

**Internal Revenue Service**

Department of the Treasury  
Washington, DC 20224

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Person To Contact:  
, ID No.  
Telephone Number:

Refer Reply To:  
CC:PSI:B01  
PLR-100233-08  
Date: September 9, 2008

Legend:

X =

State =

D1 =

D2 =

Y =

Dear :

This responds to the letter dated July 21, 2008, and related correspondence, submitted on behalf of X, requesting relief under ' 1362(f) of the Internal Revenue Code (ACode@) for an inadvertent termination of S election.

**FACTS**

The information submitted states that X was organized as a limited liability company under the laws of State. X elected to be treated as an S corporation effective D1. On D2, Y, an ineligible shareholder of an S corporation, acquired X and became

the sole shareholder of X. Upon discovery of the error, Y transferred its X stock to eligible shareholders of an S corporation.

### **LAW AND ANALYSIS**

Section 1361(a)(1) defines an "S corporation" as a small business corporation for which an election under § 1362(a) is in effect for the taxable year.

Section 1361(b)(1)(B) provides that a small business corporation cannot 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 1362(d)(2)(A) provides that an election under ' 1362(a) shall be terminated whenever (at any time on or after the first day of the taxable year for which the corporation is an S corporation) the corporation ceases to be a small business corporation.

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 consent, or (B) was terminated under § 1362(d)(2) or (3), (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 the 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 this subsection, 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 termination, such corporation shall be treated as an S corporation during the period specified by the Secretary.

### **CONCLUSION**

Based solely upon the facts submitted and the representations made, we conclude that, as of D2, X did not meet the requirements of § 1361(b)(1)(B). Therefore, X's S election terminated on D2. We further conclude that the termination of X's S election constituted an inadvertent termination within the meaning of § 1362(f).

Under § 1362(f), X will be treated as an S corporation from D2, and thereafter, provided that X's S election was otherwise valid and has not otherwise terminated under § 1362(d).

This ruling is contingent upon X and all its shareholders treating X as having been an S corporation for the period beginning D2, and thereafter.

Except as specifically ruled upon above, no opinion is expressed as to the federal income tax consequences of the facts described above under any other provision of the code.

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, copies of this letter ruling will be sent to your authorized representatives.

Sincerely,

*David R. Haglund*

David R. Haglund  
Senior Technician Reviewer, Branch 1  
Office of the Associate Chief Counsel  
(Passthroughs and Special Industries)

Enclosures (2)

Copy of this letter  
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