

Internal Revenue Service

Department of the Treasury
Washington, DC 20224

Number: **202552008**

Release Date: 12/26/2025

Index Number: 1361.01-02, 1362.00-00,
1362.01-00

Third Party Communication: None
Date of Communication: Not Applicable

Person To Contact:
, ID No.

Telephone Number:

Refer Reply To:
CC:PT&E:B01
PLR-108958-25

Date:
September 29, 2025

LEGEND

X =

Date 1 =

Date 2 =

Date 3 =

State =

A =

Trust =

Dear :

This responds to a letter dated April 3, 2025, and subsequent correspondence, submitted on behalf of X by X's authorized representatives requesting relief under § 1362(f) of the Internal Revenue Code (the Code).

FACTS

According to the information submitted, X was incorporated on Date 1, under the laws of State. X elected to be treated as an S corporation effective Date 2. A, a limited liability company classified as a partnership for federal tax purposes, held shares in X on Date 2. Because A was an ineligible shareholder under § 1361(b)(1)(B), X's S election was ineffective. On Date 3, A distributed its entire interest in X to Trust.

X represents that the circumstances resulting in the ineffectiveness of its S corporation election were inadvertent and not motivated by tax avoidance or retroactive tax planning. X further represents that it has filed its federal tax returns consistent with X being an S corporation effective Date 2. X and its shareholders agree to make any adjustments (consistent with the treatment of X as an S corporation) as may be required by the Secretary under § 1362(f).

LAW & ANALYSIS

Section 1361(a)(1) defines an "S corporation" as a small business corporation for which an election under § 1362(a) is in effect for the taxable year.

Section 1361(b)(1)(B) provides that a small business corporation cannot 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 1362(a)(1) 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(b)(1) provides that an election under § 1362(a) may be made by a small business corporation for any taxable year (A) at any time during the preceding taxable year, or (B) at any time during the taxable year and on or before the 15th day of the third month of the taxable year.

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 § 1362(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 the ineffectiveness steps were taken - (A) so that the corporation is a small business corporation, or (B) to acquire the required shareholder consents, and (4) the corporation, and each person who was a shareholder of the corporation at any time during the period specified pursuant to § 1362(f), agrees to make such 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,

such corporation shall be treated as an S corporation during the period specified by the Secretary.

CONCLUSION

Based on the facts submitted and the representations made, we conclude that X's S corporation election was ineffective due to the ownership of shares by an ineligible shareholder. However, we conclude the ineffectiveness of X's S corporation election was inadvertent within the meaning of § 1362(f). Accordingly, pursuant to the provisions of § 1362(f), X will be treated as an S corporation from Date 2 and thereafter, provided X's S corporation election was valid and has not otherwise terminated under § 1362(d).

Except as specifically ruled upon above, we express or imply no opinion concerning the federal tax consequences of the facts described above under any other provision of the Code. Specifically, we express or imply no opinion regarding whether X was or is otherwise eligible to be an S corporation.

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

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 ruling request, it is subject to verification on examination.

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

Sincerely,

Caroline E. Hay
Senior Technician Reviewer, Branch 1
Office of the Associate Chief Counsel
(Passthroughs, Trusts, and Estates)

Enclosure:

Copy for § 6110 purposes

PLR-108958-25

4

cc: