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More and more closely held companies are getting cozy with the LLC, but is a limited liability company right for you?

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Entrepreneur Magazine - November 2006

URL: http://www.entrepreneur.com/magazine/entrepreneur/2006/november/169046.html

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For the LLC, it's been a relatively long road to popularity. When the limited liability company first appeared in the '70s, the tax rules governing it were too confusing and onerous to make it an attractive option. In the '90s, after the IRS both clarified and s some of those rules, businesses began cautiously considering it.

Today, closely held companies are beginning to show a clear preference for the LLC, according to the latest data from the Int Association of Commercial Administrators. LLC filings jumped in almost every state from 2004 to 2005, while corporate filings "The tax benefits are becoming more clearly understood, the legal protection is there and people are getting more comfy [with LLC]," says Dan Meehan, tax partner with New York City's J.H. Cohn. "And there are a lot of practitioners who didn't really un LLCs and are now getting more familiar with [them]."

Add to that the fact that many sole proprietors, who for years were satisfied with a less formal status, are seeking protection ir increasingly litigious environment. "A decade ago, it was the norm to be a sole proprietor and view incorporating as unnecess Troy Janisch of Madison, Wisconsin-based BizFilings, an internet company that provides incorporation services. But with grea exposure to lawsuits and more personal assets at stake as a result, many business owners are seeing the advantages to inco And when faced with the choice of the LLC or its popular alternative, the S corporation, most opt for the former.

The LLC offers significant benefits for those seeking a little less liability and a little more flexibility. Like an S corp, the LLC is a through entity for tax purposes, so income for the company is reported on the owners' personal income tax returns rather thar company's returns. But owners of an LLC can distribute profits however they like, while S corp owners must distribute them e among shareholders, or at least according to percentages of ownership.

"If one shareholder wants to buy a house and take his share of the profits, the S corp can't just say, 'OK, we'll give you $200,(explains Jeffrey Timen, tax director for Pricewaterhouse Coopers' Private Company Services practice in Cleveland. "If one ge of the profits, they all have to get it. With an LLC, you can do special allocations." There are also no restrictions on the numbe owners an LLC can have, but S corps are limited to 100 shareholders. And finally, LLCs are far more relaxed, structurally spe not subject to the ongoing rules and formalities of the S corp.

If, on the other hand, you plan to go public in the near future, or you are hoping to sell the business to a bigger company, an S might be a useful and beneficial alternative to the C corp, for which profits are taxed at both the individual and the corporate le Further, as an owner of an S corp, you will not pay self-employment tax on the total income of the business, just on the salary the employee-owner.

Before you consult experts to help with your decision about which entity is best, remember that you may get conflicting couns depending on whom you ask. Attorneys will often recommend the LLC, while accountants tend to favor the S corp. "Accounta know S corps better and don't know LLCs as well," says Larry Ribstein, a law professor at the University of Illinois. Attorneys, other hand, are much more familiar with LLCs, he adds.

To get the most beneficial advice, recruit an attorney *and* an accountant, and make sure both specialize in closely held busine both have experience with multiple business structures. "You need both the legal side and the tax side," says Timen, who add accountants can help with business structure but not with liability, and vice versa for attorneys. And, of course, do your own re the more you know, the better you can evaluate the advice you receive.

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