Internal Revenue Service

Number: **202617006**
Release Date: 4/24/2026

Index Number: 1362.00-00, 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:PT&E:B03
PLR-114808-25
Date:
January 22, 2026

LEGEND

X =

H =

W =

State =

Trust 1 =

Trust 2 =

Trust 3 =

Trust 4 =

Trust 5 =

Date 1 =

Date 2 =

Date 3 =

Date 4 =

Date 5 =

Date 6 =

Dear :

This letter responds to a letter dated July 21, 2025, and subsequent correspondence, submitted on behalf of X by its authorized representative, requesting a ruling under § 1362(f) of the Internal Revenue Code (Code).

FACTS

According to the information submitted and representations made, X was incorporated under the laws of State on Date 1 and elected to be treated as an S corporation effective Date 2.

Prior to W's death on Date 3, all of the shares of stock in X were held by Trust 1, a grantor trust described in § 1361(c)(2)(A)(i) (under subpart E of part I of subchapter J of chapter 1 of the Code) of which H and W were the deemed owners. Following W's death on Date 3, Trust 1 qualified under § 1361(c)(2)(A)(ii) as an eligible shareholder for two years from W's date of death. On Date 4, prior to expiration of the two-year eligibility period under § 1361(c)(2)(A)(ii) for Trust 1, assets of Trust 1, including the shares of X stock, were transferred to Trust 2.

X represents that Trust 2 was eligible to be a qualified subchapter S trust (QSST) under § 1361(d). However, H, the income beneficiary of Trust 2, failed to make an election under § 1361(d)(2) to treat Trust 2 as a QSST effective Date 4. Consequently, X's S corporation election terminated on Date 4.

On Date 5, H died. Under § 1.1361-1(j)(7)(ii), Trust 2, had it been a QSST, would have been an eligible S corporation shareholder for a two-year period beginning on Date 5. On Date 6, prior to expiration of the two-year period under § 1.1361-1(j)(7)(ii), assets of Trust 2, including the shares of X stock, were transferred in equal shares to Trust 3, Trust 4, and Trust 5 (collectively, Shareholder Trusts). X represents that each of the Shareholder Trusts meets the requirements to be a QSST within the meaning of § 1362(d)(3) and that the income beneficiary of each Shareholder Trust filed a late

QSST election for such trust under Rev. Proc. 2013-30, 2013-36 I.R.B. 173 effective Date 6.

X represents that the failure to file the QSST election resulting in the termination of its S corporation election was inadvertent and not motivated by tax avoidance or retroactive tax planning. X and its shareholders have agreed to make any adjustments consistent with the treatment of X as an S corporation as may be required by the Secretary with respect to the period specified by § 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)(B) defines a "small business corporation," in part, as a domestic corporation that is not an ineligible corporation and that does not 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 the purposes of § 1361(b)(1)(B), a trust all of which is treated (under subpart E of part I of subchapter J of chapter 1 of the Code) as owned by an individual who is a citizen or resident of the United States is a permitted S corporation shareholder.

Section 1361(d)(1) provides that a QSST whose beneficiary makes an election under § 1361(d)(2) will be treated as a trust described in § 1361(c)(2)(A)(i) and the beneficiary of such trust shall be treated as the owner (for purposes of § 678(a)) 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 the 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 that 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 1.1361-1(j)(6)(ii) of the Income Tax Regulations provides that the current income beneficiary of the trust 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 meets the requirements of § 1.1361-1(j)(6)(ii)(A) through (E).

Section 1.1361-1(j)(6)(iii) provides that the QSST election must be filed within the time requirements of § 1.1361-1(j)(6)(iii) (A) through (D).

Section 1.1361-1(j)(7)(ii) provides that if, upon the death of a QSST income beneficiary, the trust continues in existence and continues to hold S corporation stock but no longer satisfies the QSST requirements, is not a grantor trust or an ESBT, then solely for purposes of § 1361(b)(1), as of the date of the income beneficiary's death, the estate of that income beneficiary is treated as the shareholder of the S corporation for two years or the transfer of the stock by the trust. If, after the 2-year period, the trust continues to hold S corporation stock and does not otherwise qualify as a permitted shareholder, the corporation's S election terminates.

Section 1362(a) provides that, except as provided in § 1362(g), a small business corporation may elect to be an S corporation.

Section 1362(d)(2)(A) provides that an election under § 1362(a) will 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(f) provides, in relevant part, that if (1) an election under § 1362(a) by any corporation was terminated under § 1362(d)(2) or (3); (2) the Secretary determines that the circumstances resulting in such termination were inadvertent; (3) no later than a reasonable period of time after discovery of the circumstances resulting in the termination, steps were taken so that the corporation for which the termination occurred is a small business corporation; and (4) the corporation for which the termination occurred, and each person who was a shareholder of the corporation at any time during the period specified under § 1362(f), agrees to make the adjustments (consistent with the treatment of the corporation as an S corporation) as may be required by the Secretary for that period, then, notwithstanding the circumstances resulting in such 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 representations made, we conclude that X's election to be treated as an S corporation terminated on Date 4, when Trust 2 became a shareholder of X. We also conclude that the termination constituted an inadvertent termination within the meaning of § 1362(f). Accordingly, X will be treated as continuing to be an S corporation from Date 4, and thereafter, provided that X's S corporation election was otherwise valid and was not otherwise terminated under § 1362(d). In addition, Trust 2 will be treated as a QSST from Date 4 until 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 is otherwise eligible to be an S corporation or whether Trust 3, Trust 4 or Trust 5 are otherwise eligible to elect to be treated as QSSTs.

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 taxpayer 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's authorized representatives.

Sincerely,

Jennifer N. Keeney
Senior Counsel, Branch 1
Office of the Associate Chief Counsel
(Passthroughs, Trusts, and Estates)

Enclosure:
Copy of this letter for § 6110 purposes

cc: