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Department of the Treasury  
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Person To Contact: \_\_\_\_\_, ID No.

Telephone Number:

Refer Reply To:  
CC:FIP:B01  
PLR-123027-23

Date:  
May 13, 2024

Taxpayer	=
Subsidiary	=
Managing Group	=
Law Firm	=
Accounting Firm	=
Month 1	=
Month 2	=
Month 3	=
State	=
Date 1	=
Date 2	=
Date 3	=
Date 4	=
Date 5	=
Year 1	=
Year 2	=
Year 3	=

Dear \_\_\_\_\_ :

This ruling responds to a letter dated November 15, 2023, submitted on behalf of Taxpayer and Subsidiary. Taxpayer and Subsidiary request an extension of time under sections 301.9100-1 and 301.9100-3 of the Procedure and Administration Regulations

to jointly make an election under section 856(l) of the Internal Revenue Code (“Code”) to treat Subsidiary as a taxable REIT subsidiary (“TRS”) of Taxpayer effective Date 1.

#### FACTS

Taxpayer was formed as a limited liability company, under the laws of State, on Date 2. Taxpayer has elected to be treated as a real estate investment trust (“REIT”) under sections 856 through 859 of the Code for federal income tax purposes beginning with Taxpayer’s taxable year ended Date 3.

Subsidiary was formed as a limited liability company, under the laws of State, on Date 1. Subsidiary was formed to facilitate industrial real estate investments by Taxpayer and Taxpayer’s members. At all times since its formation, Taxpayer has been the sole member of Subsidiary.

Managing Group, a real estate management company, manages both Taxpayer and Subsidiary. Neither Taxpayer nor Subsidiary maintained a sizable tax department. Managing Group’s employee serves as the director of accounting and reporting for both Subsidiary and Taxpayer (“Compliance Employee”). Compliance Employee is an experienced tax professional, with significant experience in REIT tax filings—such as TRS elections—and a former manager at a large accounting firm.

In Month 1, Subsidiary entered into a transaction to acquire property from an unrelated third party. Taxpayer and Subsidiary, through Compliance Employee, approached Accounting Firm and Law Firm to request advice in connection with that transaction. Accounting Firm recommended, and all parties agreed that: (1) Subsidiary should file a Form 8832, *Entity Classification Election*, to elect to be classified as a domestic corporation; and (2) Taxpayer and Subsidiary should file a Form 8875, *Taxable REIT Subsidiary Election*, to elect to treat Subsidiary as a TRS of Taxpayer. If the elections had been filed at that time, both elections could have been effective as of Date 1, the date of Subsidiary’s formation. While all parties agreed to make the elections, the tasks of preparing and filing the forms were not specifically assigned. Due to an administrative oversight, Compliance Employee, who was ultimately responsible for determining whether the elections were timely filed, failed to prepare and timely file the forms.

Subsidiary represents that it timely filed a Form 7004, *Application for Automatic Extension of Time to File Certain Business Income Tax, Information, and Other Returns* requesting an extension to file a Form 1120, *U.S. Corporation Income Tax Return*. The Form 7004 extended the due date for Subsidiary’s return for Year 1 to Date 5. On Date 4, Subsidiary, pursuant to the extension, filed a Form 1120 for the short taxable year beginning Date 1 and ended Date 3, consistent with an entity classification election having been filed for Subsidiary to be classified as a domestic corporation. Further, on Date 4, Taxpayer represents that it filed a Form 1120-REIT, *U.S. Income Tax Return for Real Estate Investment Trusts*, consistent with its understanding that Subsidiary was a TRS of Taxpayer.

In Month 2, Subsidiary received a refund check from the Internal Revenue Service (the "Service"), because of a perceived overpayment on Subsidiary's tax account for Year 1. Upon review, Compliance Employee learned that the refund was due to Subsidiary then being classified as a disregarded entity for federal income purposes. Shortly thereafter, Compliance Employee discovered that neither Forms 8832 nor 8875 were prepared or filed for Subsidiary. Subsequently, the refund check was voided and returned to the Service with a cover letter requesting that a credit be applied to Subsidiary's Form 1120.

In Month 3, Compliance Employee requested advice from Accounting Firm on remedying the failure to timely file Forms 8832 and 8875. Accounting Firm advised Taxpayer and Subsidiary to (1) submit a request on behalf of Subsidiary for late election relief under Rev. Proc. 2009-41, 2009-39 I.R.B. 439 to remedy Subsidiary's entity classification election, effective as of Date 1; and (2) to submit a request for relief under sections 301.9100-1 and 301.9100-3 for an extension of time to file the election to treat Subsidiary as a TRS of Taxpayer beginning Date 1. In Year 3, Subsidiary filed a Form 8832, pursuant to Rev. Proc. 2009-41, 2009-39 I.R.B. 439, to elect to be treated as a corporation, for federal income tax purposes, effective as of Date 1, the date of Subsidiary's formation.

Taxpayer represents that all relevant returns have been filed and are consistent with Subsidiary being treated as a TRS of Taxpayer for federal income tax purposes effective as of Date 1, such as Taxpayer's Form 1120-REIT for Years 1, 2, and 3. Also, Subsidiary has filed its Form 1120 for Years 1, 2, and 3.

Taxpayer and Subsidiary make the following additional representations in connection with this request for an extension of time:

- 1) Taxpayer and Subsidiary reasonably relied on a qualified tax professional, including a tax professional employed by Taxpayer, and the tax professional failed to make the election.
- 2) Granting the relief requested will not result in Taxpayer or Subsidiary having a lower U.S. federal tax liability in the aggregate for all years to which the election applies than they would have had if the election had been timely made (taking into account the time value of money).
- 3) Taxpayer and Subsidiary do not seek to alter a return position for which an accuracy-related penalty has been or could have been imposed under section 6662 of the Code at the time they requested relief, and the new position requires or permits a regulatory election for which relief is requested.

- 4) Being fully informed of the required regulatory election and related tax consequences, Taxpayer and Subsidiary did not choose to not file the election.
- 5) Taxpayer and Subsidiary are not using hindsight in requesting relief. No specific facts have changed since the due date for making the election that make the election more advantageous to Taxpayer or Subsidiary.
- 6) The period of limitations on assessment under section 6501(a) has not expired for Taxpayer and Subsidiary for the taxable year in which the election should have been filed, nor for any taxable year(s) that would have been affected by the election had it been timely filed.

In addition, affidavits on behalf of Taxpayer and Subsidiary have been provided as required by sections 301.9100-3(e)(2) and (3).

#### LAW AND ANALYSIS

Section 856(l) provides that a REIT and a corporation (other than a REIT) may jointly elect to treat such corporation as a TRS. To be eligible for treatment as a TRS, section 856(l)(1) provides that the REIT must directly or indirectly own stock in the corporation, and the REIT and the corporation must jointly elect such treatment. The election is irrevocable once made, unless both the REIT and the subsidiary consent to its revocation. In addition, section 856(l) specifically provides that the election, and any revocation thereof, may be made without the consent of the Secretary.

In Announcement 2001-17, 2001-1 C.B. 716, the Service announced the availability of new Form 8875, *Taxable REIT Subsidiary Election*. According to the Announcement, this form is to be used for taxable years beginning after 2000 for eligible entities to elect treatment as a TRS. The instructions to Form 8875 provide that the subsidiary and the REIT can make the election at any time during the taxable year. However, the effective date of the election depends on when the Form 8875 is filed. The instructions further provide that the effective date cannot be more than 2 months and 15 days prior to the date of filing the election, or more than 12 months after the date of filing the election. If no date is specified on the form, the election is effective on the date the form is filed with the Service.

Section 301.9100-1(c) provides that the Commissioner has discretion to grant a reasonable extension of time to make a regulatory election, or a statutory election (but no more than 6 months except in the case of a taxpayer who is abroad), under all subtitles of the Code except subtitles E, G, H, and I. Section 301.9100-1(b) defines a regulatory election as an election whose due date is prescribed by regulations or by a revenue ruling, revenue procedure, notice, or announcement published in the Internal Revenue Bulletin.

Section 301.9100-3(a) through (c)(1) sets forth rules that the Service generally will use to determine whether, under the particular facts and circumstances of each situation, the Commissioner will grant an extension of time for regulatory elections that do not meet the requirements of section 301.9100-2. Section 301.9100-3(a) provides that requests for relief subject to section 301.9100-3 will be granted when the taxpayer provides the evidence (including affidavits described in section 301.9100-3(e)) to establish to the satisfaction of the Commissioner that the taxpayer acted reasonably and in good faith, and the grant of relief will not prejudice the interests of the Government.

Section 301.9100-3(b) provides that a taxpayer generally is deemed to have acted reasonably and in good faith if the taxpayer (i) requests relief under section 301.9100-3 before the failure to make the regulatory election is discovered by the Service; (ii) failed to make the election because of intervening events beyond the taxpayer's control; (iii) failed to make the election because, after exercising reasonable diligence (taking into account the taxpayer's experience and the complexity of the return or issue), the taxpayer was unaware of the necessity for the election; (iv) reasonably relied on the written advice of the Service; or (v) reasonably relied on a qualified tax professional, including a tax professional employed by the taxpayer, and the tax professional failed to make, or advise the taxpayer to make, the election. A taxpayer will be deemed to have not acted reasonably and in good faith, however, if the taxpayer (i) seeks to alter a return position for which an accuracy-related penalty has been or could be imposed under section 6662 at the time the taxpayer requests relief and the new position requires or permits a regulatory election for which relief is requested; (ii) was informed in all material respects of the required election and related tax consequences, but chose not to file the election; or (iii) uses hindsight in requesting relief.

Section 301.9100-3(c)(1) provides that a reasonable extension of time to make a regulatory election will be granted only when the interests of the Government will not be prejudiced by the granting of relief. Section 301.9100-3(c)(1)(i) provides that the interests of the Government are prejudiced if granting relief would result in the taxpayer having a lower tax liability in the aggregate for all taxable years affected by the election than the taxpayer would have had if the election had been timely made (taking into account the time value of money). Section 301.9100-3(c)(1)(ii) provides that the interests of the Government are ordinarily prejudiced if the taxable year in which the regulatory election should have been made or any taxable years that would have been affected by the election had it been timely made are closed by the period of limitations on assessment under section 6501(a) before the taxpayer's receipt of a ruling granting relief under section 301.9100-3.

## CONCLUSION

Based on the information submitted and the representations made, we conclude that Taxpayer and Subsidiary have satisfied the requirements for granting a reasonable extension of time to elect under section 856(l) to treat Subsidiary as a TRS of Taxpayer, effective Date 1. Accordingly, Taxpayer and Subsidiary have 90 calendar days from the date of this letter to make the intended election to treat Subsidiary as a TRS of Taxpayer, effective Date 1.

This ruling is limited to the timeliness of the filing of Form 8875. This ruling's application is limited to the facts, representations, Code sections, and regulation sections cited herein. Except as provided herein, no opinion is expressed or implied concerning the tax consequences of any aspect of any transaction or item discussed or referenced in this letter. No opinion is expressed as to whether Taxpayer otherwise qualifies as a REIT or whether Subsidiary otherwise qualifies as a TRS under subchapter M of chapter 1 of the Code. Additionally, no opinion is expressed as to any tax liability of Subsidiary.

The ruling contained in this letter is based upon information submitted and representations made by Taxpayer and Subsidiary and accompanied by penalties of perjury statements executed by the appropriate parties. While this office has not verified any of the material submitted in support of the request for a ruling, it is subject to verification on examination.

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

In accordance with the terms of a power of attorney on file in this office, a copy of this letter is being sent to your authorized representatives.

Sincerely,

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Vanessa Mekpong  
Assistant to the Branch Chief, Branch 1  
Office of Associate Chief Counsel  
(Financial Institutions & Products)

PLR-123027-23

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cc: