



HARRIS LAW & CO.

Protecting Families & Businesses Through All of Life's Journeys

BACK TO THE BASICS: LLCs

Do you ever wonder why so many companies have “LLC” behind their name? Are you a business owner? Do you like saving taxes? Do you want liability protection in the event of an injury or lawsuit? Then, it is time to consider an LLC. Today, we are going to go over the basics of an LLC.

LLC stands for Limited Liability Company. However, the name alone does not give you tax efficiency or liability protection. When an LLC is set up properly and well-maintained, it provides the liability protection afforded to corporations and the tax efficiency of a partnership (or S-Corporation).

OPERATIONAL FLEXIBILITY

While corporations have a lot of legal red tape and strict operational requirements under the law, LLCs have a lot of flexibility. This allows business owners to set up their LLC with their own operational controls and determine how simple or complex those controls need to be. Some LLCs have short, simple, and straight-forward operating agreements. Other LLCs have more complex structures with varying levels of ownership rights and control.

In short, LLCs can be structured and built to accommodate YOUR goals without the extra “fluff” your business does not need.



TAX EFFICIENCY

LLCs are also more tax efficient and generally offer business owners a far more favorable tax landscape.

However, there are a couple of situations where an LLC may not be the best tax structure for you. If you have a business that is going to be investing all of the profits back into the business for a long period of time (think 5-10 years) or intend to be publicly traded on the stock market, then an LLC may not be the right fit for you.

In a corporation, all of the owners (often called shareholders) are taxed as separate business entities. Further, the corporation itself also pays taxes.

50% of Businesses Fail in the first 5 years. Why?

Simple. Failing to plan properly. The good news? This is 100% avoidable. With the right planning & flexibility, businesses can make it past the 5-year mark. Making sure you are set up the *right* way and protected from the Deadly D's (Divorce, Death, Disability...) puts you on the path to success.



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serve our
community by
referring us to your
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This is often referred to as “double taxation”. The corporation pays taxes and then the owner pays taxes again on any distributions they receive. For most businesses, this is INSANE. Double taxation can be easily avoided in the right legal and tax structure.

On the other hand, LLCs pass their income and losses through to the owners. They do not pay a separate tax. Then, each owner has to report the profits and losses on their personal federal tax returns. This is often referred to as “pass through taxation.”

Limited Liability Companies have the flexibility to choose between 3 different tax elections:

1. Sole Proprietorship Election
2. Partnership Election
3. S-Corporation Election

This allows business owners the opportunity to meet with their CPA and their business attorney to determine which structure is most advantageous for their business.

Another benefit of an LLC is that income from the business does not have to be distributed according to ownership percentages. In certain businesses, arrangements are made between owners regarding income and loss distributions that do not match overall ownership percentages in the Company. This may be due to active versus passive owners or owners who are employees versus owners who are just investors. LLCs give you the flexibility to structure your business like you run your business.

LIABILITY PROTECTION

When your LLC is set up properly (not just a simple online application), the owners of the LLC have no personal liability for obligations of the company. This means your personal assets (house, checking, etc.) are not at risk for business liabilities. Often, we don’t want to risk everything we have. We want to ensure our personal assets are protected to ensure our loved ones are taken care of in the event of a liability, lawsuit, death, disability, or the business termination.

When you have multiple owners, the LLC can also protect you *and* the business from the liabilities of the other owners. For example, you might not want to run your business with your partner’s spouse. However, if your company documents are not structured appropriately, a spouse may inherit or obtain through a divorce a share in your business. Multi-member LLCs need to plan for the Deadly D’s! Divorce, Disability, During Life Transfers (retirement, sale), Debt (think bankruptcy/creditor issues), and Death.

Make sure your business is structured the right way to be as tax efficient as possible while still providing you the liability protection you need. Call us at 605-777-1772 for a no cost initial consultation. **Passion + Planning = Success.**

**This article is intended for general informational purposes only and does not give specific legal advice. Always consult a qualified business attorney before taking any action.*