



Dear S Corp Client:

The IRS has released new forms, K-2 (14 pages) & K-3 (20 pages). Form K-2 is attached to the entity’s tax return and Form K-3 is attached to the K-1 given to you to prepare your individual tax return. These 2 new forms relate to foreign activity and are meaningful if the S Corporation conducts foreign activity other than receiving passive foreign dividends on which foreign taxes are withheld. These forms add lots of bulk to the K-1, which is already several pages long. And there are penalties for not filing the forms. See [Schedules K-2 and K-3 Frequently Asked Questions \(Forms 1065, 1120S, and 8865\) | Internal Revenue Service \(irs.gov\)](#) for more details.

The IRS has allowed for an exception to filing Forms K-2 & K-3. The 3 exceptions, all of which must be met, are:

- 1) **No or Limited Foreign Activity** – If the entity has no active foreign operations or if the S Corp (not you as an individual) owns passive foreign stocks and these stocks pay dividends on which there has been foreign tax withholding of \$300 or less, you meet this requirement.
 - a. An example of foreign passive stock ownership would be if your S Corporation owned 1,000 shares of British Petroleum (BP) and received a dividend of \$2,000, on which the UK government withheld \$290 of UK taxes. It would be exempt since it’s less than \$300.
- 2) **Shareholder Notification** – If the shareholders receive notification that they will not receive K-3s and they do not request that Form K-3 be sent to them, you meet the 2nd exception.
- 3) **No K-3 Request by 1 Month Before the Due Date of the Return** – K-1 recipients have until 1 month before the due date of the return to request Form K-3.
- 4) **A request for Form K-3 will result in additional fees to the entity!**

Accordingly, you acknowledge the following:

Entity Name:

- 1) We have no or Limited Foreign Activity.
- 2) We have notified all Shareholders that Forms K-3 will not be distributed.
- 3) Shareholders have been notified that they have a right to ask for Form K-3 to be issued and none have asked for the form.

Signature

Date

Printed Name

Title