

Internal Revenue Service

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Third Party Communication: None

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Person To Contact:

, ID No.

Telephone Number:

Refer Reply To:

CC:PSI:B03

PLR-112677-18

Date: September 14, 2018

LEGEND:

X =

Y =

Date 1 =

Date 2 =

Date 3 =

Date 4 =

Date 5 =

State =

Z =

N =

PLR-112677-18

Dear :

This responds to a letter dated April 6, 2018, on behalf of X by its authorized representative requesting a ruling under § 1362(f) of the Internal Revenue Code.

FACTS

X was organized on Date 1 as a corporation under the laws of State. Effective Date 2, Y filed an election to treat X as a qualified subchapter S subsidiary (QSub). Originally, Y, an S corporation, owned all of the shares of X.

On Date 3, X entered into a subscription agreement with Z pursuant to which it issued and sold N additional shares of common stock to Z. Various other sales and transfers of X stock to persons other than Y occurred prior to Date 4.

On Date 4, X learned that the transfer of its shares to Z terminated its QSub status. In response, X and Y took corrective action to ensure that all the assets, liabilities, and items of income, deduction and credit of X became and were once more the assets, liabilities, and items of income, deduction and credit of Y.

X represents that X and Y intended for X to be a QSub effective Date 2. X and its current and former shareholders agree to make any adjustments required as a condition of obtaining relief under the inadvertent termination rule as provided in § 1362(f).

LAW AND ANALYSIS

Section 1361(b)(3)(A) provides that a QSub shall not be treated as a separate corporation, and all assets, liabilities, and items of income, deduction, and credit of a QSub shall be treated as assets, liabilities, and such items (as the case may be) of the S corporation.

Section 1361(b)(3)(B) defines a QSub as a domestic corporation which is not an ineligible corporation, if 100 percent of the stock of the corporation is owned by the S corporation, and the S corporation elects to treat the corporation as a QSub.

Section 1362(f) provides, in relevant part, that if: (1) an election under § 1362(a) or § 1361(b)(3)(B)(ii) by any corporation was terminated under § 1362(d)(2) or (3) or § 1361(b)(3)(C); (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 such termination, steps were taken so that the corporation for which the termination occurred is a QSub; 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 pursuant to § 1362(f), agree to make the adjustments (consistent with the treatment of the corporation as a QSub) as may be required by the Secretary with respect to this period, then, notwithstanding the circumstances resulting in such termination, the corporation shall be treated as a QSub during the period specified by the Secretary.

CONCLUSION

Based on the facts submitted and the representations made, we conclude that X's QSub election terminated on Date 3 when X transferred shares of X stock to Z. However, we conclude that such termination was inadvertent within the meaning of § 1362(f). Therefore, X will be treated as a QSub from Date 2 through Date 5, provided Y's S corporation election was valid and has not terminated under § 1362(d) and that X's QSub election was valid and, apart from the inadvertent termination ruling described above, has not otherwise terminated.

Except as specifically ruled upon 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 X's eligibility to be a QSub.

The ruling contained in this letter is based upon information and representations submitted by the taxpayer and is 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 this request, it is subject to verification on examination.

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

Pursuant to a power of attorney on file with this office, we are sending copies of this letter to your authorized representatives.

Sincerely,

James A. Quinn
Senior Counsel, Branch 3
Office of the Associate Chief Counsel
(Passthroughs and Special Industries)

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

CC: