 2

Total fringe benefits that would be tax-free to Spouse 2, if the corporation is
a C-Corp, but not tax-free if it is an S-Corp. Include Self-Employed

Health Insurance Premiums in this amount, even though the program will need Self-Employed Health Insurance Premiums later.

Long-Term Capital Gain Base

Enter the Long-Term Capital Gains for this taxpayer. EXCLUDE any S-Corp items. This amount should not have been included in Total Income Before S-Corp Items, above. Enter losses as negative amounts.

Short-Term Capital Gain Base

Enter the Short-Term Capital Gains for this taxpayer. EXCLUDE any S-Corp items. This amount should not have been included in Total Income Before S-Corp Items, above. Enter losses as negative amounts.

Section 1231 Base

Enter the Section 1231 income or loss for this taxpayer. EXCLUDE any S-Corp items. This amount should not have been included in Total Income Before S-Corp Items, above. Enter losses as negative amounts.

Adjustments Tab

Adjustments To Income

Enter adjustments to income, excluding the Self-Employed Health Insurance deduction. IRAs, 50% of SE tax, etc. should be included in this amount.

Self-Employed Health Insurance Premiums

Enter health insurance premiums that were paid as a tax-free C-Corp fringe. This program will compute the SE Health Insurance deduction, if applicable.

Deductions Tab

Medical Expenses

>Enter expenses that qualify for the medical deduction. The program will apply the limitation. Include SE Health Insurance premiums in this expense.

Itemized Misc. Expenses

>Enter Itemized Misc. Expenses. This amount should include IRA fees, certain investment related fees, etc. This program will compute any limitations.

Other Itemized Deductions

>Enter Itemized Deductions there were not included elsewhere. These should include Mortgage Interest deductions, deductions for State and Local Taxes and Charitable Deductions.

Analysis Of Reports

Overview Of Reports

Input Report

This report is for diagnostic purposes.

Detailed Analysis Report

This report indicates how the analysis was done. These numbers support the totals in the Summary Report. We recommend keeping the Detailed Analysis Report in the client's file for support. Depending on the client's level of sophistication, this report might be considered "too much information."

Summary Report

This report shows whether the corporation and the shareholders are better or worse off in an S-Corp.

Detailed Analysis Report

C-Corp Computations

```
C - CORPORATION:

Taxable Income before Capital Gains,
  Sec. 1231 items, Contributions
  and Prior Year NOL:                          10,000
Total Capital Gains                             3,500
Section 1231 Losses                            -1,000
Less, Deductible Charitable Contributions         600
Less, Net Operating Loss                          500
                                             ----------
C-Corporation Taxable Income                   11,400
                                             ==========

C-Corporation Income Tax                        1,710
                                             ==========
```

The C-Corporation computations are fairly straight forward. Taxable Income is base income adjusted for Capital Gains, §1231 items, Charitable Contribution Deductions and any NOL carryforward from prior years.

S-Corp Computations

```
S - CORPORATION:

S-Corporation Pass Through Items:

 Ordinary Income:
Ordinary Income Before Adjustments           10,000
Less, Built-In-Gains Tax                         945
Less, Passive Investment Income Tax              130
Plus, Stockholder Compensation Reduction      22,400
Plus, Employer's FICA Reduction                1,715
Plus, C-Corp Fringes Not Deductible            9,600
                                          ----------
Ordinary Income Pass Through                   42,640
                                          ==========


Built-In-Gains Tax                               945
                                          ==========


Passive Investment Income Tax                    130
                                          ==========
```

The Ordinary Income is determined as follows:

> Start with the C-Corp's base income before Capital Gains or Losses, §1231 items, Charitable Contribution Deduction and before NOL deductions.

> Subtract any Built-In-Gains and Passive Investment Income taxes.

> If the shareholders take lower wages as S-Corp shareholders, the reduced wages increases the corporation's income. However, any C-Corp fringe benefits that have to be treated as S-Corp compensation increases compensation and reduces the corporation's income. In the above computation of Ordinary Income, the decrease in compensation was reduced by $9,600 to arrive at $22,400. Thus, if there were no deductible C-Corp fringe benefits that were not deductible for the S-Corp, the decrease in compensation would have been $32,000 (22,400 + 9,600).

> If the shareholder compensation decreases, so does the corporation's deduction for Employer FICA.

> The shareholder – employee fringes benefits, that were deductible as C-Corp fringe benefits and are not S-Corp fringes, increase the corporation's income.

Shareholder Computations

Individual Income Tax Computation

```
Filing Status: Single
Stock Ownership: 40.00%
                                          C-Corp     S-Corp  Difference
                                        ---------- ---------- ----------
Base Income as C-Corp Shareholder          40,000     40,000          0
Compensation Change                             0    -10,400     10,400
C Corp Dividends                              800          0        800
S-Corp Ordindary Income                         0     17,056    -17,056
Capital Gains                               3,400      4,600     -1,200
Sec 1231 Losses                                 0       -200        200
                                        ---------- ---------- ----------
Total Income                               44,200     51,056     -6,856
                                        ---------- ---------- ----------
Base Adjustments to Income                  4,000      4,000          0
Self-Employed Health Ins Deduction              0        800       -800
                                        ---------- ---------- ----------
Total Adjustments to Income                 4,000      4,800       -800
                                        ---------- ---------- ----------
Adjusted Gross Income                      40,200     46,256     -6,056
                                        ---------- ---------- ----------
Medical Deduction                           4,985      4,531        454
S-Corp Charity Pass Through                     0        240       -240
Miscellaneous Deductions                    3,196      3,075        121
Other Itemized Deductions                  12,000     12,000          0
                                        ---------- ---------- ----------
Total Itemized Deductions                  20,181     19,846        335
Itemized Deduction Reduction                    0          0          0
                                        ---------- ---------- ----------
Net Itemized Deductions                    20,181     19,846        335
Standard Deduction                          4,750      4,750          0
                                        ---------- ---------- ----------
Larger Deduction                           20,181     19,846        335
                                        ---------- ---------- ----------
Taxable Income Before Exemptions           20,019     26,410     -6,391
Less, Exemption Deduction                   3,050      3,050          0
Exemption Deduction Reduction                   0          0          0
                                        ---------- ---------- ----------
Taxable Income                             16,969     23,360     -6,391
                                        ========== ========== ==========
```

The shareholder inputs are for a shareholder in a C-Corp. The S-Corp adjustments are as follows:

> Any decrease or increase in compensation should appear in the S-Corp column. In the above example, that amount is a decrease of 10,400.

> The S-Corp column for C-Corp Dividends will be $0.

> The S-Corp column for S-Corp Ordinary Income will be the product of the S-Corp's Ordinary Income and the shareholders fractional interest in the corporation.

> The S-Corp column for Capital Gains and Sec 1231 Losses are the shareholder's base Capital Gains (Losses) and §1231 items modified by any S-Corp pass throughs.

Any Self – Employed Medical Insurance Deduction will be in the S-Corp column.

The Itemized Deductions for Medical and Miscellaneous may be different in the S-Corp column, if limitations are factors.

Any corporate Charitable Contribution Deduction will pass through to the S-Corp column.

Individual FICA Computation

```
FICA -- Spouse 1                         1,683        887        796
FICA -- Spouse 2                             0          0          0
                                    ---------- ---------- ----------
Total FICA                               1,683        887        796
                                    ========== ========== ==========

Combined Income & FICA Tax               3,458      3,581       -123
                                    ========== ========== ==========
```

The program also demonstrates how much FICA the shareholder paid.

