



STATE BOARD OF EQUALIZATION  
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No. 2004/085

December 30, 2004

TO COUNTY ASSESSORS:

PROPERTY TAX RULE 136  
LIMITED LIABILITY COMPANIES AS QUALIFYING ORGANIZATIONS  
FOR THE WELFARE EXEMPTION

In May 2003, a petition was filed with the Board to adopt a new regulation that would extend the welfare exemption to a limited liability company (LLC) that was organized and operated for exempt purposes. In response, the Board began a series of interested parties meetings and developed a regulation and a companion legislative proposal that would allow LLC's wholly owned by nonprofit, tax-exempt organizations to qualify for the welfare exemption.

The Board adopted Property Tax Rule 136, *Limited Liability Companies as Qualifying Organizations for the Welfare Exemption*, on June 30, 2004, to specify the requirements that a limited liability company must meet to qualify for exemption. Assembly Bill 3073 (Chapter 354, Statutes of 2004) was enacted on August 30, 2004 with an operative date of January 1, 2005. This bill, among other things, amended various provisions expressly to add LLC's as an eligible entity if it qualifies for the welfare exemption. The bill also requires the Board to adopt regulations to specify the ownership, organizational, and operational requirements for an LLC to qualify for the welfare exemption.

Rule 136 ensures that only LLC's owned by qualifying organizations (members) and satisfying all requirements for the welfare exemption may qualify for the exemption under section 214. The rule also adds governmental entities in the definition of "qualifying organization." Enclosed is a copy of Rule 136. The rule becomes effective concurrent with the enabling legislation on January 1, 2005.

The enactment of AB 3073 and adoption of Rule 136 will not expand the welfare exemption, but instead provide another option in the type of legal entity eligible for exemption. Further information regarding LLC's qualifying for the welfare exemption will be addressed in a future Letter To Assessors, along with revised organization clearance certificate claim forms. If you have any questions regarding LLC's qualifying for the welfare exemption, please contact Ladeena Ford at (916) 324-5839.

Sincerely,

/s/ Mickie Stuckey

for

David J. Gau

Deputy Director

Property and Special Taxes Department

DJG:sk  
Enclosure

State of California  
BOARD OF EQUALIZATION  
PROPERTY TAX RULES

Chapter 1. State Board of Equalization – Property Tax  
Subchapter 2. Assessment  
Article 3. Exemptions and Immunities

**Rule 136. LIMITED LIABILITY COMPANIES AS QUALIFYING ORGANIZATIONS FOR THE WELFARE EXEMPTION**

Authority Cited: Section 15606(c), Government Code.

Reference: Sections 214, 214.01, 214.8, 254.5, and 254.6, Revenue and Taxation Code.

**(a)** A limited liability company may be a qualifying entity for welfare exemption purposes, if it is wholly owned by a qualifying organization or organizations and if it meets specific organizational and operating requirements.

**(b)(1) QUALIFYING ORGANIZATION.** A qualifying organization is an organization that is exempt under section 501(c)(3) of the Internal Revenue Code or under section 23701d of the Revenue and Taxation Code and that qualifies for exemption under section 214 of the Revenue and Taxation Code. A limited liability company is a qualifying organization if all its owner organization(s) (referred to as members) are exempt under section 501(c)(3) of the Internal Revenue Code or under section 23701d of the Revenue and Taxation Code and qualify for exemption under section 214 of the Revenue and Taxation Code. Each member shall have a valid, unrevoked letter from the Internal Revenue Service or the Franchise Tax Board, stating that it qualifies as an exempt organization under section 501(c)(3) of the Internal Revenue Code or under section 23701d of the Revenue and Taxation Code.

**(b)(2) QUALIFYING ORGANIZATION.** A qualifying organization is also a government entity that is exempt from property taxation under section 3 of Article XIII of the California Constitution, as to property owned by the state under subdivision (a), or as to property owned by a local government under subdivision (b), or as to property used exclusively for public schools, community colleges, state colleges and state universities under subdivision (d). A limited liability company is a qualifying organization if one or more of its members is a government entity, as specified, and all other members are exempt under section 501(c)(3) of the Internal Revenue Code or under section 23701d of the Revenue and Taxation Code and qualify for exemption under section 214 of the Revenue and Taxation Code.

**(c) ORGANIZATIONAL REQUIREMENTS.** A limited liability company wholly owned by qualifying organization(s) may satisfy the organizational requirements for purposes of the exemption, if its articles of organization or the equivalent legally recognized formative document under the laws of the jurisdiction where the entity is formed meets all of the following requirements:

(1) A specific statement shall be included which limits the activities of the limited liability company to one or more exempt purposes, as specified in section 214. This requirement may be satisfied by a clause stating that the limited liability company is organized and operated exclusively for one or more exempt purpose(s) as specified in section 214 (religious, hospital, scientific or charitable).

(2) The organizational language shall specify that the limited liability company is operated exclusively to further the exempt purpose(s) as specified in section 214, of its member(s).

(3) The organizational language shall require that each member of the limited liability company be a qualifying organization, as specified in subsections (b)(1) or (b)(2) of this rule.

(4) The organizational language shall prohibit any direct or indirect transfer of any membership interest in the limited liability company to any nonqualified person or entity.

(5) The organizational language shall provide an acceptable dedication clause. This requirement may be satisfied by a clause that irrevocably dedicates the property to one or more of the exempt purposes, as specified in sections 214 and 214.01.

(6) The organizational language shall provide an acceptable dissolution clause. This requirement may be satisfied by a clause, which specifies that upon dissolution, all assets shall be distributed to an organization(s) organized and operated exclusively for exempt purposes, as specified in section 214, and which has established its tax exempt status under section 501(c)(3) of the Internal Revenue Code, or under section 23701d of the Revenue and Taxation Code.

(7) The organizational language shall require that any amendments to the limited liability company's articles of organization or the equivalent legally recognized formative document under the laws of the jurisdiction where the entity is formed and to the operating agreement, be consistent with section 214.

(8) The organizational language shall prohibit the limited liability company from merging with, or converting into, a for-profit entity.

(9) The organizational language shall require that the limited liability company not distribute any assets to members who cease to be organizations described in section 214.

**(d)** The limited liability company shall represent that its articles of organization are consistent with state law governing limited liability companies and are enforceable at law and in equity.

**(e) OPERATING REQUIREMENTS.** A limited liability company wholly owned by qualifying organization(s) may satisfy the operational requirements for purposes of this exemption, by operating in accordance with its articles of organization or the equivalent legally recognized formative document under the laws of the jurisdiction where the entity is formed.

**(f)** The limited liability company shall file with the Board a copy of certified Articles of Organization or the equivalent legally recognized formative document required under the laws of the jurisdiction where the entity is formed, and any certified amendments and restatements.

**(g)** In the event that a member of the limited liability company ceases to be a qualifying welfare organization, as described in section 214, the limited liability company shall report this information to the assessor and the Board no later than the next annual filing deadline for the welfare exemption. Such event will serve to disqualify the limited liability company and its property from the welfare exemption.

History: Adopted June 30, 2004, effective January 1, 2005.