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-119790-25

Date:
May 29, 2026

LEGEND

X =

State =

A =

Date 1 =

Date 2 =

Date 3 =

Date 4 =

Trust 1 =

Trust 2 =

n =

Dear :

This ruling is in response to a letter dated November 11, 2025, and subsequent correspondence, submitted on behalf of X by X's authorized representative, requesting relief under § 1362(f) of the Internal Revenue Code ("Code").

FACTS

The information submitted states that X was organized as a limited liability company on Date 1 under the laws of State and filed an election under § 1362(a) to be treated as an S corporation effective Date 2. Trust 1, a grantor trust of A, held shares of X stock on Date 2. On Date 3, A died. Trust 1 remained an eligible shareholder under 1361(c)(2)(A)(ii). On Date 4, shares of X held in Trust 1 were transferred to Trust 2. X represents that Trust 2 is eligible to be an electing small business trust (ESBT) within the meaning of § 1361(e) effective Date 4. However, the trustee of Trust 2 made no election under § 1361(e)(3) to treat Trust 2 as an ESBT. Therefore, Trust 2 was not a permissible shareholder and, as a result, X's S corporation election terminated on Date 4.

X represents that there was no tax avoidance or retroactive tax planning involved in the failure of Trust 2 to file an ESBT election and the resulting termination of X's S corporation election. X and its shareholders agree to make any adjustments that may be required by the Secretary as a condition of obtaining relief under the inadvertent termination rule as provided under § 1362(f) of the Code.

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)(v) provides that for purposes of § 1361(b)(1)(B), an ESBT is a permissible 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)(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 part, that the trustee of an ESBT 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).

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 that the stock is transferred to the trust).

Section 1362(d)(2)(A) provides that an election under § 1362(a) shall 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 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.

Section 1.1362-4(d) provides that the Commissioner may require any adjustments that are appropriate. In general, the adjustments required should be consistent with the treatment of the corporation as an S corporation during the period specified by the Commissioner.

CONCLUSION

Based solely on the facts submitted and the representations made, we conclude that X's S election terminated on Date 4 because an ESBT election was not filed for Trust 2. We further conclude that the termination of X's S corporation election on Date 4 was inadvertent within the meaning of § 1362(f). Accordingly, X will be treated as an S corporation effective Date 4, and thereafter, provided X's S corporation election is valid and not otherwise terminated under § 1362(d).

This ruling is contingent upon the trustee of Trust 2 filing an appropriately completed ESBT election for Trust 2 effective Date 4, and upon Trust 2 and its beneficiaries filing timely amended federal income tax returns for all open years consistent with the treatment of Trust 2 as an ESBT effective Date 4.

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.

Additionally, as an adjustment under § 1362(f)(4), X must send a payment of $n with a copy of this letter within 45 days from the date of this letter 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. Furthermore, if these conditions are not met, X must notify the service center with which it filed its S corporation election that its S corporation election terminated Date 4.

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’s eligibility to be an S corporation or Trust 2’s 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 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 the power of attorney on file with this office, a copy of this letter is being sent to the taxpayer's 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

cc: