

Kentucky Sales Tax Exemption for Nonprofit LLCs



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The Kentucky General Assembly recently passed legislation, in effect August 1, 2016, to exempt disregarded single-member limited liability companies wholly-owned by IRC 501(c)(3) organizations from Kentucky sales and use tax on their purchases.

Prior to this legislation, issues arose as Kentucky required these disregarded entities to establish their own IRC 501(c)(3) exemption separate from their sole owner, which is not required, nor allowed, under Federal income tax law.

Kentucky now requires disregarded single-member limited liability companies wholly-owned by IRC 501(c)(3) organizations to apply for exempt status with Kentucky using Form 51A125 and attach documentation supporting the organization as a disregarded entity of the parent organization, along with the parent organization's exempt status determination letter from the IRS or other proof of its exemption. These LLCs will obtain their own Kentucky exemption number separate from their sole owner.

It is becoming more frequent for tax exempt entities to use wholly owned LLCs to hold either property or separate operations from the parent organization.

This can be beneficial in providing liability protection for the parent organization. If you have any questions regarding sales tax exemption for nonprofit LLCs, please contact your Dean Dorton advisor or Allison Carter at 859-425-7645 or alcarter@deandorton.com.