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LEGEND

W =

X =

Y =

Z =

A =

Partnership =

State =

Trust 1 =

Trust 2 =

Trust 3 =

Trust 4 =

Trust 5 =

Trust 6 =

Trust 7 =

Trust 8 =

Date 1 =

Date 2 =

Date 3 =

Date 4 =

Date 5 =

Date 6 =

Date 7 =

Date 8 =

Date 9 =

Date 10 =

Date 11 =

Dear :

This letter responds to letters dated February 2, 2026, and subsequent correspondence, submitted on behalf of State corporations, W, X, Y and Z (Taxpayers), by their authorized representatives, requesting rulings under § 1362(f) of the Internal Revenue Code (Code).

FACTS

According to the information submitted and representations made, W was incorporated on Date 5 and elected to be treated as an S corporation effective Date 6. X was incorporated on Date 1 and elected to be treated as an S corporation effective Date 2. Y was incorporated on Date 7 and elected to be treated as an S corporation effective Date 8. Z was incorporated on Date 3 and elected to be treated as an S corporation effective Date 4.

Upon the death of A, the shares in W, X and Y were transferred to Trust 1, Trust 2, Trust 3, Trust 4, Trust 5, Trust 6, Trust 7 and Trust 8 (Trusts) on Date 9, and on the same day, the Trusts contributed all the shares received in W, X and Y to Partnership, a limited liability company classified as a partnership for federal tax purposes. The shares in Z were transferred to Trusts on Date 10, and on the same day, the Trusts contributed all the shares received in Z to Partnership. On Date 11, Partnership distributed all its interests in W, X, Y and Z to Trusts.

Taxpayers represent that Trust 1, Trust 2 and Trust 8 are Electing Small Business Trusts (ESBTs) under § 1361(e) because they obtained late election relief under Revenue Procedure 2013-30, 2013-36 I.R.B. 173. Further, Taxpayers represent that Trust 3, Trust 4, Trust 5, Trust 6 and Trust 7 have at all times since Date 9 met the requirements to be ESBTs except that the respective trustees failed to make timely ESBT elections under § 1361(e)(3). As a result, the respective S corporation elections of W, X, Y terminated on Date 9 and Z's S corporation election terminated on Date 10.

Because Partnership was an ineligible shareholder under § 1361(b)(1)(B), the respective S corporation elections of W, X and Y would have terminated on Date 9 because of the transfers of the W, X, Y shares to Partnership had such elections not already terminated on Date 9 because of the transfers to Trusts. Further, Z's S corporation election would have terminated on Date 10 because of the transfer of the Z

shares to Partnership had such election not already terminated on Date 10 because of the transfer to Trusts.

Taxpayers represent that the failure to make valid ESBT elections for Trust 3, Trust 4, Trust 5, Trust 6 and Trust 7, the transfers by the Trusts of shares in Taxpayers to Partnership, and the circumstances resulting in the termination of Taxpayers' respective S corporation elections were inadvertent and not motivated by tax avoidance or retroactive tax planning. Taxpayers further represent that W, X, Y and Z and their shareholders have filed their federal income tax returns consistently with having valid S corporation elections in effect for all taxable years since Date 6, Date 2, Date 8, and Date 4, respectively. W, X, Y and Z and their shareholders have agreed to make any adjustments consistent with the treatment of W, X, Y, and Z as S corporations 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(c)(2)(A)(v) provides that, for purposes of § 1362(b)(1)(B), an ESBT is a permitted 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.

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 the S corporation elections of W, X and Y terminated on Date 9 and Z's S corporation election terminated on Date 10, because the respective trustees of each of the Trusts failed to make valid elections under § 1361(e)(3) to be treated as ESBTs effective Date 9, and Partnership was an ineligible shareholder under § 1361(b)(1)(B). We further conclude that the terminations of the S corporation elections of W, X, Y and Z were inadvertent within the meaning of § 1362(f). Accordingly, pursuant to the provisions of § 1362(f), W, X and Y will continue to be treated as S corporations from Date 9 and thereafter, and Z will continue to be treated as an S corporation from Date 10 and thereafter, provided the S corporation elections were valid and have not otherwise terminated under § 1362(d).

This ruling is contingent on the respective trustees of each of the Trusts filing within 120 days of the date of this letter, ESBT elections (as applicable) effective Date 9

with the appropriate service center. A copy of this letter should be attached to all required ESBT elections. If these conditions are not met, then this ruling is null and void.

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 W, X, Y or Z are otherwise eligible to be S corporations or whether the Trusts are otherwise eligible to be ESBTs.

The ruling contained in this letter is based upon information and representations submitted by the Taxpayers 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 taxpayers 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 powers of attorney on file with this office, we are sending copies of this letter to the Taxpayers' authorized representatives.

Sincerely,

Elizabeth V. Zanet
Senior Technician Reviewer, Branch 3
Office of the Associate Chief Counsel
(Passthroughs, Trusts, and Estates)

Enclosure:
Copy of this letter for § 6110 purposes

cc: