



Historical Note: The last sentence of this bulletin has been corrected to provide that if the taxpayers elect to disregard the QSub for income tax purposes, any nexus defense is not waived for franchise tax purposes. It has also been clarified that the bulletin's discussion of single member LLCs concerns single member LLCs that are disregarded for federal income tax purposes.

Revenue Information Bulletin

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Corporation Income and Franchise Taxes

Filing Requirements for Single Member Limited Liability Companies and Qualified Subchapter S Subsidiary Corporations

Single Member LLCs

CIT

For federal and Louisiana income tax purposes, a single member LLC that is disregarded for federal income tax purposes is part of its corporate owner. The balance sheet used by the corporation will treat the single member LLC as a division of the corporation and all income and expense items of the LLC will be treated as items of the corporation. The corporation will compute its Louisiana income tax in the same manner as any other corporation. See Revenue Ruling 03-006.

CFT

Unlike the treatment for income tax, for franchise tax purposes a single member LLC is treated as a partnership. The LLC is not subject to franchise tax. For direction on how the corporate owner should treat the single member LLC in its franchise tax return see Revenue Ruling 02-018.

QSubs

CIT

Whether or not the QSub is treated as a disregarded entity for state income tax purposes is at the election of the taxpayer. This election is made by simply filing returns following the elected methods. No election forms are necessary.

In most cases, for Louisiana income tax purposes, taxpayers will elect to treat the QSub as a disregarded entity and part of the S Corp parent. It is to the QSub's advantage to attribute all of the income to its parent because the parent is eligible for the S corporation exclusion allowed by Louisiana Revised Statutes § 47:287.732(B). If this election is made, a corporation income tax return must still be filed for the QSub. However, Louisiana income will be reported as zero. A

statement that the QSub income, expenses, and credits are being reported on the S Corp parent's return must be attached. The S Corp parent's income tax return will include all assets, liabilities, and items of income, deduction and credit, and any other items of the QSub. Income tax credits earned by the QSub are attributed to the S Corp parent. Credits that can be applied against income or franchise tax will be attributed to the S Corp parent to the extent they are not applied against the CFT of the QSub.

Under the alternative election, the taxpayer may elect to treat the QSub as a separate corporation for income tax purposes. If the taxpayer elects to treat the QSub as a separate corporation, then the parent S corporation and the QSub are each required to compute their Louisiana corporation income tax as if they have been required to file income tax returns with the Internal Revenue Service as C corporations for the current and all prior taxable years. Under this election the S corp is entitled to take the S corp exclusion allowed by Louisiana Revised Statutes § 47:287.732(B), but the QSub is not entitled to a S corp exclusion.

CFT

QSubs may not be disregarded entities for franchise tax purposes. As corporations, they are always subject to the corporation franchise tax.

Required Adjustments

Corporate Owner of Single Member LLC

For the corporate owner of the single member LLC that is disregarded for federal income tax purposes, separate computations of the property ratio (Schedule Ms) will be needed for income and franchise taxes. Its income tax Schedule M will be a combined balance sheet with the LLC. Its franchise tax Schedule M will be a separate company book balance sheet that will show an investment in the LLC. For the franchise tax revenue ratio Schedule N, the partnership income from the LLC will be attributed to Louisiana in accordance with the regulations in LAC 61:I.306(k).

The single member LLC is not subject to the corporation franchise tax and is disregarded for income tax purposes. No income or franchise tax return will be filed.

S Corp

For the S corp parent of the QSub (when an election has been made to disregard the QSub for income tax purposes), separate computations of the property ratio (Schedule Ms) will be needed for income and franchise taxes. Its income tax Schedule M will be a combined balance sheet with the QSub. Its franchise tax Schedule M will be a separate company book balance sheet that will show an investment in the QSub. For the franchise tax revenue ratio Schedule N, interest or dividends from the QSub will be attributed to Louisiana in accordance with Louisiana Revised Statutes § 47:606(B).

QSub

Because it is a corporation, the QSub is always required to file its own franchise tax return. Its Schedule M will reflect only its assets and its revenue ratio is based upon its own revenue.

Nexus

Single Member LLCs

If the corporation or the single member LLC has nexus, both have nexus.

QSubs

Nexus is determined for each corporation separately. However, if the taxpayers elect to disregard the QSub for income tax purposes they are waiving any nexus defense for income tax purposes only.

Revision History: January 7, 2004 (new document); July 30, 2004 (historical note added, last sentence of document revised, the phrase “that is disregarded for federal income tax purposes” added to paragraphs 1 and 6)

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