

BUSINESS PRIVILEGE TAX: Taxation of check-the-box entities

Q: A corporation is the sole member of an LLC that is a disregarded entity for federal income tax purposes under the check-the-box rules. Collectively, the corporation and its single-member LLC own 100% of a partnership that conducts business in Philadelphia. Therefore, the partnership is also disregarded and an entity for federal income tax purposes. Is the partnership subject to business privilege tax as a separate entity or is it treated as a division of the corporation?

A: *For Federal purposes, the classification of the single member limited liability company (“SMLLC”) as a “disregarded entity” will cause it to be seen as an entity that is **not** separate from its owner. That is, for Federal tax purposes the disregarded entity SMLLC (which may be separately recognized under a given state’s tax law) in effect does **not** exist. That being the case, the partnership cannot exist under Federal tax law since a partnership must have at least two partners. The corporation therefore (as was noted in the question) will be the only reporting Federal taxpayer.*

As was mentioned in a previous question, the PHLDOR will generally honor a taxpayer’s Federal “check-the-box” classification for the entity. Under that classification system, when all is said and done, there is only one taxpayer, the corporation. Therefore, for the scenario presented, the corporation will be the reporting entity for Philadelphia BPT purposes.