



United States Department of the Interior

BUREAU OF RECLAMATION

P.O. Box 25007

Denver, Colorado 80225-0007

DEC 28 2011

IN REPLY REFER TO:

84-53000

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Subject: Application of the Acreage Limitation Provisions to Entities When There is a Change in Ownership

Dear Ladies and Gentlemen:

The purpose of this letter is to provide guidance for applying the Reclamation Reform Act of 1982 (RRA) acreage limitation provisions and form requirements as they pertain to landholders when there is a change in ownership.

Entity Action

There are various actions entities may take, such as adding partners, purchasing another entity, being purchased by another entity, etc. While the action may not result in the creation of a new entity, the entitlements of the entity and/or its part owners may be affected; for example, an entity could change from being a qualified recipient to a limited recipient, or vice versa. The following table summarizes: (1) actions an entity may take and (2) whether those actions constitute a new entity for RRA purposes. Keep in mind changes to an entity, including the creation of a new entity, may require the submission of RRA forms and/or remittance of full-cost charges.

Entity Action	Does This Constitute a New Entity?	Notes
A foreign entity reestablishes under State or Federal law	Yes	
Percentages in ownership interest in an entity change	No	
A legal document has been executed which creates a new entity	Yes	
An entity changes only its name	No. However, if the entity is required to obtain a new Employer Identification Number (EIN) from the Internal Revenue Service (IRS), then yes.	A partnership may change its name to a Limited Liability Company (LLC) or another type of partnership; as long as the EIN stays the same, this would not be considered a new entity.

Entity Action	Does This Constitute a New Entity?	Notes
Establishes a “dba” (doing business as)	No	A “dba” is not recognized as the landholder.
Changes the type of entity or IRS classification status (from partnership to corporation or vice versa)	Yes	If a partnership changes to a corporation, a new entity is created; and the same applies if a corporation changes to a partnership. For a change to a corporation, articles of incorporation would be required and a new EIN number assigned.
Changes EIN	Yes	
Changes in the part owners	No	
An entity purchases an entity or merges with another entity	No ¹	The surviving entity does not acquire the acreage limitation entitlements of the other.
An entity purchases an entity or merges with an entity and as a result a new entity is created	Yes	
Corporation reorganizes (new articles of incorporation are filed)	Yes	
When two trusts are created and have an undivided interest in the landholding	Yes	A presumed tenancy has been formed.

Purchase or Transfer of Acreage Limitation Entitlements

An entity’s acreage limitation status or entitlement cannot be purchased or transferred.

Example: In 2005, Entity A was a qualified recipient that had received Reclamation irrigation water prior to October 1, 1981. In 2006, Entity A was acquired by Entity B. Entity B is a corporation that benefits more than 25 natural persons and has never received Bureau of Reclamation irrigation water before acquiring Entity A. Entity B is the parent entity and its status as a limited recipient that has not received Reclamation irrigation water prior to October 1, 1981, applies to all its landholdings—even those held by its newly acquired subsidiary (Entity A). This means that all land on which Entity A had previously received

¹ For RRA forms purposes, the parent entity must have forms on file prior to receipt of any Reclamation irrigation water if it has never held land in any district subject to RRA. The purchased entity, that is now wholly owned, would not have to file RRA forms if land held is disclosed on parent entity’s RRA forms. For additional information, see the August 25, 2004, district letter detailing clarification of the “new landholder” concept.

Reclamation irrigation water at the contract rate is now subject to full-cost since Entity B has a zero-acre nonfull-cost entitlement.

If in the future Entity A becomes disassociated with Entity B, is no longer a subsidiary of another entity, and still benefits 25 natural persons or less, it **can again** become a qualified recipient and receive Reclamation irrigation water at the nonfull-cost rate on up to 960 acres if it meets the following criteria:

- it will retain the EIN it had before being bought by Entity B,
- not change its IRS classification, or
- take any other action that would result in a new entity determination.

If Entity A, when it disassociates itself from Entity B (i.e., becomes an independent entity), has more than 25 part owners, it would have a 320 acre nonfull-cost entitlement if it meets the above criteria. However, if Entity A benefits more than 25 natural persons and does not meet the above criteria, it would have a zero-acre nonfull-cost entitlement.

If you have any questions regarding the information provided in this letter, please contact the appropriate Reclamation office.

Sincerely,



Roseann Gonzales
Director, Policy and Administration

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