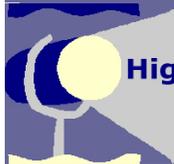


## Single Member LLCs: Tax Classification

Notice #13-16

Franchise and Excise Tax

November 2013



## Highlights

- A SMLLC will be disregarded if its sole member has elected to be classified as a corporation for federal income tax purposes.
- A SMLLC will not be disregarded if its single member has not elected to be classified as a corporation.

**INTRODUCTION**

This notice provides clarification regarding whether a single member limited liability company ("SMLLC") is disregarded for Tennessee franchise and excise tax purposes if: 1) the SMLLC is disregarded for federal income tax purposes; and 2) the SMLLC's sole owner is not a corporation under state law, but is classified for federal income tax purposes as a corporation.

**DISCUSSION**

Tennessee franchise and excise tax laws say that a SMLLC that is disregarded for federal income tax purposes will be disregarded for franchise and excise tax purposes if its single member is a "corporation."

The Department interprets "corporation" in this context to mean any entity that is classified as a corporation for federal income tax purposes. This includes:

- An entity formed as a corporation under state law
- A non-corporate entity whose default classification for federal tax purposes is to be treated as a corporation
- An entity formed under another country's laws, whose default classification for federal tax purposes is to be treated as a corporation
- An entity that makes an election on federal Form 8832 (Entity Classification Election) to be classified as a corporation for federal tax purposes

Thus, a federally disregarded SMLLC will be disregarded for franchise and excise tax purposes if its sole member is federally classified as a corporation. The sole member can be any type of entity that is classified as a corporation for federal tax purposes, including a business trust, a limited liability company or a limited partnership.

A SMLLC will not be disregarded if its single member is not classified as a corporation for federal tax purposes. In such cases, the SMLLC will be treated as a separate entity for franchise and excise tax purposes, and it must file its own separate franchise and excise tax return.

**References:**

T.C.A. § 48-249-1003  
T.C.A. § 67-4-2004  
T.C.A. § 67-4-2007(d)  
T.C.A. § 67-4-2106(c)

The information provided here is current as of the date of publication but may change as a result of new statutes, regulations, or court decisions. While this notice is intended to be comprehensive, events and situations unanticipated by this notice may occur. In such cases you should contact the department or your tax professional for further guidance.