Summary Report

```
CORPORATE TAX

                                     C-Corp     S-Corp  Difference
                                  ---------- ---------- ----------
C-Corp Income Tax                      1,710          0      1,710
Built-In-Gains Tax                         0        945       -945
Passive Investment Income Tax              0        130       -130
Employer FICA on Stockholder Comp      5,509      3,794      1,715
                                  ---------- ---------- ----------

Total Corporate Tax                    7,219      4,869      2,350
                                  ========== ========== ==========


STOCKHOLDER TAXES

                                     C-Corp     S-Corp  Difference
                                  ---------- ---------- ----------
Individual Income Taxes                6,860      9,951     -3,091
Stockholder-Employee FICA Taxes        5,509      3,794      1,715
                                  ---------- ---------- ----------

Total Stockholder Taxes               12,369     13,745     -1,376
                                  ========== ========== ==========


COMBINED STOCKHOLDER & CORPORATE TAXES

                                     C-Corp     S-Corp  Difference
                                  ---------- ---------- ----------
Total Corporate Tax                    7,219      4,869      2,350
Total Stockholder Taxes               12,369     13,745     -1,376
                                  ---------- ---------- ----------

COMBINED TAXES                        19,588     18,614        974
                                  ========== ========== ==========
```

The Summary Report demonstrates whether or not the corporation and its shareholders were better off in a C Vs. S corporation.

Tutorial - Example

A New Scenario Example

Choose A Filename

Most of the time it doesn't make much difference whether you use the **TAB** or **ENTER** key. This tutorial will use the **ENTER** key whenever possible. When the tutorial directs you to use the **TAB** key, that would be a situation where using the **TAB** and **ENTER** keys will make the program function differently.

Start the program. If you have any questions on how to do this, see "Starting the C Vs. S Corp Analyzer" on page 3.

The first screen is the *About C Vs. S Corp Analyzer* window. **Click** on the **OK** button.
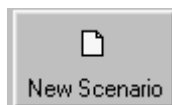
 At the *Startup Options* screen, **click** on the **New Scenario** button. This will immediately bring up the input screen.

 Click on the *Change or set filename* button.
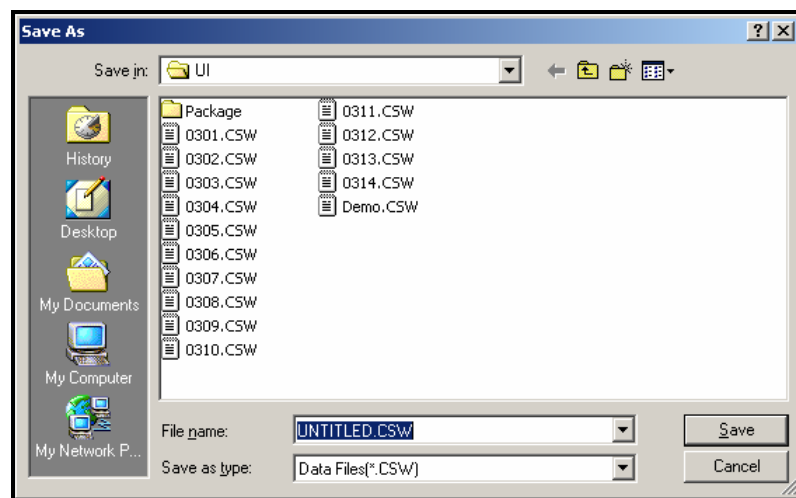
In the *Save As* screen, type **Test Analysis** in the *File name* input. **Click** the **Save** button to return to the input screen. Press the **TAB** key.

Main Inputs Screen

For the **Corporation's Name** input enter **XYZ Corp** and press the **ENTER** key.

For the **Optional Second Line** input enter **Just Testing**.

At this time the screen should look something like this:
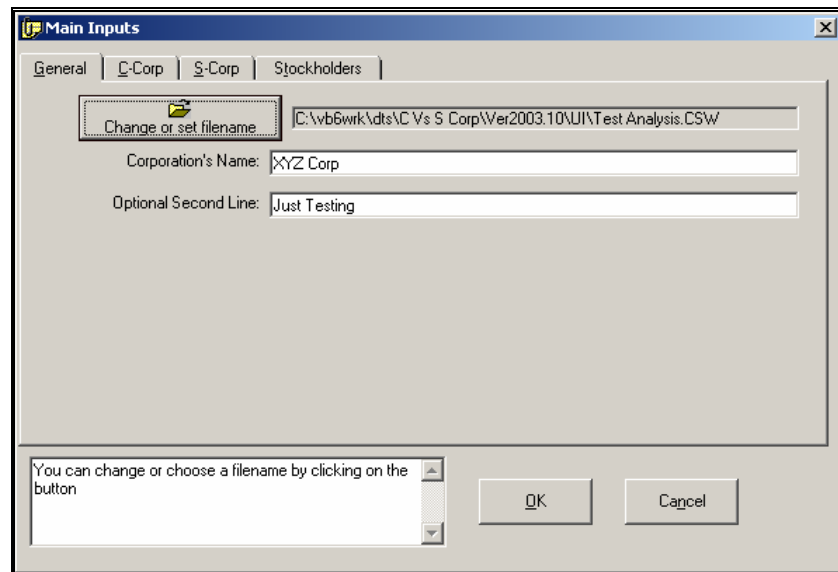
Click on the **C-Corp** tab.

For the **C-Corp Base Taxable Income** input enter **10000** and press the **ENTER** key.

For the **Long-Term Capital Gains** input enter **2500** and press the **ENTER** key.

For the **Short-Term Capital Gains** input enter **1000** and press the **ENTER** key.

For the **Section 1231 Items** input enter **-1000** and press the **ENTER** key.

For the **Charitable Contributions** input enter **600** and press the **ENTER** key.

For the **Carryforward Of Prior Year NOLs** input enter **500** and press the **ENTER** key.

For the **Earnings And Profits** input enter **1000** and press the **ENTER** key.

For the **C-Corp Dividends Paid** input enter **2000** and press the **ENTER** key.

For the **Check If Personal Service Corporation** input **check** the box.

At this time the screen should look like this:

Click on the **S-Corp** tab.

Leave **Was Always An S-Corp** and **Was S-Corp Election Made Before 3/31/88** *unchecked*.

For the **Built-In-Gains Unrealized At Beginning Of Year** input enter **2700** and press the **ENTER** key.

For the **Built-In-Gains In Current Year** input enter **4000** and press the **ENTER** key.

For the **Passive Investment Income Gross Receipts** input enter **700** and press the **ENTER** key.

For the **Expenses Related To Passive Invest. Income** input enter **50** and press the **ENTER** key.

For the **Total Gross Receipts** input enter **1000** and press the **ENTER** key. (Yes, we know that this is not a realistic number!)

At this time the screen should look like this:

Click the **Stockholders** tab.

The screen should look like this:

Click on the **Add Stockholder** button.

Stockholder Input Screen

For the **Stockholder** input enter **Jane and John Smith** and press the **ENTER** key.

For the **Ownership Percent (50%=50%)** input enter **60** and press the **ENTER** key.

For the **Filing Status** click on **Joint** and press the **ENTER** key.

For the **Exemptions** input enter **1** and press the **ENTER** key. (For a Joint Filing Status one would expect Exemptions to be two or more. Later, in an example of how an Old Scenario can be edited, we will change this input to 2.)

The screen should now look like this:
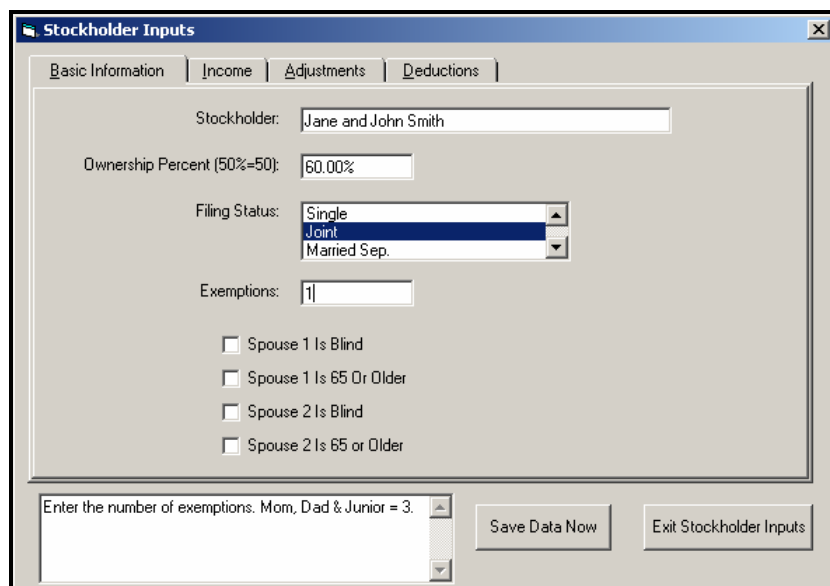
Click on the **Income** tab.

For the **Total Income Before S-Corp Items** input enter **60000** and press the **ENTER** key.

For the **C-Corp Wages – Spouse 1** input enter **35000** and press the **ENTER** key.

For the **S-Corp Wages – Spouse 1** input enter **25000** and press the **ENTER** key. (Note: this is merely an example. By this example, Denver Tax Software, Inc. is not implying that C-Corp wages should be different than **S-Corp** wages.)

For the **C-Corp Wages – Spouse 2** input enter **15000** and press the **ENTER** key.

For the **S-Corp Wages – Spouse 2** input enter **5000** and press the **ENTER** key.

For the **Free C-Corp Fringes – Spouse 1** input enter **5000** and press the **ENTER** key.

For the **Free C-Corp Fringes – Spouse 2** input enter **3000** and press the **ENTER** key.

For the **Long-Term Capital Gain Base** input enter **-1400** and press the **ENTER** key.

For the **Short-Term Capital Gain Base** input enter **3400** and press the **ENTER** key.

For the **Section 1231 Base** input enter **-500** and press the **ENTER** key.

The screen should now look like this:

Click on the **Adjustments** tab.

For the **Adjustments To Income** input enter **2000** and press the **ENTER** key.

For the **Self-Employed Health Insurance Premiums** input enter **1000** and press the **ENTER** key.

The screen should now look like this:

Click on the **Deductions** tab.

For the **Medical Expenses** input enter **10000** and press the **ENTER** key.

For the **Itemized Misc. Expenses** input enter **7000** and press the **ENTER** key.

For the **Other Itemized Deductions** input enter **4000** and press the **ENTER** key.

The screen should now look like this:

To save the shareholder's information **click** on the **Save Data Now** button.

To exit this shareholder's input screen **click** on the **Exit Stockholder Inputs** button.

At this point, the Main Inputs screen (Stockholders tab) should look like this:

Click on the **Add Stockholder** button.

For the **Stockholder** input enter **George Doe** and press the **ENTER** key.

For the **Ownership Percent (50%=50%)** input enter **35** and press the **ENTER** key.
(The total ownership is now 95%. We will deal with changing the 35% to 40% later.)

For the **Filing Status** click on **Single** and press the **ENTER** key.

For the **Exemptions** input enter **1** and press the **ENTER** key.

The screen should now look like this:
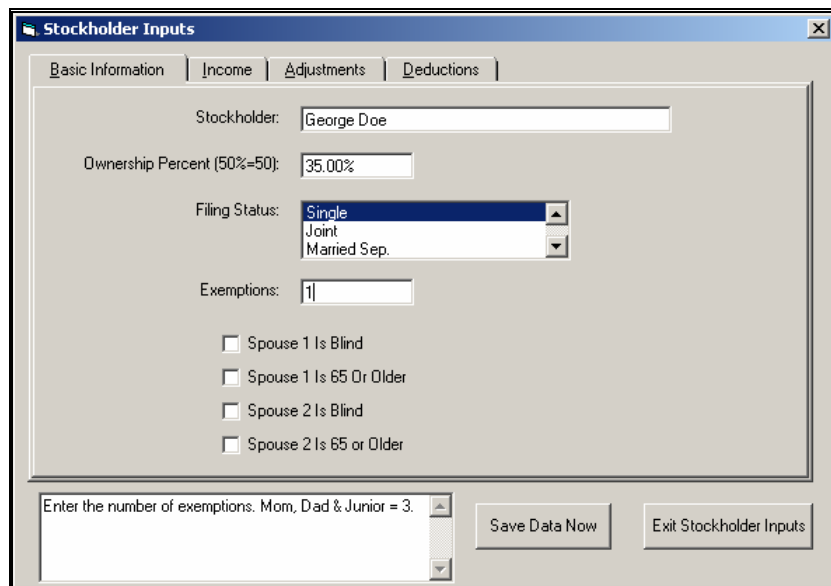
Click on the **Income** tab.

For the **Total Income Before S-Corp Items** input enter **40000** and press the
ENTER key.

For the **C-Corp Wages – Spouse 1** input enter **22000** and press the **ENTER** key.

For the **S-Corp Wages – Spouse 1** input enter **10000** and press the **ENTER** key. (Note: this is merely an example. By this example, Denver Tax Software, Inc. is not implying that C-Corp wages should be different than S-Corp wages.)

For the **Free C-Corp Fringes – Spouse 1** input enter **1600** and press the **ENTER** key.

For the **Long-Term Capital Gain Base** input enter **5000** and press the **ENTER** key.

For the **Short-Term Capital Gain Base** input enter **-1800** and press the **ENTER** key.

For the **Section 1231 Base** input enter **200** and press the **ENTER** key.

The screen should now look like this:

Click on the **Adjustments** tab.

For the **Adjustments To Income** input enter **4000** and press the **ENTER** key.

For the **Self-Employed Health Insurance Premiums** input enter **800** and press the **ENTER** key.

The screen should now look like this:

Click on the **Deductions** tab.

For the **Medical Expenses** input enter **8000** and press the **ENTER** key.

For the **Itemized Misc. Expenses** input enter **4000** and press the **ENTER** key.

For the **Other Itemized Deductions** input enter **12000** and press the **ENTER** key.

The screen should now look like this:

To save the shareholder's information **click** on the **Save Data Now** button.

To exit this shareholder's input screen **click** on the **Exit Stockholder Inputs** button.

The Main Inputs screen (Stockholders tab) should look like this:

Click on the **OK** button. This will save your data.

You should get a warning:

This warning will not stop the program from saving data or making computations. However, this situation should be dealt with before printing reports.

An Old Scenario Example

The Problem

For shareholder Jane and John Smith the number of exemptions needs to be changed to 2.

For shareholder George Doe the percentage ownership needs to be changed to 40%.

Increase Exemptions

Click on the **Inputs** menu choice.

Click on the **Stockholders** tab.

Click on **Jane and John Smith** in the Stockholders listbox.

The screen should look like this:
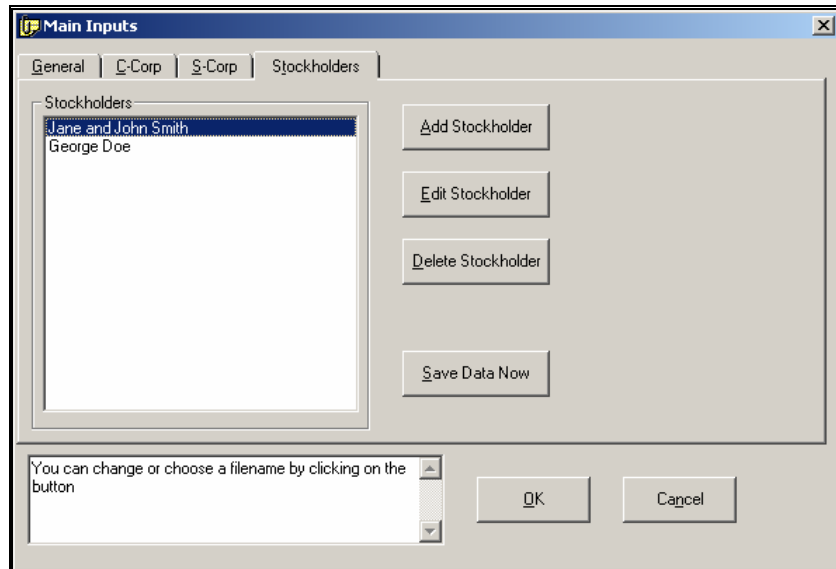
Click on the **Edit Stockholder** button.

For the **Exemptions** input enter **2** and press the **ENTER** key.

The screen should now look like this:
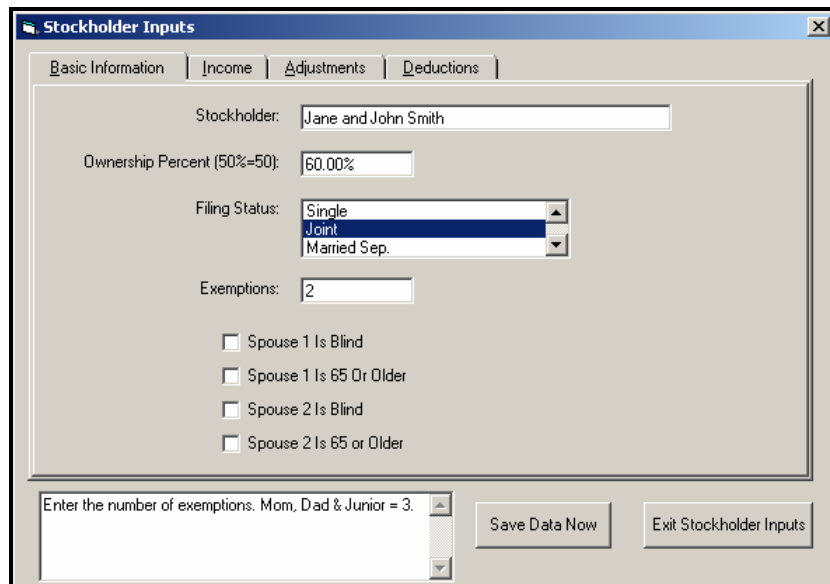
Click on the **Save Data Now** button followed by the **Exit Stockholder Inputs** button.

The Main Inputs screen should now look like this:
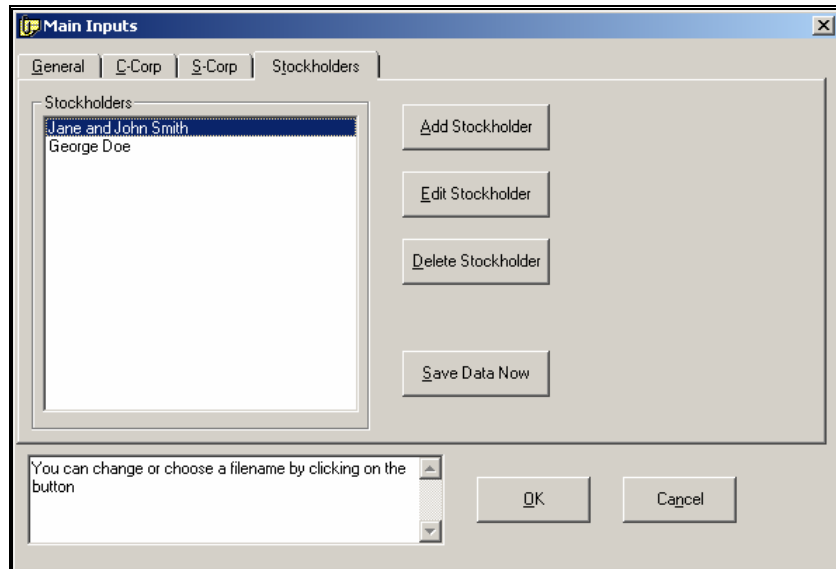
Click on **George Doe** in the Stockholders listbox.

Click on the **Edit Stockholder** button.

For the **Ownership Percent** input enter **40** and press the **ENTER** key.

The screen should now look like this:
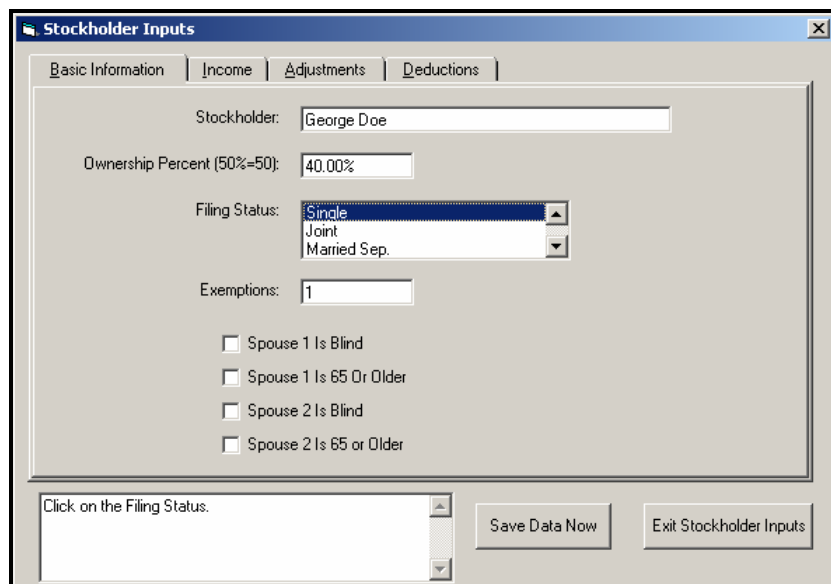
Click on the **Save Data Now** and **Exit Stockholder Inputs** buttons.

In the Main Inputs screen, **click** on the **OK** button to save everything and exit the inputs.

View Reports

Use the same data that you entered previously with this example.

To view the reports choose **View – Reports** from the menu.

You will see a Select Reports screen.
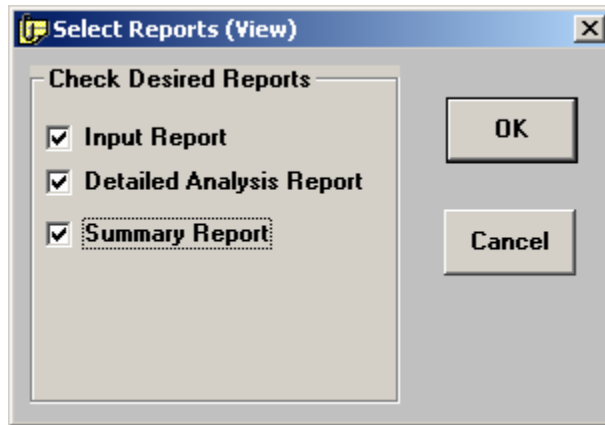
Check all three boxes and click on **OK**.

After viewing the reports, exit the program.

Input Sheet

Printed Copies Of The Input Sheets

The fastest way to get blank printed input sheets is to print them from the program's Help routine. **Click** the **Contents tab**. **Click** on the **Input Sheet** selection. **Click** on the input section that you are interested in. When you see the input sheet on the help screen, **click** on Help's **Print button**.

Main Screen - General Inputs

Company's Name: _____

Optional Second Line: _____

Main Screen - C-Corp Inputs

C-Corp Base Taxable Income: _____

Long-Term Capital Gains: _____

Short-Term Capital Gains: _____

Section 1231 Items: _____

Charitable Contributions: _____

Earnings & Profits: _____

C-Corp Dividends Paid: _____

Main Screen - S-Corp Inputs

Was Always An S-Corp? __

Was S-Corp Election Made Before 3/31/88? __

Built-In-Gains Unrealized At Beginning Of Year: _____

Built-In-Gains Recognized In Current Year: _____

Passive Investment Income Gross Receipts: _____

Expenses Related To Passive Investment Income: _____

Total Gross Receipts: _____

Stockholder Screen - General Inputs

Stockholder: _____

Ownership Percent (50%=50): _____

Filing Status: _____

Exemptions: ____

Spouse 1 is Blind? ___

Spouse 1 is 65 Or Older? ___

Spouse 2 is Blind? ___

Spouse 2 is 65 Or Older? ___

Stockholder Screen - Income Inputs

Total Income Before S-Corp Items: _____

C-Corp Wages – Spouse 1: _____

S-Corp Wages – Spouse 1: _____

C-Corp Wages – Spouse 2: _____

S-Corp Wages – Spouse 2: _____

Free C-Corp Fringes – Spouse 1: _____

Free C-Corp Fringes – Spouse 2: : _____

Long-Term Capital Gain Base: _____

Short-Term Capital Gain Base: _____

Section 1231 Base: _____

Stockholder Screen - Adjustments Inputs

Adjustments To Income: _____

Self-Employed Health Insurance Premiums: _____

Stockholder Screen - Deductions Inputs

Medical Expenses: _____

Itemized Misc. Expenses: _____

Other Itemized Deductions: _____

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