

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:PSI:BO1

PLR-116695-15

Date:

October 08, 2015

LEGEND

X =

A =

B =

Trust 1 =

Trust 2 =

Trust 3 =

Date 1 =

Date 2 =

Date 3 =

Date 4 =

Date 5 =

a% =

b% =

State =

Dear :

This responds to a letter dated January 29, 2015, and subsequent information, submitted on behalf of X by X's authorized representative, requesting relief under section 1362(f) of the Internal Revenue Code.

FACTS

According to the information submitted and representations made within, X was incorporated and made an S election effective Date 1, under the laws of State.

During A's life, A owned a% of the shares in X through Trust 1. Trust 1 was a trust described in § 1361(c)(2)(A)(i) and was an eligible shareholder of X. A died on Date 2. After A's death, Trust 1 continued to be an eligible shareholder of X under § 1361(c)(2)(A)(ii) until Date 3. As of Date 3, Trust 1 was intended to be treated as a qualified subchapter S trust (QSST) however, B, the beneficiary of Trust 1, did not file a timely election to treat Trust 1 as a QSST. Therefore, on Date 3, Trust 1 became an ineligible shareholder of X, causing X's S corporation election to terminate on Date 3.

Trust 1 transferred b% of its X shares to Trust 2 on Date 4. As of Date 4, X represents that Trust 2 was intended to be treated as a QSST. However, B, the beneficiary of Trust 2 did not file a timely election to treat Trust 2 as a QSST.

On Date 5, Trust 2 distributed all of its shares in X to B. B then immediately transferred the X shares to Trust 3. Trust 3 is a trust described in § 1361(c)(2)(A)(i) and is an eligible shareholder of X.

X represents that the circumstances resulting in the failure to file the QSST elections for Trust 1 and Trust 2 was inadvertent and was not motivated by tax avoidance or retroactive tax planning. X and its shareholders have agreed to make such adjustments (consistent with the treatment of X as an S corporation) as may be required by the Secretary.

LAW AND ANALYSIS

Section 1361(a)(1) of the Code 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) 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)(iii) provides that a trust may be an S corporation shareholder with respect to stock transferred to it pursuant to a will, but only for the 2-year period beginning on the day on which such stock is transferred to it.

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) the trust is treated as a trust described in § 1361(c)(2)(A)(i) and, for purposes of § 678(a), the beneficiary of the trust is treated as the owner of that portion of the trust which consists of stock in a S corporation with respect to which the election under § 1361(d)(2) is made.

Section 1362(f) provides, in relevant part, that if (1) an election under § 1362(a) by any corporation was terminated under § 1362(d)(2) or (3) or § 1361(b)(3)(C); (2) the Secretary determines that the circumstances resulting in such termination were inadvertent; (3) no later than a reasonable period of time after discovery of the circumstances resulting in such termination, steps were taken so that the corporation for which the termination occurred is a small business corporation; and (4) the corporation for which 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 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 the representations made, we conclude that X's S corporation election terminated on Date 3 as a result of the failure to make a timely QSST election for Trust 1. We further conclude that the termination of X's S election on Date 3 was inadvertent within the meaning of § 1362(f). Pursuant to the provisions of § 1362(f), X will be treated as continuing to be an S corporation as of Date 3 and thereafter, provided that B files a QSST election for Trust 1 and Trust 2 with an

effective date of Date 3 and Date 4, respectively, with the appropriate service center within 120 days from the date of this letter, and X's S corporation election is not otherwise terminated under § 1362(d). A copy of this letter must be attached to the QSST elections.

Except as specifically ruled upon above, we express or imply no opinion concerning the federal tax consequences of the facts of this case under any other provision of the Code. Specifically, we express or imply no opinion regarding X's eligibility to be an S corporation. Further, no opinion is expressed or implied concerning whether Trust 1 and Trust 2 meet the requirements of a QSST under § 1361(d)(3).

This ruling is directed only to the taxpayer who requested it. According to § 6110(k)(3), this ruling may not be used or cited as precedent.

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

Sincerely,

David R. Haglund

David R. Haglund
Branch Chief, Branch 1
Office of the Associate Chief Counsel
(Passthroughs & Special Industries)

Enclosures (2)

Copy of this letter

Copy of this letter for section 6110 purposes

cc: