

Internal Revenue Service

Number: **202550017**

Release Date: 12/12/2025

Index Number: 1361.00-00, 1361.03-00,
1361.03-01, 1361.03-02,
1362.00-00, 1362.04-00

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:PTE:B3

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Date:

July 17, 2025

Legend

X =

A =

Trust 1 =

Trust 2 =

Trust 3 =

Trust 4 =

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Trust 5 =

Trust 6 =

Trust 7 =

State =

Date 1 =

Date 2 =

Date 3 =

Date 4 =

Date 5 =

Date 6 =

Dear :

This letter is in response to your letter dated January 15, 2025, and subsequent correspondence, submitted on behalf of X by its authorized representatives, requesting a ruling under § 1362(f) of the Internal Revenue Code (Code).

Facts

The information submitted states that X was incorporated under the laws of State on Date 1 and elected to be an S corporation effective Date 1.

On Date 2, A transferred shares of X to Trust 1. Pursuant to the terms of Trust 1, on Date 3, Trust 2, Trust 3, Trust 4, Trust 5, Trust 6, and Trust 7 were established as subtrusts of Trust 1 and the shares of X held by Trust 1 were divided among Trust 2, Trust 3, Trust 4, Trust 5, Trust 6, and Trust 7. X represents that Trust 1, Trust 2, Trust 3, Trust 4, Trust 5, Trust 6, and Trust 7 were treated under subpart E of part I of

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subchapter J of chapter 1 as entirely owned by A, and, thus, permissible shareholders under § 1361(c)(2)(A)(i).

On Date 4, A died. For a 2-year period beginning on Date 2, Trust 2, Trust 3, Trust 4, Trust 5, Trust 6, and Trust 7 were eligible S corporation shareholders under § 1361(c)(2)(A)(iii). X represents that Trust 2, Trust 3, Trust 4, Trust 5, Trust 6 and Trust 7 were eligible to and intended to be qualified subchapter S trusts (QSSTs) under § 1361(d) effective Date 5. However, the income beneficiary of Trust 2, Trust 3, Trust 4, Trust 5, Trust 6 and Trust 7 failed to make an election under § 1361(d)(2) to treat each of Trust 2, Trust 3, Trust 4, Trust 5, Trust 6 and Trust 7, respectively, as a QSST effective Date 5. Consequently, X's S corporation election terminated on Date 6.

X represent that the failure to file QSST elections was inadvertent and not motivated by tax avoidance or retroactive tax planning. Additionally, X and its shareholders (including the beneficiaries of Trust 2, Trust 3, Trust 4, Trust 5, Trust 6, and Trust 7) have filed federal income tax returns consistent with X being treated as an S corporation and Trust 2, Trust 3, Trust 4, Trust 5, Trust 6, and Trust 7 being treated as QSSTs, effective Date 5. Finally, X and its shareholders (including Trust 2, Trust 3, Trust 4, Trust 5, Trust 6, and Trust 7) agree to make any adjustments required as a condition of obtaining relief 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)(B) provides that the term "small business corporation" means a domestic corporation that is not an ineligible corporation and which does not, among other requirements, 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.

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) as owned by an individual who is a citizen or resident of the United States may be an S corporation shareholder.

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

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Section 1361(d)(1) provides that, in the case of a QSST with respect to which a beneficiary makes an election under § 1361(d)(2) – (A) such trust shall be treated as a trust described in § 1361(c)(2)(A)(i), (B) for purposes of § 678(a), the beneficiary of such trust shall be treated as the owner of that portion of the trust which consists of stock in an S corporation with respect to which the election under § 1361(d)(2) is made, and (C) for purposes of applying §§ 465 and 469 to the beneficiary of the trust, the disposition of the S corporation stock by the trust shall be treated as a disposition by such beneficiary.

Section 1361(d)(2) provides that a beneficiary of a QSST (or his legal representative) may elect to have § 1361(d) apply.

Section 1361(d)(3) provides that, for purposes of § 1361, the term “qualified subchapter S trust” means a trust – (A) the terms of which require that (i) during the life of the current income beneficiary, there shall be only one income beneficiary of the trust, (ii) any corpus distributed during the life of the current income beneficiary may be distributed only to such beneficiary, (iii) the income interest of the current income beneficiary in the trust shall terminate on the earlier of such beneficiary's death or the termination of the trust, and (iv) upon the termination of the trust during the life of the current income beneficiary, the trust shall distribute all of its assets to such beneficiary, and (B) all of the income (within the meaning of § 643(b)) of which is distributed (or required to be distributed) currently to one individual who is a citizen or resident of the United States. A substantially separate and independent share of a trust within the meaning of § 663(c) shall be treated as a separate trust for purposes of § 1361(d) and (c).

Section 1.1361-1(j)(6)(i) provides, in part, that a QSST election must be made separately with respect to each corporation whose stock is held by the trust.

Section 1.1361-1(j)(6)(ii) provides that the current income beneficiary of a QSST must make the election by signing and filing with the service center for which the S corporation files its income tax return, the applicable form or a statement that includes the information listed in § 1.1361-1(j)(6)(ii).

Section 1.1361-1(j)(6)(iii) provides, in part, that a QSST election must be filed within the time requirements of § 1.1361-1(j)(6)(iii)(A) through (D).

Section 1362(a) provides that, except as provided in § 1362(g), a small business corporation may elect, in accordance with the provisions of § 1362, to be an S corporation.

Section 1362(d)(2)(A) provides that an election under § 1362(a) is 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

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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 part, 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 § 1361(b)(2)) by reason of failure to meet the requirements of § 1361(b), or (B) 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, and (4) the corporation for which the election was made or the termination occurred, and each person who was a shareholder of the corporation at any time during the period specified pursuant to § 1362(f), agree to make the 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 such ineffectiveness or termination, the corporation shall be treated as an S corporation during the period specified by the Secretary.

Conclusion

Based solely on the facts submitted and the representations made, we conclude that X's S corporation election terminated on Date 6 when Trust 2, Trust 3, Trust 4, Trust 5, Trust 6, and Trust 7 became ineligible shareholders under § 1361(b)(1)(B). We further conclude that the circumstances resulting in the termination of X's S corporation election were inadvertent within the meaning of § 1362(f). Accordingly, X will be treated as an S corporation from Date 5 and thereafter, provided that X's S corporation election was valid and has not otherwise terminated under § 1361(d).

This ruling is conditioned on the income beneficiary of Trust 2, Trust 3, Trust 4, Trust 5, Trust 6, and Trust 7 filing a QSST election for Trust 2, Trust 3, Trust 4, Trust 5, Trust 6, and Trust 7, respectively, effective Date 5. The elections must be made with the appropriate service center within 120 days from the date of this letter and a copy of this letter should be attached to each QSST election.

Except as expressly provided herein, we express or imply no opinion concerning the tax consequences of any aspect of any transaction or item discussed or referenced in this letter. Specifically, we express or imply no opinion regarding X's eligibility to be an S corporation, or the eligibility to each of Trust 2, Trust 3, Trust 4, Trust 5, Trust 6, and Trust 7 to be a QSST.

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

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by an appropriate party. While this office has not verified any of the material submitted in support of the requested ruling, 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 they 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 X's authorized representatives.

Sincerely,

Robert D. Alinsky
Branch Chief, Branch 3
Office of the Associate Chief Counsel
(Partnerships, Trusts, and Estates)

Enclosure:

Copy of this letter for § 6110 purposes

cc:

