

**Internal Revenue Service**

Department of the Treasury  
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Person To Contact: \_\_\_\_\_, ID No.

Telephone Number:

Refer Reply To:  
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PLR-102630-17

Date:  
April 10, 2017

LEGEND

X =

Y =

M =

N =

O =

A =

B =

C =

State =

Year =

Date1 =

Date2 =

Date3 =

Date4 =

Dear \_\_\_\_\_ :

This responds to a letter dated January 10, 2017, and subsequent correspondence, submitted on behalf of X by X's authorized representative, requesting a ruling under §1362(f) of the Internal Revenue Code (the Code).

The information submitted states that X was incorporated under the laws of State on Date1. X also elected to be an S corporation effective Date1. Initially, all of the shares of X were owned in equal proportion by A, B, and C. On Date2, A, B and C each transferred all of their ownership interests in X to M, N, and O, respectively. M, N, and O were single-member limited liability companies (LLCs) formed under the laws of State whose interests were entirely owned by A, B, and C, respectively. M, N, and O were disregarded as entities separate from their owners for U.S. federal income tax purposes.

In Year, following the advice of a tax professional, C made an election to treat O as an S corporation effective Date3. At the time of this election, C and his tax advisor were unaware that such election would terminate the S election of X. X represents that X and its shareholders were unaware that C had made the S election on behalf of O and that X's S election had terminated on Date3 as a result. X further represents that X and its shareholders did not intend to terminate X's S election on Date3. On Date4, all of the ownership interests in X were sold to Y, an ineligible S corporation shareholder.

X represents that X and all of X's shareholders have filed tax returns consistent with X being an S corporation since Date1. X further represents that the circumstances resulting in the termination of X's S corporation election were inadvertent and were not motivated by tax avoidance or retroactive tax planning. X and its shareholders have agreed to make such adjustments consistent with the treatment of X as an S corporation as may be required by the Secretary.

Section 1362(f) provides that if (1) an election under § 1362(a) by a 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 § 1362(d)(2) or (3), (2) the Secretary determines that the circumstances resulting in the ineffectiveness or termination were inadvertent, (3) no later than a reasonable period of time after discovery of the circumstances resulting in the ineffectiveness or termination, steps were taken (A) so that the corporation is a small business corporation or (B) to acquire the 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 the ineffectiveness or termination, the corporation will be treated as an S corporation during the period specified by the Secretary.

Based solely on the facts submitted and the representations made, we conclude that X's S corporation election terminated on Date3 as the result of O becoming an ineligible S corporation shareholder on that date while owning X stock. We further conclude that the termination of X's S corporation election on Date3 was inadvertent within the meaning of § 1362(f). We further hold that, pursuant to the provisions of § 1362(f), X will be treated as continuing to be an S corporation from Date3 and thereafter, until Date4, provided that X's S corporation election was valid and provided that the election was not otherwise terminated under § 1362(d).

Except as specifically set forth above, no opinion is expressed concerning the federal tax consequences of the facts described above under any other provision of the Code. Specifically, no opinion is expressed regarding X's eligibility to be an S corporation or the validity of its S corporation election.

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.

The rulings contained in this letter are 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 request for rulings, it is subject to verification on examination.

In accordance with the power of attorney on file with this office, we are sending copies of this letter to X's authorized representatives.

Sincerely,

Bradford R. Poston  
Senior Counsel, Branch 3  
Office of Associate Chief Counsel  
(Passthroughs & Special Industries)

Enclosures (2)  
Copy of this letter  
Copy for § 6110 purposes

cc: