



TAX EXEMPT AND  
GOVERNMENT ENTITIES  
DIVISION

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

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Contact Person:

Identification Number:

Telephone Number:

UIL No.  
7701.00-00

Dear :

This is in response to your letter dated \_\_\_\_\_ requesting an information letter under section 3.06 of Rev. Proc. 2006-4, 2006-1 I.R.B. 132, 136 relating to the federal tax status of a single-member limited liability company.

Assume that a corporation, "C," was established as a nonprofit corporation under the laws of the State of "X" and that the Internal Revenue Service has recognized C as an organization described in section 501(c)(3) of the Internal Revenue Code. Assume further that "L" was formed under the laws of the State of X as a limited liability company and that C is the sole member of L. L has filed no election on Form 8832 to be treated as a corporation or partnership separate from C.

Section 301.7701-1 of the Procedure and Administration Regulations provides that whether an organization is an entity separate from its owners for federal tax purpose is a matter of federal tax law and does not depend on whether the organization is recognized as an entity under local law.

Section 301.7701-1(a)(1) of the regulations provides that the Code prescribes the classification of various organizations for federal tax purposes.

Section 301.7701-1(a)(4) of the regulations provides that under section 301.7701-2 and 301-7701-3, certain organizations that have a single owner can choose to be recognized or disregarded as entities separate from their owners.

Section 301.7701-2(a) of the regulations states: "A business entity with only one owner is classified as a corporation or is disregarded; if the entity is disregarded, its activities are treated in the same manner as a sole proprietorship, branch or division of the owner."

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

Section 301.7701-3(a) of the regulations also provides, in part, that an eligible entity with a single owner can elect to be classified as an association or to be disregarded as an entity separate from its owner.

Section 301.7701-3(b) of the regulations provides a default classification for an eligible entity that does not make an election. Section 301.7701-3(b)(1) provides that unless the entity elects otherwise, a domestic eligible entity is disregarded as an entity separate from its owner if it has a single owner.

Section 301.7701-3(c) of the regulations provides that an eligible entity may elect to be classified other than as provided in section 301.7701-3(b) by filing Form 8832.

Announcement 99-102, 1999-43 I.R.B. 545, provides that when the owner of an eligible entity that is treated as a disregarded entity is exempt from taxation under section 501(a) of the Code, it must include, as its own, information pertaining to the finances and operation of the disregarded entity in its annual information return. Announcement 99-102 further states: "When an entity is disregarded as separate from its owner, its operations are treated as a branch or division of the owner."

The Internal Revenue Service has recognized C as an organization described in section 501(c)(3) of the Code. Although L is a separate legal entity under applicable state law, since L's sole member is C and L has made no election to be treated as a corporation or partnership separate from C, for federal tax purposes, L is disregarded and treated as a component of C.

We also suggest referring to Internal Revenue Service Publication 3402 (Rev. 7-2000) "Tax Issues for Limited Liability Companies."

This information letter is advisory only and has no binding effect on the Internal Revenue Service. See section 3.06 of Rev. Proc. 2006-4, 2006-1 I.R.B. 132, 136.

If you have any questions about this letter, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely,

Steven Grodnitzky  
Manager, Exempt Organizations  
Technical Group 1