



# Financial, Legal & Tax Advisory

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## *Concepts of an LLC*

When starting a business, one of the first things you must do is choose a business structure. You can choose between sole proprietor, partnership, or a corporation. While those are your tax elections, there is another type of structure that you can choose along with your tax election to remove some concerns with liabilities. This structure is known as a Limited Liability Company. A limited liability company (LLC) is a type of business structure in the U.S. that protects the assets of its owners from lawsuits and creditors that may be concerned with the company's business debts. LLCs are often considered to be hybrid entities that combine characteristics of a corporation with those of a sole proprietor or partnership.

As mentioned above, you must choose a taxation to go along with your LLC status. Typically, LLCs are sole proprietors, partnerships, or corporations. Owners of an LLC are referred to as members, and they report profits and losses on their individual tax returns as they are passed through to them. LLCs are created at the state level. You typically begin by coming up with a business name. Next, you would move on to filing the articles of organization. These typically provide basic information such as the names and addresses of the LLC members, the name of the registered agent, and the statement of business purpose.

Then, you will want an operating agreement, laying out the operational financial decision-making process between members (if multiple). These can often lay out how profits are distributed. Most states don't restrict ownership, which allows almost anyone to be a member. That includes individuals, corporations, foreigners, foreign entities, and even other LLCs (S Corporations do have their limitations). Some entities, such as banks and insurance companies, are prohibited from forming LLCs. It is important to properly run your LLC.

If fraud is detected or the LLC fails to meet legal and reporting requirements, credits may be able to go after the members as they can lose their limited liability.

There are many benefits to having an LLC, such as:

- An LLC provides its members with limited personal liability
  - Easy to organize and get up and running.
  - Flexibility to opt for pass-through taxation or to elect corporate taxation (as an S Corporation or C Corporation).
  - An LLC can be run by its members, or members can hire a manager to handle day-to-day affairs. Some members may choose to be more or less involved than others.
  - Less record-keeping is required compared to corporations, which means greater focus can be maintained on the goals of the business.
- While there are many advantages of having an LLC, there are also a few disadvantages:
- If the LLC opts for pass-through taxation, members must pay self-employment taxes in addition to personal income taxes (unless taxed as a corporation).
  - Unless the Operating Agreement is properly conceived, executed, and understood by all, there's the risk that roles and responsibilities may not be clearly understood.

Starting a business doesn't have to be complicated. Electing LLC status is as simple as it gets, and limiting personal liability is a must. If you are a business owner and have any questions regarding LLCs or need assistance in filing to become an LLC, reach out to the professionals at The Center for Financial, Legal, and Tax Planning, Inc. at our website, [www.taxplanning.com](http://www.taxplanning.com) or by phone at (618) 997-3436.

Basi, Basi & Associates at The Center for Financial, Legal, & Tax Planning, Inc.

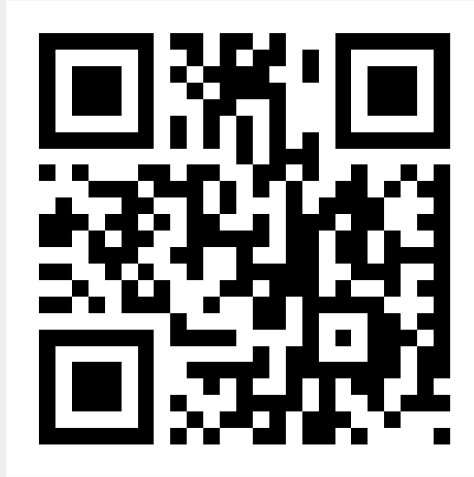
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