Single-Member LLCs: Now You See It, Now You Don't – Issues and Surprises in State Law and Tax Law

University of Texas School of Law CLE
LLCs, LPs and Partnerships
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Introduction – Tax Classification

- A domestic entity that is not a corporation and that has only a single owner will be disregarded for federal income tax purposes. Treas. Reg. section 301.7701-3.
- So tax classification of LLCs and partnerships turns on the number of members BUT...
  - The number of members is not always readily apparent
  - The number of members may inadvertently change
- So…

  small changes in economics can drive . . .

  BIG tax consequences

Introduction (continued)

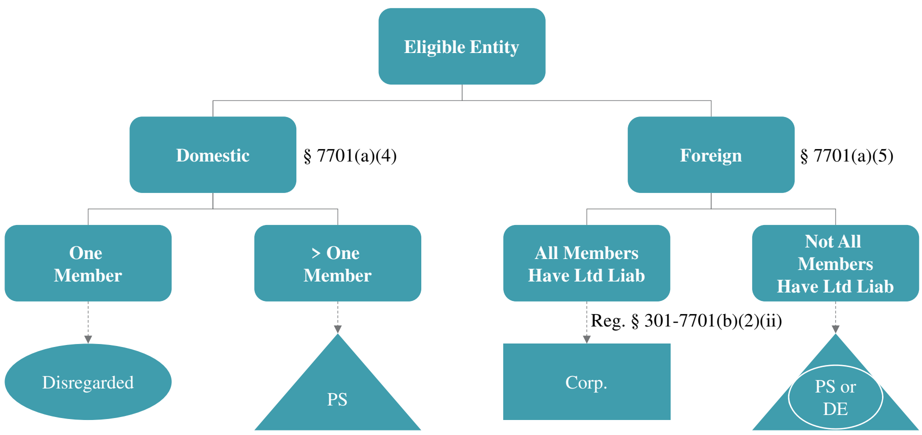
- Why do you care?
  - Need to know how it is taxed
  - Need to know whether transactions with the entity will be disregarded
  - Need to know for reporting purposes (No return? Form 1065?)
- AND
  - If the classification changes, the deemed transfers of assets can have significant tax consequences

Partnership or disregarded entity?

- Isn't it obvious how many owners there are?
  - Not always (Rev.Proc.2010-32 was necessary because error was so common for foreign entities)
- AND
- Side effects of change can surprise you
- Questions come up frequently in:
  - International structuring
  - Cleaning up org chart (LER – legal entity rationalization projects)

Partnership or disregarded entity? (continued)

Eligible Entities – Default Rules When No Election Filed



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Also available as part of the eCourse
Single-Member LLCs: Issues and Surprises in State Law and Tax Law; plus Series LLCs: Benefits, Risks, Developments and Practice

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