

Internal Revenue Service

Department of the Treasury

Number: **200252075**

Washington, DC 20224

Release Date: 12/27/2002

Index Numbers: 1361.05-00, 1362.01-03,
9100.00-00

Person to Contact:

Telephone Number:

Refer Reply To:

CC:PSI:1-PLR-143109-02

Date:

Sept 20 2002

Legend:

X =

Y =

Shareholders =

D1 =

D2 =

Dear :

This responds to your letter dated June 6, 2002, submitted on behalf of X, requesting relief under § 1362(b)(5) of the Internal Revenue Code as well as an extension of time under § 301.9100-1(c) of the Procedure and Administration Regulations to elect to treat Y as a qualified subchapter S subsidiary (QSub) for federal tax purposes.

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Facts

According to the information submitted, X was incorporated on D1. Shareholders, the shareholders of X, intended that X be treated as an S corporation effective on D1, but the election to be treated as an S corporation was not timely filed. Accordingly, X requests a ruling that it will be treated as an S corporation effective D1. Additionally, on D2, X acquired Y. X intended to treat Y as a QSub effective D2; however, X inadvertently failed to timely file the proper election.

Law and Analysis

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

Section 1362(b) provides the rule on when an S election will be effective. Generally, if an election to be treated as an S corporation is made within the first two and one-half months of a corporation's taxable year, then the corporation will be treated as an S corporation for the year in which the election is made. Section 1362(b)(3) provides that if an S election is made after the first two and one-half months of a corporation's taxable year, then that corporation will not be treated as an S corporation until the taxable year following the year the S election is made.

Section 1362(b)(5) provides that if (1) no § 1362(a) election is made for any taxable year and (2) the Secretary determines that there was reasonable cause for the failure to timely make such election, then the Secretary may treat such an election as timely made for such taxable year and § 1362(b)(3) shall not apply.

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 that is not an ineligible corporation, if 100 percent of the stock of the corporation is owned by an S corporation, and the S corporation elects to treat the corporation as a QSub.

A taxpayer makes a QSub election with respect to a subsidiary by filing a Form 8869, Qualified Subchapter S Subsidiary Election, with the appropriate service center.

Section 1.1361-3(a)(4) of the Income Tax Regulations provides that the election will be effective on the date specified on the election form or on the date the election is filed if no date is specified. The effective date specified on the election form cannot be more than two months and 15 days prior to the date of filing and cannot be more than

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12 months after the date of filing.

Section 301.9100-1(c) provides that the Commissioner has discretion to grant a reasonable extension of time under the rules set forth in § 301.9100-3 to make a regulatory election. Section 301.9100-1(b) defines a regulatory election as an election with a due date prescribed by a regulation published in the Federal Register, or a revenue ruling, revenue procedure, notice, or announcement published in the Internal Revenue Bulletin.

Requests for relief under §301.9100-3 will be granted when the taxpayer provides evidence to establish that the taxpayer acted reasonably and in good faith, and that granting relief will not prejudice the interests of the Government. Section 301.9100-3(a).

Conclusion

Based solely on the facts submitted and the representations made, and provided that X otherwise qualifies as an S corporation, we conclude that X will be treated as an S corporation effective D1. X must submit a properly completed Form 2553 with the appropriate service center within 60 days from the date of this letter. A copy of this letter should be attached to the election and is included for that purpose.

We further conclude that X has satisfied the requirements of §§ 301.9100-1 and 301.9100-3. Accordingly, Y will be treated as a QSub, effective D2. X must submit a properly completed Form 8869 with the appropriate service center within 60 days from the date of this letter. A copy of this letter should be attached to the election and is included for that purpose.

Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences of any aspect of any transaction or item discussed or referenced in this letter. Specifically, no opinion is expressed concerning whether X is a valid S corporation or whether Y is a valid QSub.

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

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to the requested tax representative.

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Sincerely,

/s/ Heather C. Maloy

Heather C. Maloy
Associate Chief Counsel
(Passthroughs and Special Industries)

Enclosures: Copy for § 6110 purposes
Copy to be attached to Form 2553
Copy to be attached to Form 8869