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Department of the Treasury
Washington, DC 20224

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Person To Contact:
, ID No.

Telephone Number:

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PLR-111553-25, PLR-111554-25
Date:
November 17, 2025

LEGEND

X =

Y =

Trust =

A =

Date 1 =

Date 2 =

Date 3 =

Date 4 =

Date 5 =

Date 6 =

State =

Dear :

This letter responds to a letter dated June 10, 2025, submitted on behalf of X and Y by their authorized representative, requesting relief under § 1362(f) of the Internal Revenue Code (Code).

FACTS

According to the information submitted and representations within, X was incorporated under the laws of State on Date 1 and filed an election under § 1362(a) of the Code to be treated as an S corporation effective the same date.

According to the information submitted and representations within, Y was incorporated under the laws of State on Date 2 and filed an election under § 1362(a) of the Code to be treated as an S corporation effective Date 3.

A was a shareholder in both X and Y. On Date 4, A died. Pursuant to A's will, A's stock in X and Y were bequeathed to Trust on Date 5. X and Y represent that Trust was eligible to make an election to be treated as a qualified subchapter S trust (QSST) under § 1361(d) on and after Date 5. However, the beneficiary of Trust failed to make a QSST election effective Date 6. Consequently, Trust became an ineligible shareholder of X and Y, causing their S corporation elections to terminate on Date 6.

X and Y represent that they and their shareholders have filed tax returns consistent with being S corporations for all relevant periods. X and Y further represent that the circumstances resulting in the termination of their S corporation elections were inadvertent and were not motivated by tax avoidance or retroactive tax planning. X, 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) provides that the term "small business corporation" means 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 one class of stock.

Section 1361(c)(2)(A)(iii) provides that, for purposes of § 1361(b)(1)(B), a trust with respect to stock transferred to it pursuant to the terms of a will may be a permitted shareholder, but only for the 2-year period beginning on the day on which such stock is transferred to it.

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), the trust is treated as a trust described in § 1361(c)(2)(A)(i), and 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 an S corporation with respect to which the election under § 1361(d)(2) is made.

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)(A) provides that an election under § 1362(a) shall 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(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 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 to obtain shareholder consents or 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 or to acquire the required shareholder consents, and (4) the corporation for which the election was made or the 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 information submitted and the representations made, we conclude that X's and Y's S corporation elections terminated on Date 6, when Trust became an ineligible shareholder. We further conclude that the terminations of X's and Y's S elections were inadvertent within the meaning of § 1362(f). Therefore, pursuant to the provisions of § 1362(f), X and Y will be treated as S corporations from Date 6 and

thereafter, provided X's and Y's S corporation elections are otherwise effective and not terminated under § 1362(d).

This relief is contingent on the beneficiary of Trust filing a QSST election with the appropriate service center within 120 days from the date of this letter effective Date 6. A copy of this letter should be attached to the QSST election and any amended returns. Furthermore, if these conditions are not met, X and Y must notify the service center where X's and Y's S corporation elections are filed that their S corporation elections have terminated effective Date 6.

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. Specifically, we express or imply no opinion regarding whether X and Y are otherwise eligible to be S corporations or whether Trust is otherwise eligible to be a QSST.

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 upon examination.

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

In accordance with the power of attorney on file with this office, we are sending copies of this letter to X and Y's authorized representative.

Sincerely,

Christiaan T. Cleary
Senior Technician Reviewer, Branch 1
Office of the Associate Chief Counsel
(Passthroughs, Trusts, and Estates)

Enclosure

Copy of this letter for section 6110 purposes

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cc: