Internal Revenue Service

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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:B01
PLR-115326-25
PLR-115327-25

Date:
March 25, 2026

LEGEND

X =

Y =

Z =

Trust 1 =

Trust 2 =

A =

B =

State =

Date 1 =

Date 2 =

Date 3 =

Date 4 =

Date 5 =

Date 6 =

Date 7 =

Date 8 =

Date 9 =

Date 10 =

Date 11 =

Date 12 =

$n =

Dear :

This letter responds to a letter dated August 14, 2025, and subsequent correspondence, submitted on behalf of X and Y by their authorized representatives, requesting relief under § 1362(f) of the Internal Revenue Code (Code).

FACTS

The information submitted states that X, Y, and Z were incorporated on Date 1, Date 2, and Date 3, respectively, under the laws of State. X elected to be an S corporation effective Date 4. Y elected to be an S corporation effective Date 5. Z elected to be an S corporation effective Date 6. A, who owned shares of Y and Z stock, died on Date 7. B, who owned shares of Y and Z stock, died on Date 8. On Date 9, A and B's estates transferred shares of Y and Z stock to Trust 1 and Trust 2 pursuant to the terms of A and B's wills. Trust 1 and Trust 2 qualified as eligible S corporation shareholders of Y and Z for the two-year period beginning on the day the shares of Y and Z stock were transferred to the trusts, and ending Date 11 under § 1361(c)(2)(A)(iii). In addition, Z merged into X on Date 10. X's S corporation election terminated as of Date 10 due to Trust 1 and Trust 2 holding interests in X stock following the merger.

X and Y represent that beginning on Date 9, Trust 1 and Trust 2 met the requirements of an Electing Small Business Trust (ESBT) within the meaning of § 1361(e)(1)(A).

However, the trustees of Trust 1 and Trust 2 did not make timely elections for Trust 1 and Trust 2 to be treated as ESBTs under § 1361(e)(3), thus causing X and Y's S corporation elections to terminate effective Date 10 and Date 11, respectively.

X and Y represent that there was no tax avoidance or retroactive tax planning involved in the failure of Trust 1 and Trust 2 to file ESBT elections and the resulting termination of X and Y's S corporation elections. X and Y and their respective shareholders agree to make any adjustments required as a condition of obtaining relief as provided under § 1362(f) of the Code that 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 an S corporation shareholder, but only for the 2-year period beginning on the day on which such stock is transferred to it.

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

Section 1361(e)(1)(A) provides that, for purposes of § 1361, except as provided in § 1361(e)(1)(B), the term "electing small business trust" 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)-(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)(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) of the Income Tax Regulations provides, in part, that the trustee of an ESBT must make the ESBT election by signing and filing, with the service center for which 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.

Section 1.1361-1(m)(2)(iii) provides that the ESBT election must be filed 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 the stock is transferred to the trust).

Section 1.1361-1(m)(2)(iv) provides that a trust that is a qualified S corporation shareholder under § 1361(c)(2)(A)(ii) or (iii) may elect ESBT treatment at any time during the 2-year period described in those sections or the 16-day and 2-month period beginning on the date after the end of the 2-year period.

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 terminated under § 1362(d)(2), (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 such 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 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 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 and Y's S corporation elections terminated on Date 10 and Date 11, when Trust 1 and Trust 2 became ineligible shareholders due to the trustees of Trust 1 and Trust 2 failing to make an ESBT election for each of Trust 1 and Trust 2. We further conclude that the circumstances resulting in the termination of X and Y's S corporation elections were inadvertent within the meaning of § 1362(f). Accordingly, X and Y will be treated as S corporations from Date 10 and Date 11, respectively, and thereafter, provided X and Y's S corporation elections are otherwise effective and not terminated under § 1362(d).

This ruling in contingent upon the trustees of Trust 1 and Trust 2 filing appropriately completed ESBT elections for Trust 1 and Trust 2 effective on Date 10, and upon Trust 1 and Trust 2 and their beneficiaries filing timely amended federal income tax returns for all open years consistent with the treatment of Trust 1 and Trust 2 as ESBTs effective Date 10. The election must be made and the amended returns must be timely filed with the appropriate service center within 120 days following the date of this letter, and a copy of this letter should be attached to the returns.

Furthermore, as an adjustment under § 1362(f)(4), a payment of $n and a copy 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

This payment and a copy of this letter must be sent no later than Date 12.

If the conditions are not met, this ruling is null and void. In addition, if these conditions are not met, X and Y must notify the service center with which they file their S corporation elections that their elections terminated on Date 10 and Date 11, respectively.

Except as specifically ruled 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. Specifically, we express or imply no opinion regarding X, Y, or Z's respective eligibility to be an S corporation or Trust 1 and Trust 2's respective eligibility to be an ESBT.

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 and Y's authorized representative.

Sincerely,

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

Enclosure
Copy for § 6110 purposes

cc: