

Internal Revenue Service

Department of the Treasury
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Person To Contact:
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Telephone Number:

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TY:

Legend

Taxpayer =
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FC =

Country A =

Year 1 =

Year 2 =

Year 3 =

Year 4 =

Tax Professional 1 =

Tax Professional 2 =

Tax Professional 3 =

Dear :

This is in response to a letter dated July 14, 2010 submitted by Taxpayer's authorized representative that requested the consent of the Commissioner of the Internal Revenue Service ("Commissioner") for Taxpayer to make a retroactive qualified electing fund ("QEF") election under section 1295(b) of the Internal Revenue Code ("Code") and Treas. Reg. §1.1295-3(f) with respect to Taxpayer's investment in FC.

The ruling contained in this letter is based upon information and representations submitted on behalf of Taxpayer by his authorized representative, and accompanied by a penalties of perjury statement executed by an appropriate party. While this office has not verified any of the material submitted in support of this request for ruling, such material is subject to verification on examination. The information submitted in the request is substantially as set forth below.

FACTS

Taxpayer holds stock in FC, a Country A corporation that is a passive foreign investment company ("PFIC").

When FC was formed in Year 1, Taxpayer employed Tax Professional 1, a CPA, to provide him with tax advice and provide accurate preparation of tax returns. In Year 2, FC became a PFIC. However, Tax Professional 1 failed to identify FC as a PFIC and, therefore, also failed to advise Taxpayer of the availability of a QEF election with respect to Taxpayer's investment in FC.

Since Year 3, Taxpayer relied on Tax Professional 2 for tax advice as well as the accurate preparation of tax returns. Tax Professional 2 became aware of the investment in FC during the preparation of the Year 3 tax returns. However, Tax Professional 2 also failed to ascertain the nature of the investment as well as the classification of FC as a foreign entity. Consequently, Tax Professional 2 failed to advise Taxpayer of the availability of making a QEF election for FC for the tax year ended in Year 3 and subsequent tax years.

In Year 4, Tax Professional 2 discovered that FC might constitute a PFIC and advised Taxpayer to engage additional tax counsel. Accordingly, Taxpayer hired Tax Professional 3, who confirmed that FC was a PFIC and provided Taxpayer with legal counsel with respect to the possibility of making a QEF election. Pursuant to this advice, Taxpayer further engaged Tax Professional 3 to file a ruling request for a retroactive QEF election.

Taxpayer has submitted an affidavit, under penalties of perjury, describing the events that led to the failure to make the QEF election by the election due date, including the respective roles of Tax Professional 1, Tax Professional 2, and Tax Professional 3. Taxpayer represents that he provided information regarding the investment of FC to Tax Professional 1 and Tax Professional 2 in all relevant years.

Taxpayer represents that, in Year 2 and subsequent years: (1) FC was not identified as a PFIC; and (2) Taxpayer did not receive any advice regarding the availability of a QEF election with respect to his investment in FC. In addition, Taxpayer submitted appropriate affidavits from his tax advisers, corroborating the representations made by Taxpayer with respect to the discovery of FC's PFIC status.

Taxpayer represents that, as of the date of this request for ruling, the PFIC status of FC has not been raised by the IRS on audit for any of the taxable years at issue.

RULING REQUESTED

Taxpayer requests the consent of the Commissioner to make a retroactive QEF election with respect to FC for Year 2 under Treas. Reg. §1.1295-3(f).

LAW

Code Section 1295(a) provides that a PFIC will be treated as a QEF with respect to a taxpayer if (1) an election by the taxpayer under Code section 1295(b) applies to such PFIC for the taxable year and (2) the PFIC complies with such requirements as the Secretary may prescribe for purposes of determining the ordinary earnings and net capital gains of such company.

Under Code section 1295(b)(2), a QEF election may be made for any taxable year at any time on or before the due date (determined with regard to extensions) for filing the return for such taxable year. To the extent provided in regulations, such an election may be made after such due date if the taxpayer failed to make an election by the due date because the taxpayer reasonably believed the company was not a PFIC.

Under Treas. Reg. §1.1295-3(f), a shareholder may request the consent of the Commissioner to make a retroactive QEF election for a taxable year if:

1. the shareholder reasonably relied on a qualified tax professional, within the meaning of Treas. Reg. §1.1295-3(f)(2);
2. granting consent will not prejudice the interests of the United States government, as provided in Treas. Reg. §1.1295-3(f)(3);
3. the request is made before a representative of the Internal Revenue Service raises upon audit the PFIC status of the corporation for any taxable year of the shareholder; and
4. the shareholder satisfies the procedural requirements of Treas. Reg. §1.1295-3(f)(4).

The procedural requirements include filing a request for consent to make a retroactive election with, and submitting a user fee to, the Office of the Associate Chief Counsel (International). Treas. Reg. §1.1295-3(f)(4)(i). Additionally, affidavits signed under penalties of perjury must be submitted that describe:

1. the events that led to the failure to make a QEF election by the election due date;
2. the discovery of such failure;

3. the engagement and responsibilities of the qualified tax professional; and
4. the extent to which the shareholder relied on such professional.

Treas. Reg. §§1.1295-3(f)(4)(ii) and (iii).

CONCLUSION

Based on the information submitted and representations made with Taxpayer's ruling request, we conclude that Taxpayer has satisfied Treas. Reg. §1.1295-3(f). Accordingly, consent is granted to Taxpayer to make a retroactive QEF election with respect to FC for Year 2, provided that Taxpayer complies with the rules under Treas. Reg. §1.1295-3(g) regarding the time and manner for making the retroactive QEF election.

Except as specifically set forth above, no opinion is expressed or implied concerning the U.S. federal tax consequences of the facts described above under any other provision of the Code.

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

A copy of this letter ruling must be attached to any federal income tax return to which it is relevant. Alternatively, taxpayers filing their returns electronically may satisfy this requirement by attaching a statement to their return that provides the date and control number of the letter ruling.

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representative.

Sincerely,

Jeffery G. Mitchell
Chief, Branch 2
(International)