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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:
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PLR-101154-25
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Date:
July 17, 2025

Legend

X =

Y =

Trust =

State =

Date 1 =

Date 2 =

Date 3 =

Date 4 =

Date 5 =

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Dear _____ :

This letter is in response to your letter dated December 20, 2024, and subsequent correspondence, submitted on behalf of X and Y by their authorized representatives, requesting rulings 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 3, Y was formed as a State limited liability company and elected to be an S corporation effective Date 4.

On Date 3, Trust was a member of Y. On Date 5, Trust became a shareholder of X. X and Y represent that Trust was eligible to be a qualified subchapter S trust (QSST) under § 1361(d) effective Date 3 and thereafter. However, the income beneficiary of Trust failed to make an election under § 1361(d)(2) to treat Trust as a QSST effective Date 5 with respect to X, and Date 4 with respect to Y. Consequently, X's S corporation election terminated on Date 5 and Y's S corporation election was ineffective on Date 4.

X and Y represent that X and Y, and their shareholders, have filed all Federal tax returns consistent with X and Y being S corporations for all relevant periods. X and Y further represent that X and Y, and their shareholders, agree to make any adjustments (consistent with the treatment of X and Y as S corporations) as may be required by the Secretary.

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(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

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

Section 1361(d)(2)(B)(i) provides that an election under § 1361(d)(2) shall be made separately with respect to each corporation the stock of which is held by the trust.

Section 1361(d)(2)(B)(iii) provides that any election, or refusal, under § 1361(d)(2) shall be made in such manner and form, and at such time, as the Secretary may prescribe.

Section 1361(d)(3) provides that, for purposes of § 1361(d), 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 1 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 1 individual who is a citizen or resident of the United States.

Section 1.1361-1(j)(6)(i) of the Income Tax Regulations 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 with which the corporation files its income tax return, the applicable form or a statement that includes the information listed in § 1.1361-1(j)(6)(ii)(A) through (E).

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 1.1361-1(j)(6)(iii)(E) provides that if a corporation's S election terminates because of a late QSST election, the corporation may request inadvertent termination relief under § 1362(f).

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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) shall be terminated whenever (at any time on or after the 1st day of the 1st taxable year for which the corporation is an S corporation) such corporation ceases to be a small business 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 (1) X's S corporation election terminated on Date 5 when the income beneficiary of Trust failed to make a QSST election effective Date 5 with respect to X, and (2) Y's S corporation election was ineffective on Date 4 when the income beneficiary of Trust failed to make a QSST election effective Date 4 with respect to Y.

Further, we conclude that the circumstances resulting in the termination of X's S corporation election and the ineffectiveness of Y's S corporation election were inadvertent within the meaning of § 1362(f). Therefore, under § 1362(f), (1) X will continue to be treated as an S corporation from Date 5 and thereafter, provided X's S corporation election was otherwise valid and has not otherwise terminated under § 1362(d) for reasons not addressed in this letter, and (2) Y will be treated as an S corporation from Date 4 and thereafter, provided that Y's S corporation election was

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otherwise valid and has not otherwise terminated under § 1362(d) for reasons not addressed in this letter.

These rulings are conditioned on (1) the income beneficiary of Trust filing a QSST election for Trust effective Date 5 with respect to X and, (2) the income beneficiary of Trust filing a QSST election for Trust effective Date 4 with respect to Y. 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 or Y's eligibility to be S corporations, or Trust's eligibility to be a QSST.

The rulings contained in this letter are based upon information and representations submitted by the taxpayers 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 rulings, it is subject to verification on examination.

These rulings are directed only to the taxpayers requesting them. 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 Taxpayers' authorized representatives.

Sincerely,

Richard T. Probst
Senior Technician Reviewer, Branch 3
Office of the Associate Chief Counsel
(Passthroughs, Trusts, and Estates)

Enclosure:

Copy of this letter for § 6110 purposes

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cc: