**8792. What special considerations apply in determining a shareholder’s basis in S corporation stock?**

The basis of each shareholder’s stock is *increased* by his share of items of separately stated income (including tax-exempt income), any nonseparately computed income, and by any excess of deductions for depletion over basis in property subject to depletion.[[1]](#footnote-1)

An S corporation shareholder may *not* increase tax basis due to excluded discharge of indebtedness income.[[2]](#footnote-2) The basis of each shareholder’s stock is *decreased* (not below zero) by the following:

(1) items of distributions from the corporation that are not includable in the income of the shareholder;

(2) separately stated loss and deductions and nonseparately computed loss;

(3) any expense of the corporation not deductible in computing taxable income and not properly chargeable to capital account; and

(4) any depletion deduction with respect to oil and gas property to the extent that the deduction does not exceed the shareholder’s proportionate share of the property’s adjusted basis.

For tax years beginning after 2005 and before 2014, if an S corporation made a charitable contribution of property, each shareholder’s basis was reduced by the pro rata share of basis in the property.[[3]](#footnote-3) If the aggregate of these amounts exceeds the basis in his stock, the excess reduced the shareholder’s basis in any indebtedness of the corporation to the shareholder.[[4]](#footnote-4) A shareholder may not take deductions and losses of the S corporation that, when aggregated, exceed the basis in S corporation stock plus his basis in any indebtedness of the corporation to the shareholder.[[5]](#footnote-5) Such disallowed deductions and losses may be carried over.[[6]](#footnote-6) In other words, the shareholder may not deduct in any tax year more than the shareholder has “at risk” in the corporation.

1. . IRC Sec. 1367(a)(1). [↑](#footnote-ref-1)
2. . IRC Sec. 108(d)(7)(A). [↑](#footnote-ref-2)
3. . IRC Sec. 1367(a)(2), as amended by TEAMTRA 2008 and ATRA. [↑](#footnote-ref-3)
4. . IRC. Sec. 1367(b)(2)(A). [↑](#footnote-ref-4)
5. . IRC Sec. 1366(d)(1). [↑](#footnote-ref-5)
6. . IRC Sec. 1366(d)(2). [↑](#footnote-ref-6)