

## Internal Revenue Service

Department of the Treasury  
Washington, DC 20224

Number: **202549001**

Release Date: 12/5/2025

Index Number: 1362.00-00, 1362.04-00,  
1362.02-00

Third Party Communication: None

Date of Communication: Not Applicable

Person To Contact:  
, ID No.

Telephone Number:

Refer Reply To:

CC:PSI:1

PLR-103926-25

Date:

August 26, 2025

### LEGEND

X =

A =

B =

Trust =

State =

Country =

Date 1 =

Date 2 =

Date 3 =

Date 4 =

Date 5 =

Dear                   :

This responds to a letter dated February 7, 2025, submitted on behalf of X by X's authorized representatives, requesting relief under section 1362(f) of the Internal Revenue Code (the Code).

### FACTS

X was incorporated under the laws of State on Date 1 and elected to be treated as an S corporation, effective Date 1.

A, a shareholder of X and a dual citizen of the United States and Country, renounced A's United States citizenship on Date 2, making A an ineligible shareholder and causing X's S election to terminate on Date 2. A did not understand that the renunciation would disqualify X from S corporation status and X did not learn that A had renounced A's United States citizenship until about Date 4. After being informed of this, A promptly sold A's shares in X to B, a United States Citizen, on Date 5.

Trust became a shareholder of X on Date 3 after the administration and settlement of a an estate that held shares of X. X represents that at all times beginning on Date 3, Trust met the requirements of a qualified subchapter S trust (QSST) as described in §1361(d). However, the trustee of X failed to make the election under § 1361(d)(2) for Trust to be treated as a QSST, which would have caused X's S corporation election to terminate on Date 3 if it had not already terminated on Date 2.

X represents that the circumstances resulting in the termination of its S corporation election were inadvertent and were not motivated by tax avoidance or retroactive tax planning. X further represents that A consistently reported on A's individual federal tax returns all income attributable to A's shares of X prior to Date 5. X also represents that all income with respect to the stock of X held by Trust has been consistently reported by Trust's beneficiaries on their individual federal tax returns as if the QSST election for Trust had been in effect since Date 3. Additionally, X represents that X and its shareholders filed all returns consistent with X's status as an S corporation. Finally, X and its shareholder agreed to make any adjustments (consistent with the treatment of X as an S corporation) as may be required by the Secretary.

### LAW AND ANALYSIS

Section 1362(a) provides that a small business corporation may elect to be an S corporation.

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) provides that a “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 1 class of stock.

Section 1361(d)(1) provides, in part, that in the case of a QSST with respect to which a beneficiary makes an election under § 1361(d)(2) (A) such trust shall be treated as a trust described in § 1361(c)(2)(A)(i), and (B) for purposes of § 678(a), the beneficiary of such trust shall be treated as the owner of that portion of the trust which consists of stock in an S corporation with respect to which the election under § 1361(d)(2) is made.

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 income beneficiary in the trust shall terminate on the earlier of such beneficiary's death or the termination of the trust; and (iv) upon 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 (within 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 1362(d)(2)(A) provides that an election under § 1362(a) shall be terminated whenever the corporation ceases to be a small business corporation. A termination of an S corporation under § 1362(d)(2) 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) 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 2 when A renounced A's United States citizenship. We also conclude that if X's S corporation election had not already terminated on Date 2, it would have terminated on Date 3 when Trust acquired shares in X. We further conclude that the termination of X's S election was inadvertent within the meaning of § 1362(f). Therefore, pursuant to the provisions of § 1362(f), X will be treated as an S corporation effective Date 2 and thereafter, provided X's S corporation election is valid and not otherwise terminated under § 1362(d).

This relief is contingent on the beneficiary of Trust filing a QSST election effective Date 3 with the appropriate service center within 120 days from the date of this letter, attaching a copy of this letter to the QSST election.

Except as specifically ruled 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. Specifically, we express or imply no opinion regarding X's eligibility to be an S corporation or the eligibility of Trust to be treated as a QSST.

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 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 a copy of this letter to X's authorized representatives.

Sincerely,

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Joy C. Spies  
Senior Technician Reviewer, Branch 1  
(Passthroughs & Special Industries)

Enclosure (1)

Copy of letter for § 6110 purposes

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cc: