

Incorporating Limited Liability Companies

The Advantages over Other Organizations

When you're looking to buy a business, find out if it is beneficial to incorporate as a Limited Liability Company (LLC). The LLC offers many of the advantages of both corporations and partnerships with few of the drawbacks.



The LLC can be added to the three well-established forms:

- **Sole proprietorship;**
- **Partnership; and**
- **Corporation.**

The LLC offers the advantages and benefits of corporations and partnerships, without many of the disadvantages. Thus, it provides tax advantages and flexibility to entrepreneurs and investors.

DISADVANTAGES OF WELL-ESTABLISHED LEGAL CORPORATIONS

S Corporation

This offers certain tax advantages, but is restrictive in key areas regarding stock ownership and investment. An S corporation is limited in the number and type of shareholders it can have. Nor can it own more than 80% of the stock of another corporation.

Partnership

You have the ability to have greater ownership and investment flexibility than an S corporation, but it lacks the protection of individual limited liability that is found in an S or C corporation.

WHAT MAKES LLCs APPEALING

Over the last few years, LLCs have become an option for entrepreneurs in all states. In effect, the LLC is a hybrid entity that possesses both corporate and partnership characteristics. Like a corporation, an LLC shields the owners, or "members," as they are known, from personal liability for the organization's debts and liabilities.

LLCs also offer pass-through tax advantages similar to an S corporation; however, there are no limitations on the number and type of owners of an LLC. Not only is an LLC free of such limitations but, like a partnership, an LLC offers important flexibility in planning distributions or allocations.

In a conventional partnership, there are limitations on who can participate in management decisions, so as to preserve protections on liability. All members of an LLC can participate in the management, without risking loss of liability protection. Moreover, the earnings of an LLC are not subject to corporate taxes; instead, the profits flow through to the owners in proportion to their ownership.