



Limited Liability Companies (LLCs)

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Limited Liability Companies (LLCs)

What is a Limited Liability Company?

A limited liability company (LLC) is a business entity organized in the United States under state law. Unlike a partnership, all of the members of an LLC have limited personal liability for its debts. Depending on elections made and the number of owners, an LLC may be classified for federal income tax purposes as a partnership, corporation, or an entity disregarded as separate from its owner.

LLCs	
Ownership	<ul style="list-style-type: none"> • Unlimited number of members. • Non-U.S. citizens or residents allowed. • Can be owned by other corporations, partnerships, trusts, or LLCs.
Class of ownership interest	Different membership classes allowed.
Transfer of ownership	Member approval often required.
Formalities	Recommended: <ul style="list-style-type: none"> • Adopt operating agreement. • Issue membership shares. • Hold and document annual member meetings.
Existence	Some states require dissolution date. Events such as death or withdrawal of member can cause LLC to dissolve.
Income allocation	May decide to allocate income in any method agreed to by members.
Self-employment taxes	Members subject to SE tax on guaranteed payments and also distributive share of income.

This information applies to LLCs in general, and different rules may apply to special situations, including banks, insurance companies, or nonprofit organizations that are LLCs. Check your state's requirements.

Forming an LLC

Choose a business name. Your business name must be different from any existing LLC in your state, it must indicate that it is an LLC, and must not include words restricted by your state.

File the articles of organization. The articles of organization is a document that is filed with your Secretary of State that makes your LLC a legal entity and includes information such as your business name, address, names of members, and your resident agent. There is usually a filing fee.

Create an operating agreement. Most states do not require operating agreements, but they are highly recommended, especially for multi-member LLCs. The operating agreement structures your LLC's finances and organization, and provides rules and regulations for its operation. Sometimes tax treatment can be dictated by a written operating agreement. Default tax rules of multi-member LLCs will split income and expenses evenly, unless otherwise noted in an operating agreement.

Hold and document annual member meetings. If the operating agreement requires an annual meeting, these meetings must be held and documented. Failure to adhere to provisions in the operating agreement and other formalities could result in loss of liability protection for your LLC.

Apply for an EIN. An employer identification number (EIN) is a nine-digit number assigned by the IRS used to identify the tax accounts of employers and certain others who have no employees. If you will hire employees or have an LLC with multiple members, you need to apply for an EIN. See IRS Form SS-4, *Application for Employer Identification Number*, or apply online at www.irs.gov.