Simple Series
'business realigned'

A limited liability company

An LLC is a business structure in the United States whereby the owners are not personally liable for the company's debts or liabilities. Limited liability companies are hybrid entities that combine the characteristics of a corporation with those of a

While the limited liability feature is similar to that of a corporation, the availability of flow-through taxation to the members of an LLC is a feature of partnerships. They are a business structure that is allowed under state statutes. The regulations surrounding LLCs vary from state to state.

Many states don't restrict ownership, meaning anyone can be a member including individuals, corporations, foreigners and foreign entities, and even other LLCs. Some entities, though, cannot form LLCs, including banks and insurance companies.

An LLC is a more formal partnership arrangement that requires articles of organisation to be filed with the state.

Some pros:

- An LLC is much easier to set up than a corporation and provides more flexibility and protection.
- LLCs may elect not to pay federal taxes. Instead, profits and losses are listed on the personal tax returns of the owner(s). Or, the LLC may choose a different classification, such as a corporation. If fraud is detected or if a company hasn't met legal and reporting requirements, creditors may be able to go after the members.
- Members' wages are deemed operating expenses and are deducted from the company's profits.

Some Cons:

- *Cost.* Compared to a sole proprietorship or partnership, an LLC is a little more expensive to operate. The start-up cost is only slightly more than for a corporation, but proprietorships and general partnerships do not have start-up or annual fees.
- *Taxes.* A limited liability company owner may have to pay unemployment compensation for him or herself, which he or she would not have to pay as a sole proprietor.
- *Banking.* Checks made out to a limited liability company cannot be cashed; they must be deposited into a corporate account. Some banks have higher fees just for businesses that are incorporated.
- *Separate records.* The owners of a limited liability company must be careful to keep their personal business separate from the business of the limited liability company. The limited liability company must have its own records and should have minutes of meetings. Money must be kept separate. Businesses should maintain separate records and the structure of a company might make it easier to do so.

Forming an LLC

Although the requirements for LLCs may vary by state, there are generally some commonalities across the board. The very first thing owners or members must do is to choose a name.

Once that's done, the articles of organisation must be documented and filed with the state. These articles establish the:

- rights,
- powers,
- duties,
- liabilities,
- and other obligations of each member of the LLC.

Other information included on the documents includes the name and addresses of the LLC's members, the name of the LLC's registered agent, and the business' statement of purpose.

The articles of organisation must be accompanied by a fee paid directly to the state. Paperwork and additional fees must also be submitted at the federal level to obtain an employer identification number (EIN).