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Q&A: Disregarded Entity guidance

What is a disregarded entity, and what does it mean for me?

A very common business entity type for small businesses is a single-member LLC, which is a limited liability company with a single owner.

It is important to understand that for federal tax purposes, single-member LLCs may be “disregarded entities.” This means that a single-member LLC isn’t treated like a separate business by the IRS. (Sometimes this is referred to as the “check-the-box” regulations.)

How does a single-member LLC pay taxes? The IRS collects the business’ taxes through the owner’s personal tax return filed under their social security number. The IRS considers a single-member LLC’s assets, liabilities, income, and deductions, to belong to their owner. Single-member LLCs, or disregarded entities, do not file a separate business tax return.

Qualified Subchapter S Corporation Subsidiaries, or “QSubs,” are also treated as disregarded entities for federal tax purposes. Most small businesses are not QSubs, but because they are disregarded entities the information in this policy applies to them as well.

Most importantly, when a disregarded entity has employees or pays other excise taxes, the IRS treats it as a separate business entity. When the disregarded entity is paying employment taxes or excise taxes, it will file these returns under the business’ name and employer identification number (EIN).

How should a business that is considered a disregarded entity set up Philadelphia Business Income & Receipts Tax and Net Profits Tax accounts?

The City of Philadelphia follows IRS policy for disregarded entities.

When the owner of a disregarded entity is required to file a federal income tax return to report business activity, a Philadelphia business owner is required to report the business activity on a Business Income & Receipts Tax (BIRT) return. First, business owners must register for a BIRT account in order to obtain a Commercial Activity License. For disregarded entities, business owners will register the BIRT account under the owner’s name and social security number or Federal EIN if the owner is organized as a corporation.

A disregarded entity may also need to register for a Net Profits Tax (NPT) account, which is also filed under the owner’s name and social security number.

How should a disregarded entity register for other Philadelphia taxes?

The City of Philadelphia also follows the IRS rules when it comes to paying employment or excise taxes. When a disregarded entity is liable for Philadelphia taxes other than BIRT or NPT, such as Wage Tax, the owner should register the respective accounts under the disregarded business’ legal name and federal EIN.



Once established, the City's tax system will note the relationship between the BIRT or NPT accounts that are registered under the social security number or federal EIN of the owner. This will prevent the Department from expecting BIRT or NPT accounts to be registered under the disregarded entity's EIN.

As appropriate, the owner should register for the following Philadelphia taxes using the disregarded business' legal name and federal EIN:

- Wage Tax
- Use & Occupancy Tax
- Real Estate Tax
- Liquor Tax
- Amusement Tax
- Parking Tax