

Tax Insights | May 4, 2022  
**Tracking Tax News,  
You Need to Know**



### Management Fees Paid To Corporate Shareholders Denied Deduction

The Eighth Circuit Court of Appeals [held](#) that management fees paid to corporate shareholders are nondeductible as they are not ordinary and necessary; fees paid to employee-shareholder are deemed not reasonable nor paid for services. Taxpayer, a C corporation, paid each of its three shareholder management fees set by Taxpayer's board of directors, for which it took a deduction. The first shareholder was Taxpayer's president and was responsible for day-to-day operations. The second shareholder was a holding company with no employees, the owner of which provided Taxpayer help in making its bids on certain projects. The third shareholder was another C corporation whose owner provided Taxpayer advice on business matters. The IRS disallowed the management fee deductions. The Tax Court upheld the denial as the fees were not paid as compensation for services, but were instead disguised distributions of corporate earnings.

### PFIC Aggregate Approach Comments Submitted

Public [comments](#) have been posted on REG-118250-20 (see our prior coverage [here](#)) that would provide guidance on the treatment of domestic partnerships and S corporations that own stock of passive foreign investment companies (PFICs) and their domestic partners and shareholders. The proposed regulations also provide guidance regarding the determination of the controlling domestic shareholders of foreign corporations, the owner of a controlled foreign corporation or qualified electing fund that makes an election under Section 1411, the treatment of S corporations with accumulated earnings and profits under subpart F and the determination and inclusion of related person insurance income under Section 953(c). (Section references are to the Internal Revenue Code of 1986, as amended.)

### New Jersey Discusses Combined Group Filing Methods for Corporate Income Tax

The New Jersey Division of Taxation has updated its [bulletin](#) that discusses combined reporting for state corporate income tax purposes. For New Jersey purposes, a combined group will use the water's-edge group filing method as the default filing method. However, the managerial member of the combined group may elect to make a worldwide election. As an alternative, there is an option to file the New Jersey combined return as an "affiliated group" as defined by the statute. The bulletin discusses allocation methods for combined returns, the water's-edge group, elective combined returns on a worldwide group basis or affiliated-group basis and elections made on the 2019 CBT-100U and elections made on the 2020 CBT-100U.



[Christopher C. Scarpa](#)

215.564.8106 | [cscarpa@stradley.com](mailto:cscarpa@stradley.com)



[Jin Park](#)

212.812.4140 | [jpark@stradley.com](mailto:jpark@stradley.com)