

Internal Revenue Service

Number: **202538001**

Release Date: 9/19/2025

Index Numbers: 1362.00-00, 1362.01-00,
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

PLR-100848-25

Date:

June 24, 2025

LEGEND

X =

Partnership =

Trust 1 =

Trust 2 =

A =

B =

State =

Date 1 =

Date 2 =

Date 3 =

Date 4 =

Dear :

This letter responds to a letter dated January 3, 2025, and subsequent correspondence, submitted on behalf of X by X's authorized representative, 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 2. On Date 2, Partnership, a State limited partnership classified as a partnership for federal tax purposes, wholly owned X. Moreover, none of X's shareholders consented to X's S corporation election. Instead, B, a partner in Partnership, signed a statement consenting to X's S corporation election as specified on Form 2553, Election by a Small Business Corporation. Accordingly, X's S corporation election was ineffective on Date 2 because Partnership was an ineligible S corporation shareholder under § 1361(b)(1)(B) and none of X's shareholders on Date 2 consented to X's S corporation election.

On Date 2, Partnership was owned by Trust 1 and B. X represents that Trust 1 was a grantor trust described in § 1361(c)(2)(A)(i), of which A was the deemed owner, and, thus, was an eligible S corporation shareholder. On Date 3, B transferred its limited partnership interest in Partnership to Trust 2, a trust which X represents was a grantor trust described in § 1361(c)(2)(A)(i), of which B was the deemed owner, and, thus, was an eligible S corporation shareholder. Pursuant to a settlement agreement between A and B, Partnership dissolved and liquidated, and B became the sole owner of X as of Date 4.

X represents that the circumstances resulting in its ineffective S corporation election were inadvertent and were not motivated by tax avoidance or retroactive tax planning. Additionally, X represents that X and its shareholders have filed federal tax returns consistent with being an S corporation effective Date 2. Finally, X and its shareholders agree to make any adjustments required by the Secretary consistent with the treatment of X as an S corporation.

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 which 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 1 of subchapter J of chapter 1) as owned by an individual who is a citizen or resident of the United States, is an eligible S corporation shareholder.

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(a)(2) provides that an election to be an S corporation shall be valid only if all persons who are shareholders in such corporation on the day on which such election is made consent to such election.

Section 1.1362-6(a)(2)(i) of the Income Tax Regulations provides that the election to be an S corporation is not valid unless all shareholders of the corporation at the time of the election consent to the election in the manner provided in § 1.1362-6(b).

Section 1362(f) provides, in 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 § 1361(b)(2)) by reason of a failure to meet the requirements of § 1361(b) or to obtain shareholder consents, (2) the Secretary determines that the circumstances resulting in such ineffectiveness were inadvertent; (3) no later than a reasonable period of time after discovery of the circumstances resulting in such ineffectiveness, steps were taken so that the corporation for which the election was made is a small business corporation, and (4) the corporation for which the election was made, and each person who was a shareholder in such corporation at any time during the period specified pursuant to § 1362(f), agrees to make such 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, 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 was ineffective on Date 2, because Partnership was an ineligible S corporation shareholder and none of X's shareholders on Date 2 consented to X's S corporation election. We conclude, however, that the circumstances resulting in the ineffectiveness of X's S corporation election were inadvertent within the meaning of § 1362(f). Accordingly, under § 1362(f), (i) X will be treated as an S corporation from Date 2 and thereafter, provided that X's S corporation election was valid and has not otherwise terminated under § 1362(d) for reasons not addressed in this letter; (ii) A and B will be treated as owning the shares of X stock that

Partnership owned from Date 2 up to, but not including, Date 4 in proportion to their ownership interests in Partnership from Date 2 up to, but not including, Date 4; and (iii) B will be treated as owning all the shares of X from Date 4 and thereafter.

This ruling is contingent on X and its shareholders filing, within 120 days from the date of this letter, all required federal income tax returns (including amended returns) for all open years consistent with A and B owning the shares of X stock, as described above.

Except as expressly provided herein, we express or imply no opinion concerning the federal tax consequences of the facts of this case under any other provision of the Code and the regulations thereunder. Specifically, we express or imply no opinion regarding whether X is otherwise eligible to be an S corporation.

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 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 it 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 representative.

Sincerely,

Brian J. Barrett
Senior Technician Reviewer, Branch 3
Office of the Associate Chief Counsel
(Passthroughs & Special Industries)

Enclosure:

Copy of this letter for § 6110 purposes

cc: