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Person To Contact:
, ID No.

Telephone Number:

Refer Reply To:
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Date:
February 06, 2026

LEGEND

X =

Y =

Trust 1 =

Trust 2 =

Trust 3 =

A =

B =

C =

D =

State =

Date 1 =

Date 2 =

Date 3 =

Date 4 =

Date 5 =

Date 6 =

n =

Dear :

This letter responds to a letter dated May 30, 2025, 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, X, a State corporation, elected to be an S corporation effective Date 2. On Date 1, parents of B, created Trust 1, for the benefit of B. Trust 1 owned shares of Y on Date 3. On Date 5, Y merged into X and Trust 1's shares of Y were exchanged for shares of X. X represents that Trust 1 was eligible to elect as a qualified subchapter S Trust (QSST). However, no QSST election was filed on behalf of Trust 1. Consequently, Trust 1 was an ineligible shareholder, and as a result, X's S corporation election was terminated on Date 5.

Additionally, on Date 4, A created Trust 2 and Trust 3, for the benefit of C and D, respectively. Following A's death, A's estate transferred shares of X to Trust 2 and Trust 3 on Date 6. X represents that Trust 2 and Trust 3 were each qualified to be an Electing Small Business Trust (ESBT), within the meaning of § 1361(e). However, no elections were made under § 1361(e)(3) to treat Trust 2 and Trust 3 as ESBTs. This made Trust 2 and Trust 3 ineligible shareholders and X's S corporation election would have terminated on Date 6 if it had not already terminated on Date 5.

X represents that the circumstances resulting in the ineffectiveness of X's S corporation election were inadvertent and were not motivated by tax avoidance or retroactive tax planning. Additionally, X represents that X and its shareholders have

filed their federal income tax returns consistent with having a valid S corporation election in effect for X.

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) of the Code 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(c)(2)(A)(i) provides that a trust, all of which is treated (under subpart E of part I of subchapter J of chapter 1) as owned by an individual who is a citizen or resident of the United States, may be an 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 QSST’s beneficiary will be treated as the owner (for purposes of § 678(a)) of the portion of the QSST’s S corporation stock to which the election under § 1362(d)(2) applies.

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)(D) provides that an election under § 1362(d)(2) shall be effective up to 15 days and 2 months before the date of the election.

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 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 (with 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)(iii) of the Income Tax Regulations provides that if S corporation stock is transferred to a trust, the QSST election must be made within the 16-day-and-2-months period beginning on the day that the stock is transferred to the trust.

Section 1361(c)(2)(A)(v) provides that, for purposes of § 1362(b)(1)(B), an ESBT may be an S corporation shareholder.

Section 1361(e)(1)(A) provides that an ESBT means any trust if (i) such trust does not have as a beneficiary any person other than (I) an individual, (II) an estate, (III) an organization described in § 170(c)(2), (3), (4), or (5), or (IV) an organization described in § 170(c)(1) which holds a contingent interest in such trust and is not a potential current beneficiary, (ii) no interest in such trust was acquired by purchase, and (iii) an election under § 1361(e) applies to such trust.

Section 1361(e)(1)(B) provides that an ESBT does not include (i) any qualified subchapter S trust (as described in § 1361(d)(3)) if an election under § 1361(d)(2) applies to any corporation the stock of which is held by such trust, (ii) any trust exempt from tax under subtitle A, and (iii) any charitable remainder annuity trust or charitable remainder unitrust (as defined in § 664(d)).

Section 1361(e)(3) provides that an election under § 1361(e) shall be made by the trustee. Any such election shall apply to the taxable year of the trust for which made and all subsequent taxable years of such trust unless revoked with the consent of the Secretary.

Section 1.1361-1(m)(2)(i) provides, in relevant part, that the trustee of the trust must make the ESBT election by signing and filing, with the service center where the S corporation files its income tax return, a statement that meets the requirements of § 1.1361-1(m)(2)(ii). Generally, only one ESBT election is made for the trust, regardless of the number of S corporations whose stock is held by the ESBT. However, if the ESBT holds stock in multiple S corporations that file in different service centers, the ESBT election must be filed with all the relevant service centers where the corporations file their income tax returns. This requirement applies only at the time of the initial ESBT election; if the ESBT later acquires stock in an S corporation which files its income tax return at a different service center, a new ESBT election is not required.

Section 1.1361-1(m)(2)(iii) provides that the trustee of an ESBT must file the ESBT election within the time requirements prescribed in § 1.1361-1(j)(6)(iii) for filing a QSST election (generally within the 16-day-and-2-month period beginning on the day that the stock is transferred to the trust).

Section 1362(d)(2)(A) provides that an election under § 1362(a) shall be terminated whenever the 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 S corporation election terminated on Date 5, when Trust 1 became an ineligible shareholder. We also conclude that X's S corporation election would have terminated on Date 6, when Trust 2 and Trust 3 became ineligible shareholders. We further conclude that the termination of X's S corporation election was inadvertent within the meaning of § 1362(f). Therefore, pursuant to the provisions of § 1362(f), X will be treated as continuing to be an S corporation effective Date 5 and thereafter, provided X's S corporation election is valid and not otherwise terminated under § 1362(d).

This relief is contingent on (i) the beneficiary of Trust 1 filing a QSST election for Trust 1 effective Date 5 within 120 days of the date of this letter, (ii) the trustees of Trust 2 and Trust 3 filing ESBT elections effective Date 6 with the appropriate service center within 120 days of the date of this letter, and (iii) 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 the QSST and ESBT elections and any original or amended returns.

Furthermore, as an adjustment under § 1362(f)(4), a payment of \$n with a copy of this letter within 45 days from the date of this letter must be sent to the following address:

Internal Revenue Service
Kansas City Service Center
333 W. Pershing Road
Kansas City, MO 64108
Stop 7777
Attn: Manual Deposit.

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 Date 5.

Except as specifically rules upon above, we express or imply no opinion concerning the federal tax consequences of the facts of this case under any other provision of the Code and the regulations thereunder, including whether X was otherwise a valid S corporation, whether Trust 1 is eligible to be a QSST under § 1361(d), or whether Trust 2 and Trust 3 are eligible to be ESBTs under § 1361(e).

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 requested ruling, 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 X's authorized representative.

Sincerely,

Associate Chief Counsel
(Passthroughs, Trusts, and Estates)

By:

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

Enclosure:

Copy of this letter for § 6110 purposes

cc: