



Department of Treasury  
Internal Revenue Service  
Ogden UT 84201-0038

<b>Notice</b>	CP261
<b>Notice date</b>	May 23, 2018
<b>Employer ID number</b>	99-9999999
<b>To contact us</b>	Phone 1-800-xxx-xxxx

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ABC COMPANY  
22 BOULDER STREET  
HANSON, CT 00000-7253

We've accepted your S Corporation election

## You will be treated as an S Corporation starting January 1, 2017

We've accepted your S Corporation election. Because you filed late, January 1, 2017 is the earliest date that you can be treated as an S Corporation.

As a result, your tax year will end in December, and you will be treated as an S Corporation starting January 1, 2017.

### What you need to do

#### If you agree that you filed late

You don't need to take any action.

Review this notice to understand some of your obligations and responsibilities as an S corporation.

#### If you think you filed on time

Send us a copy of your Form 2553, Election by a Small Business Corporation, with the IRS return received stamp, your Notice of Acceptance, or a certified mail receipt.

Continued on back...



ABC Company  
22 Boulder Street  
Hanson, CT 00000-7253

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## Contact information

If your address has changed, please call 1-800-xxx-xxxx or visit [www.irs.gov](http://www.irs.gov).

- Please check here if you've included any correspondence. Write your Employer ID number [99-9999999], the tax period [mm/dd/yyyy], and the form number [9999] on any correspondence.

INTERNAL REVENUE SERVICE  
CINCINNATI, OH 45999-0039

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**What you need to do —continued**

**If you did not file on time or can't prove you filed on time**

Relief may be available. Visit [http://www.irs.gov/irb/2013-36\\_IRB/ar12.html](http://www.irs.gov/irb/2013-36_IRB/ar12.html) to review Revenue Procedure 2013-30 to see qualifying criteria.

If you qualify for relief, mail the following documentation to us:

1. A completed and signed Form 2553, Election by a Small Business Corporation, with the words "Filed pursuant to Revenue Procedure 2013-30" written across the top of the Form. An authorized member and all members/shareholders must sign form 2553.
2. A statement explaining why you weren't able to file Form 8832, Entity Classification Election and/or Form 2553 by the original due date of the election.
3. Statements from all shareholders or former shareholders who owned stock between the date the election was to have become effective and the date the completed election was filed, that they have reported their income (on all affected returns) consistent with the S Corporation election for the year the election should've been made and for all subsequent years.

If you determine you do not qualify for relief under the reference above, you may apply for a Private Letter Ruling (PLR). For more information, see IRB 2018-1 or its successor.

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**Keep in mind**

**Payments to shareholder-employees for services rendered:**

- You must determine a reasonable salary when a shareholder-employee of an S corporation provides services to the corporation.
- Payments to a shareholder-employee for services provided to an S corporation are wages and are subject to employment taxes.
- We may re-characterize distributions paid to a shareholder as salary if the distribution was paid in lieu of reasonable compensation (Revenue Ruling 74-44).

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**Keep in mind—continued**

You should inform shareholders of their need to track stock and debt basis. A shareholder is responsible for calculating their stock and debt basis in the corporation. Please remind the shareholder of this requirement.

It is important for shareholders to know their stock and debt basis when the S corporation:

- allocates a loss and/or deduction item to the shareholder.
  - In order for a shareholder to claim this loss or deduction, they need to demonstrate that they have adequate stock and/or debt basis.
- makes a non-dividend distribution to the shareholder.
  - In order for a shareholder to determine if the distribution is non-taxable, they need to demonstrate that they have adequate stock basis.
- repays a reduced basis loan to the shareholder.
  - In order for a shareholder to determine if there is a gain on loan repayment, the shareholder must know their debt basis.

**OR**

- When the shareholder disposes of their S corporation stock.
  - A shareholder must know their stock basis in order to determine the gain or loss upon the disposition of their stock.

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**Additional information**

- Visit [www.irs.gov/cp261](http://www.irs.gov/cp261).
- For more information, see Form(s) 1120S, 2553, and Schedule K-1, and their instructions.
- For tax forms, instructions and publications, visit [www.irs.gov](http://www.irs.gov) or call 1-800-TAX-FORM (1-800-829-3676)
- Keep this notice for you records.

If you need assistance, please don't hesitate to contact us.