



## Eligibility Requirements for S Election

A corporation is allowed to make an S election only if, with respect to that corporation, all of the following questions can be answered affirmatively:

1. Does the corporation meet the federal income tax definition of a corporation?
2. Is the corporation organized in the U.S. or under the laws of the U.S. or any state or territory?
3. Does the corporation avoid classification as *any* of the following:
  - a domestic international sales corporation (DISC) or former DISC;
  - a corporation which has a possessions tax credit election in effect;
  - a bank or a domestic building and loan association which uses the reserve method of accounting for bad debts; or
  - an insurance company?
4. Does the corporation have *no more than* 100 shareholders (75 shareholders for tax years beginning after 1996 and before 2005) counting family members as one shareholder?
5. Are all shareholders; individuals (none of whom are nonresident aliens), estates, pension plans, charitable organizations or certain kinds of trusts?
6. Does the corporation have only one class of stock, taking into account that so-called "debt" may sometimes be reclassified as a second class of stock, and that non pro rata distributions may sometimes create a second class of stock?
7. Is the corporation's taxable year, or does the corporation intend to adopt, one of the following:
  - a calendar year;
  - a year for which the corporation establishes a business purpose;
  - a "grandfathered" fiscal year;
  - a 52/53 week year ending with reference to the last day of December; or
  - an elective non-permitted fiscal year with respect to which a corporation makes required payments?