

## ***OVERVIEW of an LLC***

The Limited Liability Company = L.L.C. = “LLC” is the ideal vehicle for a modern venture with a small number of people who are not “going public” (i.e. into the stock market) to raise capital because, because it offers them the following benefits:

- a. An LLC has the liability protection of a corporation -- its owners (called members) are not personally liable for the debts of the LLC.
- b. An LLC has the operational simplicity of a partnership -- it is governed by an *Operating Agreement* between its members, which is like a normal partnership agreement; so these members actually treat one another as partners. In addition, a single person can now form an LLC.
- c. An LLC has advantage of flexible tax treatment options – it may be treated as a disregarded entity if there is only one member, a partnership if it more than one member, or it may report as an S Corp that may offer other advantages. If it reports as a partnership or S Corporation, its members will get a K-1 that will be reported on Form 1040 of their personal tax returns. In this way, the members may avoid the double taxation encountered by shareholder/owners of C Corporations shareholders, who receive distributions that may not be deducted as an expense at the corporation level and are taxed as dividends at the individual level: By making a Subchapter-S election, members may reduce their Social Security and Medicare tax liability, while still deriving the benefit of pass-through income, as opposed to double taxation. Each tax form has its advantages and disadvantages. Thus it is advisable to contact a competent CPA.
- d. An LLC can be structured for either uniform or centralized management – it can be “member-managed” where all of its members share in the decision making process, (like general partnership), or it can be “manager-managed” where most management is left to one or more of the members and/or an outside party, (somewhat like a limited partnership). When an LLC involves a number of passive investor members (i.e. “silent partners”), it is often advantageous to establish the entity as a manger managed LLC, so that those who are active and knowledgeable about operations are in a position to make decisions.

### **Formation of the LLC:**

An LLC can be formed quickly, particularly if you have your Accountant/Tax Advisor work with me to discuss the choice of an LLC, and review my work. This is my normal process:

1. Print out the three LLC documents: [LLC-Overview](#), [LLC-Tax Issues](#), [LLC-Worksheet](#).
2. Review these forms yourself, but also take them to your Accountant/Tax Advisor to:
  - a. Make sure that an LLC fits your requirements;
  - b. Decide whether it will be member-managed or manager-managed;
  - c. Help you fill out the blanks on the [LLC-Worksheet](#) form; and
  - d. Discuss additional information and needs specific to your business.

3. Then, when you have filled out the blanks on the [LLC-Worksheet](#) form, and returned it to me, I can produce a draft of the *Articles of Organization* and *Operating Agreement* which you may either review with your Accountant/Tax Advisor before proceeding to final form, or proceed straight to filing the *Articles* if you feel comfortable.

My flat fee of \$1,000.00 includes all: office time, document preparation, and expedited filing and publication fees (around \$150.00), but does not include time for special additional agreements between members if you need them (similar to shareholder agreements within a corporation), or for obtaining an EIN number.