



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

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Person to Contact and ID Number:

Contact Telephone Number:

Dear *****:

This letter responds to your letter dated October 16, 2012, to ***** , requesting information concerning the treatment of a limited liability company (“LLC”) for federal tax purposes.

A domestic LLC with a single owner or member (hereafter “owner”) is disregarded for federal tax purposes unless it elects to be regarded separately from its owner or member, in which case it is treated as an association that is taxable as a corporation. An LLC with two or more owners or members may elect to be treated either as a partnership or as an association that is taxable as a corporation.

If the sole owner of a disregarded LLC is a tax-exempt organization described in section 501(a) of the Internal Revenue Code (the “Code”), then the LLC is treated as a component part of the exempt organization, unless it elects to be regarded separately. See Announcement 99-102, 1999-43 I.R.B. 545. Announcement 99-102 requires the exempt owner of a disregarded LLC to treat the operations and finances of the LLC as its own in filing an annual information return as required under section 6033 of the Code.

As a general rule, a disregarded LLC whose sole owner is exempt from federal income tax under section 501(a) of the Code is not required to pay federal taxes or file a federal tax or information return; that is the responsibility of its sole owner. The disregarded entity receives the benefit of its owner’s tax-exempt status. An exception applies to employment taxes: for wages paid to employees of a disregarded entity on or after January 1, 2009, the disregarded entity must file separate employment tax returns. See sections 301.6109-1(h) and 301.7701-2(c)(2)(iv) of the Procedure and Administration Regulations.

A disregarded entity is allowed, but generally is not required, to obtain its own employer identification number (EIN) separate from its owner's EIN. It generally cannot use its own EIN for federal tax purposes, but must use its owner's EIN. However, the disregarded entity must use its own name and obtain and use its own EIN (1) for reporting and paying employment taxes, or (2) if it becomes recognized as a separate entity for federal tax purposes (i.e., no longer a disregarded entity). See section 301.6109-1(h)(2)(ii) of the Procedure and Administration regulations.

Where an exempt organization that is the sole member of an LLC needs to demonstrate the status of the LLC as a disregarded entity, such as to state officials, it should consider providing a copy of its annual information return, since that return would include financial and operational information of the disregarded LLC. In addition, an organization may request a private letter ruling regarding proposed transactions involving a disregarded LLC, such as whether such transaction would adversely affect the organization's tax-exempt status or result in unrelated trade or business taxation. See Revenue Procedure 2013-4, 2013-1 I.R.B. 126 (updated annually).

A single-owner LLC may affirmatively elect to be regarded separately from its sole owner for federal tax purposes by (1) obtaining more than one owner or member, (2) filing Form 8832 (Entity Classification Election) and electing classification as an association taxable as a corporation, or (3) claiming tax-exempt status. An organization may claim tax-exempt status for purposes of electing to be regarded separately from its sole member or owner for federal tax purposes by filing its own exemption application (e.g., Form 1023 or 1024) or annual information return (e.g., Form 990, 990-PF or 990-EZ). A disregarded LLC that claims its own tax-exempt status is treated as electing status as an association that is taxable as a corporation. The rules applicable to LLC classification elections are spelled out in section 301.7701 of the regulations.

A tax-exempt organization that is the sole owner of a disregarded LLC will not jeopardize its exempt status merely because the organizational documents of the LLC do not contain specific language limiting the LLC's purposes to one or more exempt purposes. However, the exempt status of the owner may be adversely affected if the disregarded LLC's organizational documents provide that the LLC will be operated for purposes that are contrary to the tax-exempt purposes of the owner.

This letter is for informational purposes only and is intended to provide general statements of well-defined law. It is not a ruling and may not be relied on as such. See Rev. Proc. 2013-4, 2013-1 I.R.B. 126 (or its successor). This letter will be made available for public inspection. The Internal Revenue Service will delete any name, address and other identifying information as appropriate under the Freedom of Information Act. See Announcement 2000-2, 2000-2 I.R.B. 295. If you have any questions, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely,

David L. Fish
Manager, Exempt Organizations
Guidance