

**Revenue Ruling
No. 02-018
October 22, 2002**

Corporation Franchise Tax

Determination of the Corporation Franchise Tax of the Corporate Member of a Single Member LLC

This revenue ruling addresses the determination of the corporation franchise tax owed by a corporation that is the single member of a limited liability company (LLC).

In a widely used business structure, a corporation owns 100 percent of a Louisiana LLC. The corporation conducts no activities of its own, and among its only assets is the amount invested in the LLC. All of the group's activities are conducted by the LLC, which does business within and without Louisiana. Because it only has a single member, the LLC is considered to be a "disregarded entity" for federal income tax purposes, and all of its assets, liabilities, income, deductions, and credits are reported on the federal income tax return of its single member, the corporation. All assets of both the corporation and the LLC are fairly valued on their books.

Under the provisions of La. Rev. Stat. Ann. § 12:1368, the LLC is treated and taxed for state income tax purposes in the same manner that it is treated and taxed for federal income tax purposes. For all other taxes, including the corporation franchise tax, the LLC is taxed and treated as if it was a limited partnership. Because the LLC is treated as a limited partnership for corporation franchise tax purposes under R.S. 12:1368, the LLC is not subject to the corporation franchise tax. However, as a corporation that does business in the state, the single member of the LLC, the corporation, is subject to the corporation franchise tax under La. Rev. Stat. Ann. § 47:601(A).

In order to determine the corporation's franchise tax liability, the corporation must first determine its taxable base. Because the corporation does business both within and without Louisiana, it must then attribute the appropriate portion of that base to Louisiana by multiplying its base by the average of two ratios, its property ratio and its revenue ratio. The property ratio is the corporation's Louisiana property over its total property, and the revenue ratio is the corporation's Louisiana revenue over its total revenue. The method the corporation will use to determine the amount invested in the LLC for purposes of determining its base and its property factor and how the corporation will determine its revenue from the LLC will depend on how the amount invested in the LLC is reflected on the books of the corporation.

If the corporation reflects the amount invested in the LLC on its books as an investment in the LLC, then the corporation will attribute the appropriate portion of this amount to Louisiana under LAC 61:I.306.A.2.h, allocation of property for investment in partnerships, and its revenue from the LLC under LAC 61:I.306.A.1.k.iii-iv, allocation of revenue from partnerships. It will then calculate its franchise tax liability in the same manner as any other corporation.

If the corporation's books reflect the individual assets and liabilities of the LLC, then the value of the amount invested in the LLC must be determined by combining the assets and liabilities of the LLC as they appear on the corporation's books. This result is subject to valuation adjustments under LAC 61:I.305.A.2. The net amount of the LLC's assets and liabilities is included in the asset

portion of the corporation's books. Any adjustments necessary to balance the books will be made to surplus. Once the value of the amount invested in the LLC has been determined, the corporation will attribute the appropriate portion of this amount to Louisiana under LAC 61:I.306.A.2.h. The corporation will then compute the net income of the LLC on a financial accounting (book) basis and determine the Louisiana revenue to be included in the corporation's revenue factor under LAC 61:I.306.A.1.k.iii-iv. It will then calculate its franchise tax liability in the same manner as any other corporation.

Single-member LLCs are disregarded entities only for the purpose of income tax. Because the Louisiana corporation tax return is a combination of income and franchise tax, in most instances when a disregarded entity is included with the corporate taxpayer for income tax purposes, separate computation of the property ratios (Schedule M's) will be needed for both income tax and franchise tax. The income tax Schedule M will be a combined balance sheet with the disregarded entity. The franchise tax Schedule M will be a separate company book balance sheet that will usually show an investment in the disregarded entity. In addition, the taxpayer must provide adequate documentation with the return for both income and franchise tax for the calculation of both the balance sheet and the income statement. This documentation should show the income statement and balance sheet for the taxpayer corporation and each disregarded entity in separate columns, the combined total of the corporation parent and the disregarded entities, elimination adjustments and the balances used on the tax returns. It is not necessary that the taxpayer provide supporting details for all elimination adjustments, however, this information should be available if requested by the department.

Cynthia Bridges
Secretary

By: _____
Leonore Heavey
Attorney
Policy Services Division

A Revenue Ruling is written to provide guidance to the public and to Department of Revenue employees. It is issued under Section 61:III.101(C) of the Louisiana Administrative Code to apply principles of law to a specific set of facts. A Revenue Ruling does not have the force and effect of law and is not binding on the public. It is a statement of the department's position and is binding on the department until superseded or modified by a subsequent change in statute, regulation, declaratory ruling, or court decision.