Scenario: Cousin Vinnie is a shareholder and an employee in the family business. The directors have no intention of declaring a dividend and putting cash into the pockets of such a questionable person and causing the other shareholders to have a taxable event. Instead, because of pressure from cousin Vinnie's mother to give her son something (or there is no telling what her husband, Mr. Soprano, will do to them), the directors come up with a plan they think will circumvent any tax issues or effects on E and P.

The directors tell Vinnie they will forgive his company loan (though he never intended to pay it back anyway), pay off his gambling debt to the family, allow him to use the company apartment as his own personal residence, and give him the company Cadillac SUV that still has an outstanding GMAC loan on it.

First question: What is E and P? How is it determined?

Second question: the tax effect on Vinnie,

* The tax effect on the corporation, or the effect on the company’s E and P that item will have.