

Internal Revenue Service

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Department of the Treasury

Washington, DC 20224

Third Party Communication: None

Date of Communication: Not Applicable

Person To Contact:

, ID No.

Telephone Number:

Refer Reply To:

CC:PT&E:B03

PLR-114682-24

Date:

February 14, 2025

LEGEND

X =

A =

B =

Trust =

Date 1 =

Date 2 =

Date 3 =

Date 4 =

Date 5 =

State =

Dear _____ :

This responds to a letter dated July 25, 2024 and subsequent communications, submitted on behalf of X by X's authorized representative, requesting relief under section 1362(f) of the Internal Revenue Code.

FACTS

X was incorporated under the laws of State on Date 1. On Date 2, X elected to be treated as an S corporation. On Date 3, X's owners, spouses A and B, transferred their stock in X to Trust. Trust was a grantor trust of A and B.

On Date 4, A died and Trust became a non-grantor trust.

X represents Trust was eligible to make an Electing Small Business Trust (ESBT) election under § 1361(e)(3) effective Date 4. However, Trust's trustee(s) failed to timely make such election. The failure to make an ESBT election caused Trust to become an ineligible shareholder of X, which caused X's S election to terminate on Date 5.

X represents it filed income tax returns consistent with having an S election for all relevant tax periods. X represents that Trust has always met the requirements of an ESBT within the meaning of § 1361(e), except that its trustees did not make a timely ESBT election under § 1361(e)(3). It is represented that the failure to file an ESBT election was inadvertent and not motivated by tax avoidance or retroactive tax planning. X and each of its shareholders agree to make any adjustments required by the Secretary as a condition of obtaining relief under the inadvertent termination rule as provided under § 1362(f).

LAW AND ANALYSIS

Section 1361(a)(1) provides that the term "S corporation" means, with respect to any taxable year, a small business corporation for which an election under § 1362(a) is in effect for such year.

Section 1361(b)(1) defines a "small business corporation" as a domestic corporation which is not an ineligible corporation and which does not (A) have more than 100 shareholders, (B) have as a shareholder a person (other than an estate, a trust described in § 1361(c)(2), or an organization described in § 1361(c)(6)) who is not an individual, (C) have a nonresident alien as a shareholder, and (D) have more than 1 class of stock.

Section 1361(c)(2)(A)(i) provides that, for purposes of § 1361(b)(1)(B), a trust all of which is treated (under subpart E of part I of subchapter J of Chapter 1 of the Code) as owned by an individual who is a citizen or resident of the United States may be a shareholder of an S corporation.

Section 1361(c)(2)(A)(ii) provides that, for purposes of § 1361(b)(1)(b), a trust described in section 1361(c)(2)(A)(i) immediately before the death of the deemed owner and which continues in existence after such death, but only for the 2-year period beginning on the day of the deemed owner's death, may be a shareholder of an S corporation.

Section 1361(c)(2)(A)(v) provides that, for purposes of § 1361(b)(1)(B), an electing small business trust (ESBT) may be an S corporation shareholder.

Section 1361(e)(1)(A) provides that an ESBT means any trust if (i) such trust does not have as a beneficiary any person other than (I) an individual, (II) an estate, (III) an organization described in § 170(c)(2), (3), (4), or (5), or (IV) an organization described in § 170(c)(1) which holds a contingent interest in such trust and is not a potential current beneficiary, (ii) no interest in such trust was acquired by purchase, and (iii) an election under § 1361(e) applies to such trust.

Section 1361(e)(3) provides that an election under § 1361(e) shall be made by the trustee. Any such election shall apply to the taxable year of the trust for which made and all subsequent taxable years of such trust unless revoked with the consent of the Secretary.

Section 1.1361-1(m)(2)(iii) provides that the trustee of an ESBT must file the ESBT election within the time requirements prescribed in § 1.1361-1(j)(6)(iii) for filing a QSST election (generally within the 16-day-and-2-month period beginning on the day that the stock is transferred to the trust).

Section 1362(a) provides that a small business corporation may elect to be an S corporation.

Section 1362(d)(2) provides that an S corporation election will be terminated whenever (at any time on or after the first day of the first taxable year for which the corporation is an S corporation) such corporation ceases to be a small business corporation.

Section 1362(f) provides, in relevant part, that if (1) an election under § 1362(a) by any corporation 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 was terminated under § 1362(d)(2) or (3); (2) the Secretary determines that the circumstances resulting in such ineffectiveness or termination were inadvertent; (3) no later than a reasonable period of time after discovery of the circumstances resulting in such ineffectiveness or termination, steps were taken so that the corporation for which the election was made or termination occurred is a small business corporation; and (4) the corporation for which the election was made or termination occurred, and each person who was a shareholder in such corporation at any time during the period

specified pursuant to § 1362(f), agrees to make the adjustments (consistent with the treatment of such corporation as an S corporation) as may be required by the Secretary with respect to such period, then, notwithstanding the circumstances resulting in such ineffectiveness or termination, such corporation shall be treated as an S corporation during the period specified by the Secretary.

CONCLUSION

Based solely on the facts submitted and representations made, we conclude that X's S corporation election terminated on Date 5 because Trust's trustee(s) failed to timely make an ESBT election under § 1361(e)(3). However, the termination of X's S corporation election was inadvertent within the meaning of § 1362(f). Accordingly, X shall be treated as an S corporation from Date 5 and thereafter, provided its S corporation election is not otherwise terminated under § 1362(d).

This letter ruling is subject to the conditions that within 120 days from the date of this letter (1) Trust's trustee(s) file an ESBT election with respect to Trust effective Date 5, with the appropriate service center and (2) X and Trust file all required returns and information returns (including amended returns) for all open years consistent with the requested relief granted in this letter. A copy of this letter should be attached to the ESBT election and any original or amended returns.

If the above conditions are not met, then this ruling is null and void. Further, if these conditions are not met, X must notify the service center with which it filed its S corporation election that its election terminated on Date 5.

Except as specifically ruled above, we express or imply no opinion concerning the federal tax consequences of the facts described above under any other provision of the Code and the regulations thereunder, including whether X was otherwise a valid S corporation or whether Trust is a valid ESBT within the meaning of § 1361(e)(3).

The ruling contained in this letter is based on information and representations submitted by the taxpayer and accompanied by a penalty of perjury statement executed by an appropriate party. While this office has not verified any of the material submitted in support of the ruling request, it is subject to verification on examination.

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

In accordance with a power of attorney on file with this office, we are sending a copy of this letter to your authorized representative.

Sincerely,

Richard T. Probst
Senior Technician Reviewer, Branch 3
Office of the Associate Chief Counsel
(Partnerships, Trusts, and Estates)

Enclosures
Copy for § 6110 purposes

Cc: