

## Limited Liability Company or Corporation?

I regularly receive questions as to whether or not businesses should organize as a Limited Liability Company (LLC) or Corporation.

Although neither is right for every business situation, both have their place.

LLC's offer significant advantages to new business owners with regard to administration.

There are no meetings or minutes required. There is no need to issue stock or create resolutions for various corporate transactions. Most businesses don't keep good records, so LLC's can be a great advantage to a person who would rather spend their time operating their business than documenting their every move. LLC's are excellent for small businesses that don't need outside venture capital and real estate holding companies.

Corporations have shareholders and require the upkeep of minutes for various meeting of the board of directors and shareholders, even if there is only one shareholder.

Corporation's are generally needed for businesses that require outside investment or intend to make an initial public offering.

Here are some basic difference between LLC's and corporations:

### **Tax Treatment and Rates:**

Without any further action, an LLC allows business profits to "pass through" to the LLC members.

In a standard C corporation, business profits are taxed in the corporation. Any profits that are taken from the company in the form of dividends are taxed at a dividend rate.

Any other money taken out as bonuses is generally taxed at the taxpayer's personal rate.

Both corporations and LLC's can elect to be taxed under Subchapter S of the Internal Revenue Code, which is a topic beyond the scope of this post.

### **Limited Liability:**

Both LLC's and corporations provide limited liability for owners. This means that the owner is protected from the liabilities of the business unless the owner personally guarantees a debt.

### **Equity Investment:**

Entrepreneurs who are seeking outside funding in the form of venture capital or some other equity financing should considering organizing as a Corporation. The presence of equity investors will likely require the issuance of several classes of stock.

However, the operating agreement for an LLC can be drafted to allow for many of the same features as the corporation will allow. Even though this is possible, many investors still prefer the corporate model because of the formalities involved in a corporation as discussed above.