

## Internal Revenue Service

Number: **202551034**

Release Date: 12/19/2025

Index Number: 1362.04-00

Department of the Treasury

Washington, DC 20224

Third Party Communication: None

Date of Communication: Not Applicable

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Refer Reply To:

CC:PSI:B03

PLR-105479-25

Date:

July 31, 2025

### LEGEND

X =

State =

A =

Trust 1 =

Trust 2 =

Trust 3 =

Date 1 =

Date 2 =

Date 3 =

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

This responds to a letter dated March 11, 2025, submitted on behalf of X by X's authorized representatives, requesting relief under section 1362(f) of the Internal Revenue Code.

### FACTS

The information submitted states that X was incorporated under the laws of State on Date 1 and elected to be treated as an S corporation effective Date 2. On Date 3, A transferred shares of X to Trust 1, Trust 2, and Trust 3.

It is represented that Trust 1, Trust 2, and Trust 3 were eligible to make Qualified Subchapter S Trust (QSST) elections under § 1361(d)(2), effective Date 3. However, the beneficiaries of Trust 1, Trust 2, and Trust 3 failed to make QSST elections for the trusts to be eligible S corporation shareholders; thus, Trust 1, Trust 2, and Trust 3 became ineligible shareholders of X on Date 3. Accordingly, the failure to make QSST elections caused X's S election to terminate on Date 3.

X and its shareholders have filed all income tax returns consistent with having an election to be treated as an S corporation for all taxable years since Date 3. Trust 1, Trust 2, and Trust 3 have always met the QSST requirements within the meaning of § 1361(d), except that the beneficiaries did not make timely QSST elections under § 1361(d). It is represented that the failure to file QSST elections was inadvertent and not motivated by tax avoidance or retroactive tax planning. X and each of its shareholders agree to make any adjustments required by the Secretary as a condition of obtaining relief under the inadvertent termination rule as provided under § 1362(f).

### 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) 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(d)(1) provides, in part, 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 an S corporation with respect to which the election under § 1361(d)(2) is made.

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)(3) defines a QSST as a trust, (A) the terms of which require that (i) during the life of the current income beneficiary, there shall be only one 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 one individual who is a citizen or resident of the United States.

Section 1362(d)(2) provides that an S corporation election will be terminated whenever (at any time on or after the first day of the first taxable year for which the corporation is an S corporation) such corporation ceases to be a small business corporation.

Section 1362(f) provides, in relevant 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 § 1362(b)(2)) by reason of a failure to meet the requirements of § 1361(b) or was terminated under § 1362(d)(2) or (3); (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 termination occurred is a small business corporation; and (4) the corporation for which the election was made or 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 ineffectiveness or 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 representations made, we conclude that X's S corporation election terminated on Date 3 because the beneficiaries of Trust 1, Trust 2, and Trust 3 failed to timely make QSST elections under § 1361(2). However, the termination of X's S corporation election was inadvertent within the meaning of § 1362(f). Accordingly, X shall be treated as an S corporation from Date 3 and

thereafter, provided its S corporation election is not otherwise terminated under § 1362(d).

This letter ruling is subject to the conditions that within 120 days from the date of this letter (1) the beneficiaries of Trust 1, Trust 2, and Trust 3 file QSST elections with respect to Trust 1, Trust 2, and Trust 3, effective Date 3, with the appropriate service center and (2) X and its shareholders file any necessary original or amended returns consistent with the relief granted in this letter. A copy of this letter should be attached to each QSST election and any original or amended returns.

If the above conditions are not met, then this ruling is null and void. Also, if these conditions are not met, X must notify the service center with which it filed its S corporation election that its election terminated on Date 3.

Except as specifically ruled above, we express or imply no opinion concerning the federal tax consequences of the facts described above under any other provision of the Code and the regulations thereunder, including whether X was otherwise a valid S corporation or whether Trust 1, Trust 2, or Trust 3 are valid QSSTs within the meaning of § 1361(2).

The ruling contained in this letter is based on 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 ruling request, 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 your authorized representatives.

Sincerely,

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

Enclosure

Copy for § 6110 purposes

PLR-105479-25

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cc: