

Internal Revenue Service

Department of the Treasury

Number: **200339026**
Release Date: 09/26/2003
Index Number: 7701.00-00; 1361.03-01

Washington, DC 20224

Person to Contact:

Telephone Number:

Refer Reply To:
CC:PSI:2 - PLR-126058-03
Date:
June 23, 2003

LLC =

Trust =

A =

B =

State =

D1 =

D2 =

Dear :

This letter responds to your letter, dated March 10, 2003, and subsequent correspondence, submitted on behalf of LLC, requesting rulings under § 301.7701-3(b)(1)(ii) of the Procedure and Administration Regulations and § 1361(c)(2)(A)(i) of the Internal Revenue Code.

LLC is a limited liability company that was formed on D1. LLC is currently a disregarded entity for Federal income tax purposes. LLC owns interests in numerous S corporations. A is the sole member of LLC. A is married to B and both are residents of State, which is a community property state.

Trust was created on D2. A and B are the settlors and trustees of Trust. Trust is

PLR-126058-03

revocable by A or B. A and B plan to transfer all of their ownership interest in LLC to Trust.

Section 1361(b)(1)(B) provides that a "small business corporation" means a domestic corporation that is not an ineligible corporation and that does not 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 1361(c)(2)(A)(i) provides that for purposes of § 1361(b)(1)(B), a trust all of which is treated (under subpart E of part I of subchapter J of Chapter 1) as owned by an individual who is a citizen or resident of the United States may be a shareholder.

Section 301.7701-3(a) provides that a business entity that is not classified as a corporation under § 301.7701-2(b)(1), (3), (4), (5), (6), (7), or (8) (an eligible entity) can elect its classification for federal tax purposes.

Section 301.7701-3(b)(1)(ii) provides that unless a domestic eligible entity elects otherwise, the entity is disregarded as an entity separate from its owner if it has a single owner.

Based solely on the facts and the representations submitted, we conclude that following the transfer of A and B's ownership interest in LLC to Trust, Trust will be the sole owner of LLC and, therefore, LLC will be an eligible entity, disregarded as an entity separate from its owner, unless it elects otherwise. We further conclude that Trust is an eligible S corporation shareholder under § 1361(c)(2)(A)(i).

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.

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

PLR-126058-03

In accordance with the power of attorney on file with this office, copies of this letter are being sent to LLC and LLC's second authorized representative.

Sincerely yours,

Carolyn Hinchman Gray
Senior Counsel
Branch 2
Associate Chief Counsel
(Passthroughs and Special Industries)

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