Internal Revenue Service

Number: **202645006**
Release Date: 11/6/2026

Index Number: 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:PTE:01
PLR-102491-26

Date:
August 07, 2026

LEGEND

X =

Trust 1 =

Trust 2 =

A =

B =

State =

Date 1 =

Date 2 =

Dear :

This letter responds to a letter dated December 24, 2025, and subsequent correspondence, submitted on behalf of X by its authorized representatives, requesting relief under § 1362(f) of the Internal Revenue Code (the “Code”).

FACTS

The information submitted states that X was incorporated under the laws of State on Date 1 and elected to be treated as an S corporation effective Date 1. As of Date 1, Trust 1 and Trust 2 (collectively the "Trusts") were the sole shareholders of X. Trust 1 and Trust 2 are trusts, all of which are treated (under subpart E of part I of subchapter J of chapter 1 of the Code) as owned by A and B, respectively, each of whom is an individual who is a citizen of the United States. The terms of the Trusts were drafted with the intention of qualifying as eligible S corporation shareholders under § 1361(c)(2)(A)(i). However, X learned that the appointment of a foreign trustee may have caused the Trusts to be classified as "foreign trusts" under § 7701(a)(31)(B) as of Date 1, which would cause the Trusts to be ineligible S corporation shareholders. Therefore, X's S corporation election may have been ineffective.

Effective Date 2, each of the Trusts replaced its foreign trustee with a United States trustee to ensure there would be no ambiguity going forward as to whether the Trusts were foreign (and thus ineligible shareholders) or domestic. X represents that all income with respect to the stock of X held by the Trusts was consistently reported on the federal income tax returns of A and B as if the Trusts were domestic grantor trusts since Date 1.

X also represents that the circumstances resulting in the potential ineffectiveness of its S corporation election were inadvertent, unintended, and not the result of tax avoidance or retroactive planning. X and its shareholders have agreed to make any adjustments required as a condition of obtaining relief under § 1362(f) that the Commissioner may require, consistent with the treatment of X as an S corporation.

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 the 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) provides that certain trusts are permitted as an S corporation shareholder. This includes a trust described in § 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.

Section 1361(c)(2)(A) provides, in part, that § 1361(c)(2) shall not apply to any foreign trust.

Section 1362(a)(1) provides that, except as provided in § 1362(g), a small business corporation may elect, in accordance with the provisions of § 1362, to be an S corporation.

Section 1362(b)(1) provides that an election under § 1362(a) may be made by a small business corporation for any taxable year (A) at any time during the preceding taxable year, or (B) at any time during the taxable year and on or before the 15th day of the third month of the taxable year.

Section 1362(f) provides that if (1) an election under § 1362(a) by any corporation (A) 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 (B) was terminated under paragraph (2) or (3) of § 1362(d); (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 (A) so that the corporation is a small business corporation, or (B) to acquire the required shareholder consents, and (4) the corporation, and each person who was a shareholder of the corporation at any time during the period specified pursuant to § 1362(f), agrees to make such adjustments (consistent with the treatment of the 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, the corporation shall be treated as an S corporation during the period specified by the Secretary.

Section 7701(a)(30)(E) provides that a trust is a “United States person,” or domestic trust, for federal tax purposes if (i) a court within the United States is able to exercise primary supervision over the administration of the trust (the “court test”), and (ii) one or more United States persons have the authority to control all substantial decisions of the trust (the “control test”). Section 7701(a)(31)(B) defines a “foreign trust” to mean any trust other than a domestic trust defined in section 7701(a)(30)(E). A trust is a foreign trust for federal tax purposes if it fails either the court test or the control test.

CONCLUSION

Based solely on the facts submitted and the representations made, we conclude that X's S corporation election may have been ineffective on Date 1. We further conclude that the potential ineffectiveness of X's S corporation election was inadvertent within the meaning of § 1362(f). Consequently, under § 1362(f), we rule that X will be treated as an S corporation from Date 1 and thereafter, provided that X’s S corporation election was otherwise valid and not otherwise terminated under § 1362(d).

Except as specifically ruled above, we express or imply no opinion as to the federal income tax consequences of the facts described above under any other provision of the Code. Specifically, we express or imply no opinion as to whether X is otherwise eligible to be treated as an S corporation. Further, we express or imply no opinion on whether the Trusts are domestic or foreign trusts under § 7701. The taxpayer is advised that if the trusts have been classified as foreign trusts since inception, reporting obligations may apply under § 6048.

This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) provides that it may not be used or cited as precedent.

The ruling contained in this letter is based on 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.

Pursuant to the power of attorney on file with this office, we are sending a copy 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 letter for § 6110 purposes

cc: