



## September 2012

### **News Alert: IRS Issues Long-Awaited Guidance on Contributions to Single-Member LLCs owned by Charities**

On July 31, 2012, the IRS issued Notice 2012-52 (the "Notice") addressing the deductibility of contributions to a single member limited liability company (LLC) that is wholly owned by a charitable organization and classified as a disregarded entity for U.S. federal income tax purposes (SMLLCs). Under the Notice, a contribution to an SMLLC will be treated as a contribution to the parent charitable organization and will be deductible for tax purposes to the same extent as contributions made directly the parent charitable organization.

The guidance provides long awaited comfort to charitable organizations that hold real estate or other assets in SMLLCs or conduct other activities through SMLLCs. Since these entities are generally treated as disregarded entities for federal tax purposes, their income and expense are reported directly on the parent charitable organization's Form 990. However, prior to the issuance of the Notice, the IRS had declined to hold that contributions to SMLLCs are deductible as contributions to the parent charitable organization.

The guidance provided by the Notice applies to the deductibility of both corporate and individual donations. However, the Notice only addresses domestic SMLLCs and is silent with respect to disregarded entities organized under foreign law.

The IRS is encouraging charities to provide an acknowledgement or other statement to contributors that the SMLLC is wholly owned by the charitable organization and is treated by the charitable organization as a disregarded entity.

The Notice is effective for contributions made on or after July 31, 2012. The Notice also states that donors can rely on it retroactively for tax years for which they are permitted to claim a credit or refund. Note that the Notice addresses only U.S. federal income tax treatment, and does not affect state or local tax treatment, which varies from state to state.