

Date 4 =

Date 5 =

Dear

This letter responds to a letter dated December 17, 2007, submitted on behalf of X2 by its authorized representative, requesting relief under ' 1362(f) of the Internal Revenue Code.

A, the president of X2 represents that Y elected to be an S corporation effective Date 1. Trust1, Trust2, and Trust3 became shareholders of Y in Year and elected to be treated as qualified subchapter S trusts (QSSTs) of Y. On Date 2, A formed Z which elected to be an S corporation effective Date 2. On Date 3, X1 was formed and an election was filed for X1 to be treated as an S corporation. An election was also made to treat Y as qualified subchapter S subsidiary (QSub) of X1. On Date 4, A contributed the stock of Z to X1, and an election was made to treat Z as a QSub of X1. On Date 5, X1 converted to X2 by operation of the law of State.

The S corporation election made for X1 may have been invalid due to an ineligible shareholder. Additionally, the QSub election made to treat Z as a QSub of X1, and then of X2, may have been invalid or may have terminated on Date 5. A represents that if there was a termination or an invalid election, the termination or invalid election was not motivated by tax avoidance or retroactive tax planning. X2 and its shareholders have agreed to make any adjustments that the Commissioner may require, consistent with the treatment of X1 as an S corporation from Date 3 to Date 5, with X2 as an S corporation from Date 5 to the present and with the treatment of Z as a QSub of X1 from Date 4 to Date 5 and a Qsub of X2 from Date 5 and thereafter.

Section 1362(f) provides that if (1) an election under ' 1362(a) by any corporation (A) was not effective for the taxable year for which made (determined without regard to ' 1362(b)(2)) by reason of a failure to meet the requirements of ' 1361(b) or to obtain shareholder consents or (B) was terminated under ' 1362(d)(2) or (3), (2) the Secretary determines that the circumstances resulting in the ineffectiveness or termination were inadvertent, (3) no later than a reasonable period of time after discovery of the circumstances resulting in the ineffectiveness or termination, steps were taken (A) so that the corporation is a small business corporation or (B) to acquire the shareholder consents; and (4) the corporation and each person who was a shareholder of the corporation at any time during the period specified pursuant to ' 1362(f), agrees to make such adjustments (consistent with the treatment of the corporation as an S corporation) as may be required by the Secretary with respect to such period, then, notwithstanding the circumstances resulting in the ineffectiveness or termination, the corporation will be treated as an S corporation during the period specified by the Secretary.

Based solely on the facts submitted, we conclude that if there was an invalid or missed S corporation, QSub election, or QSST election, that such failure was inadvertent. We further hold that, pursuant to the provisions of § 1362(f), X1 will be treated as an S corporation from Date 3 to Date 5, X2 will be treated as an S corporation from Date 5 and thereafter, Z will be treated as a QSub of X1 from Date 4 to Date 5 and a QSub of X2 from Date 5 and thereafter.

The shareholders of X2 must include their pro-rata share of the separately stated and nonseparately computed items of X1 and X2 as provided in § 1366, make any adjustments to basis as provided in § 1367, and take into account any distributions made by X1 and X2 as provided in § 1368. If X1, X2, Z, or X2's shareholders fail to treat themselves as described above, this ruling is null and void.

Except as specifically ruled above, we express no opinion concerning the federal tax consequences of the transactions described above under any other provisions of the Code. In particular, we express no opinion on whether Trust1, Trust2, or Trust3 is a QSST within the meaning of § 1361(d)(3).

This ruling is directed only to the taxpayer that requested it. Section 6110(j)(3) provides that it may not be used or cited as precedent.

Pursuant to a power of attorney on file, a copy of this letter is being sent to X2's authorized representative.

Sincerely,

J. Thomas Hines
Chief, Branch 2
Associate Chief Counsel
(Passthroughs & Special Industries)

Enclosures: 2
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