

Internal Revenue Service

Department of the Treasury

Washington, DC 20224

Number: **202539009**

Release Date: 9/26/2025

Index Number: 1362.04-00, 1361.03-00

Third Party Communication: None

Date of Communication: Not Applicable

Person To Contact:

, ID No.

Telephone Number:

Refer Reply To:

CC:PT&E:B01

PLR-105309-25

Date:

June 27, 2025

In Re: Private Letter Ruling Request

LEGEND

X =

Trust 1 =

Trust 2 =

Trust 3 =

State =

Date 1 =

Date 2 =

Date 3 =

Date 4 =

Dear :

This letter responds to a letter dated February 25, 2025 submitted on behalf of X by its authorized representatives, requesting relief under § 1362(f) of the Internal Revenue Code (Code).

FACTS

According to the information submitted and representations within, X was incorporated under the laws of State on Date 1 and filed an election under § 1362(a) of the Code to be treated as an S corporation effective Date 2. Trust 1 and Trust 2, which are both Electing Small Business Trusts (ESBTs) as defined in § 1361(e)(1), hold shares of voting stock in X. Trust 1 and Trust 2 are permissible S corporation shareholders under § 1361(c)(2)(A)(v).

On Date 3, the trustees of Trust 1 and Trust 2 transferred their shares of X to Trust 3. Trust 3 was intended to be a qualified voting trust governed pursuant to a Voting Trust Agreement and a permissible S corporation shareholder under § 1361(c)(2)(A)(iv). However, Trust 3 was an ineligible shareholder. As a result, X's S corporation election terminated on Date 3.

X was made aware of the termination of its S corporation status in connection with a review of the Voting Trust Agreement of Trust 3. As a result, on Date 4, the trustees modified the Voting Trust Agreement of Trust 3 to cause Trust 3 to be an eligible S corporation shareholder pursuant to § 1361(c)(2)(A)(iv).

X represents that X and its shareholders intended for X to be an S corporation effective Date 2 and that X and Trust 1, Trust 2, and Trust 3 have filed tax returns consistent with X's status as an S corporation since Date 2 and Trust 1, Trust 2, and Trust 3 have filed all returns consistent with their status as eligible S corporation shareholders since Date 3. X further represents that the circumstances resulting in the termination of its S corporation election were inadvertent and were not motivated by tax avoidance or retroactive tax planning. X and its shareholders agree to make any adjustments required as a condition of obtaining relief for the termination of X's election as provided under § 1362(f) of the Code that may be required by the Secretary.

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) provides that the term "small business corporation" means 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 one 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.

Section 1361(c)(2)(A)(iv) of the Code provides that a trust created primarily to exercise the voting power of stock transferred to it is a permitted S corporation shareholder. Section 1361(c)(2)(B)(iv) provides that in the case of a trust described in § 1361(c)(2)(A)(iv), each beneficiary of the trust shall be treated as a shareholder.

Section 1361(c)(2)(A)(v) provides that for purposes of § 1361(b)(1)(B), an ESBT is a permissible shareholder.

Section 1.1361-1(h)(1)(v) of the Income Tax Regulations provides that a voting trust is a permitted S corporation shareholder (a "qualified voting trust") if the trust (i) was created primarily to exercise the voting power of the property transferred to it, (ii) the beneficial owners are treated as the owners of their respective portions of the trust under Subpart E (i.e., it is a wholly-grantor trust), and (iii) was created pursuant to a written trust agreement entered into by the shareholders that (A) delegates to one or more trustees the right to vote, (B) requires all distributions with respect to the stock of the corporation held by the trust to be paid to, or on behalf of, the beneficial owners of that stock, (C) requires title and possession of that stock to be delivered to those beneficial owners upon the termination of the trust, and (D) terminates, under its terms or by state law, on or before a specific date or event.

Section 1362(d)(2)(A) provides that an election under § 1362(a) shall 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(d)(2)(B) provides that any termination under § 1362(d)(2)(A) is effective on and after the date of cessation.

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 to obtain shareholder consents or was terminated under § 1362(d)(2), (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 the termination occurred is a small business corporation or to acquire the required shareholder consents, and (4) the corporation for which the election was made or the 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 information submitted and the representations made, we conclude that X's S corporation election terminated on Date 3, when Trust 1 and Trust 2 transferred shares of X to Trust 3, an ineligible shareholder. We conclude that the circumstances resulting in the termination of X's S corporation election were inadvertent within the meaning of § 1362(f). Accordingly, pursuant to the provisions of § 1362(f), X will be treated as an S corporation from Date 3 and thereafter, provided X's S corporation election is otherwise effective and not terminated under § 1362(d). Furthermore, Trust 3 will be treated as a qualified voting trust from Date 3 and thereafter.

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. Specifically, we express or imply no opinion regarding whether X is otherwise eligible to be an S corporation or whether Trust 3 is otherwise eligible to be a qualified voting trust.

The ruling contained in this letter is based upon 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 upon examination.

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

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

Sincerely,

/s/ Laura C Fields
Laura Fields
Chief, Branch 1
Office of Associate Chief Counsel
(Passthroughs, Trusts, and Estates)

Enclosure

Copy for § 6110 purpose

PLR-105309-25

5

cc: