

Internal Revenue Service

Department of the Treasury

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Washington, DC 20224

Person to Contact:

Telephone Number:

Refer Reply To:
CC:PSI:3 PLR-113283-02
Date:
May 9, 2002

LEGEND

X =

A =

B =

C =

State =

d1 =

Year 1 =

Year 2 =

Year 3 =

Dear :

This letter responds to a letter dated January 28, 2002, on behalf of X, requesting a ruling under § 1362(b)(5) of the Internal Revenue Code.

FACTS

According to the information submitted, X was incorporated under State law on d1. X's shareholders, A, B, and C, decided that X would be an S corporation. The shareholders relied on X's tax adviser to file X's Form 2553, Election by a Small Business Corporation, with an effective date of d1. However, the Form was not filed

timely. For taxable Years 1 and 2, X originally filed Form 1120S, U.S. Income Tax Return for an S Corporation. After the Service Center informed X that there was no record of an S election being made, X and X's shareholders filed amended returns treating X as a C corporation for taxable Years 1 and 2. X was unaware that relief for X's late S election may be available under § 1362(b)(5) and filed as a C corporation for taxable Year 3. Subsequently, X learned that relief under § 1362(b)(5) may be available.

X requests a ruling under § 1362(b)(5), that its § 1362(a) election will be treated as timely made for its taxable year that began on d1. X and X's shareholders agree to amend their tax returns consistent with the treatment of X as an S corporation for X's taxable Years 1, 2, and 3.

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 S election 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 the corporation will not be treated as an S corporation until the taxable year after the year in which the S election is made.

Section 1362(b)(5) provides that if (1) an election under § 1362(a) is made for any taxable year after the date prescribed by § 1362 for making the election or 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 the election, then the Secretary may treat the election as timely made for such taxable year and § 1362(b)(3) shall not apply.

CONCLUSION

Based on the facts submitted and representations made, we conclude that X has established reasonable cause for failing to make a timely S election for its taxable year that began on d1 and that X is eligible for relief under § 1362(b)(5). Accordingly, if X makes an election to be an S corporation by filing with the appropriate Service Center a completed Form 2553, containing an effective date of d1 for the election, within 60 days following the date of this letter, then such election will be treated as timely made. A copy of this letter should be attached to the Form 2553 filed with the Service Center. Furthermore, this ruling is contingent on X and its shareholders, A, B, and C, filing, within 60 days following the date of this letter, amended federal income tax returns consistent with the treatment of X as an S corporation for taxable Years 1, 2, and 3. A copy of this letter should be attached to each of the amended returns.

Except as expressly provided herein, we express or imply no opinion concerning the federal tax consequences of any aspect of any transaction or item discussed or referenced in this letter. Specifically, we express or imply no opinion concerning whether X is an S corporation for federal tax purposes.

Pursuant to a power of attorney on file with this office, we are sending a copy of this letter to X's authorized representative.

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.

Sincerely,
Mary Beth Collins
Senior Technician Reviewer, Branch 3
Office of the Associate Chief Counsel
(Passthroughs and Special Industries)

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

cc: