

Is There Anything Special to Consider When Transferring an S Corporation Interest?

So when someone wants to transfer an S corporation interest as part of estate planning, only certain types of entities can be S corporation owners, otherwise the election itself is voided. So when you transfer an interest to a trust, that trust may or may not qualify.

If you die with that interest and the estate picks up the interest, there's a certain period of time you actually have to correct that ineligibility of that shareholder, so really proper planning is required so not to avoid that S election.

The problem with voiding an S election is that it becomes a C corporation, which could have double taxation, taxation at the entity level and then taxation again at the individual level, so that's something you want to avoid, and so planning is going to help get around that problem.

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