

LLC

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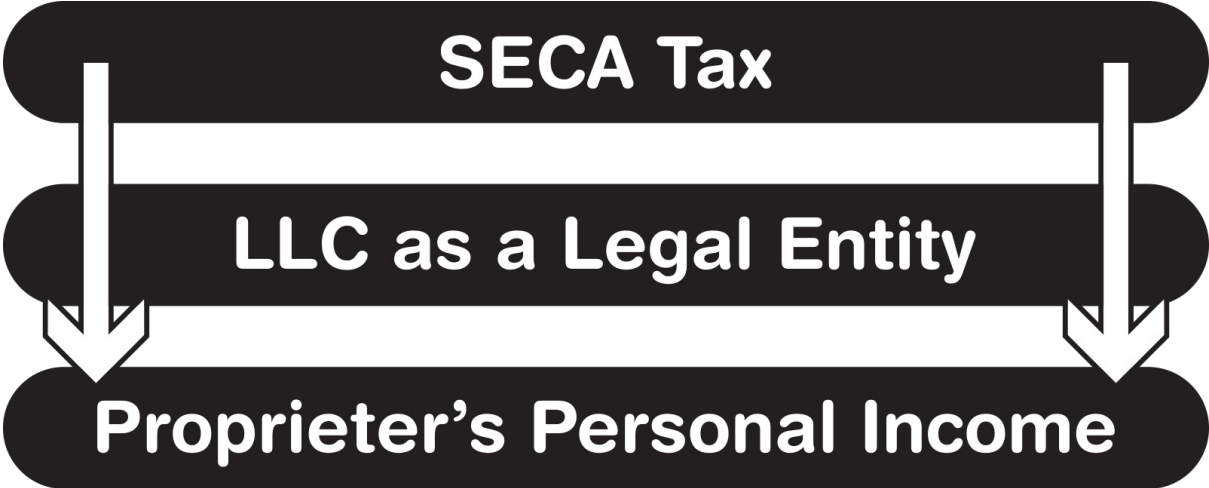
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CHAPTER 1

LLC Basics

fig. 1



CHAPTER 2

Is an LLC Right For You?

fig. 2

Sole Proprietorships

- High personal liability
- Easy to start, easy to run

Partnerships

- Consider them 'joint sole proprietorships'
- Easy to start, liability is shared

Corporations

- Difficult and expensive to start
- Restrictive structure and legal obligations
- Exists indefinitely

CHAPTER 3

Articles of Organization

fig. 3

Domestic

- Operates inside the filed state

Foreign

- Operates outside the filed state

Alien

- Operates in the US but is filed in another country

CHAPTER 4

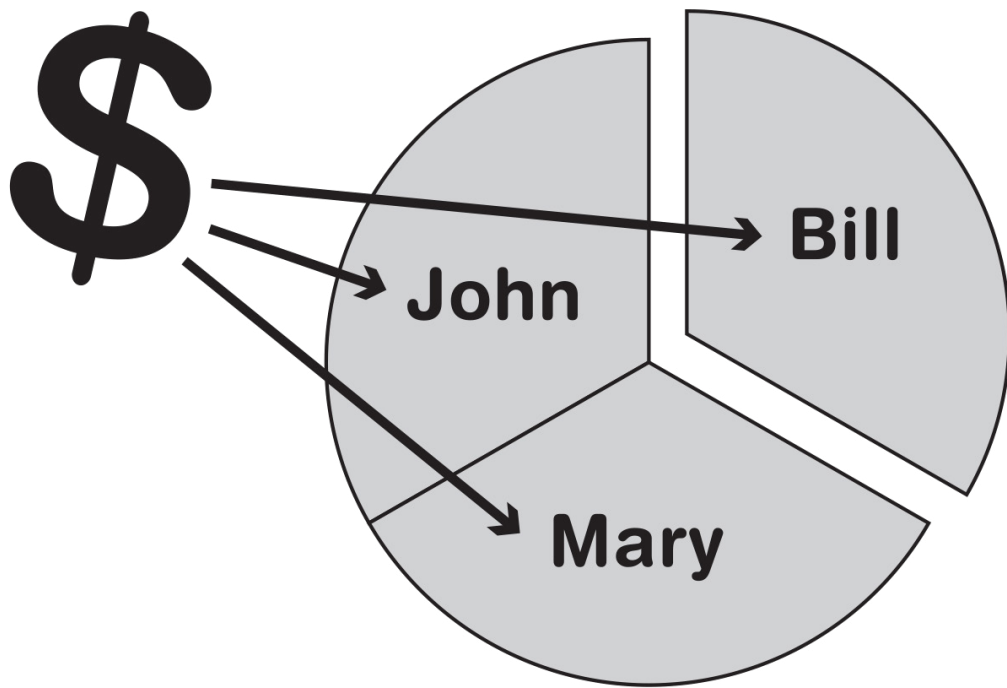
The LLC Operating Agreement

fig. 4

Q1 25% of 10%	Q2 25% of 10%	100% of Sharon's 10% Stake Q1 + Q2 + Q3 + Q4 = 100%
Q3 25% of 10%	Q4 25% of 10%	

fig. 5

Distribution



Allocation

CHAPTER 5

Understanding Your Tax Options

fig. 6

EAST SIDE MEATS – YEAR 1

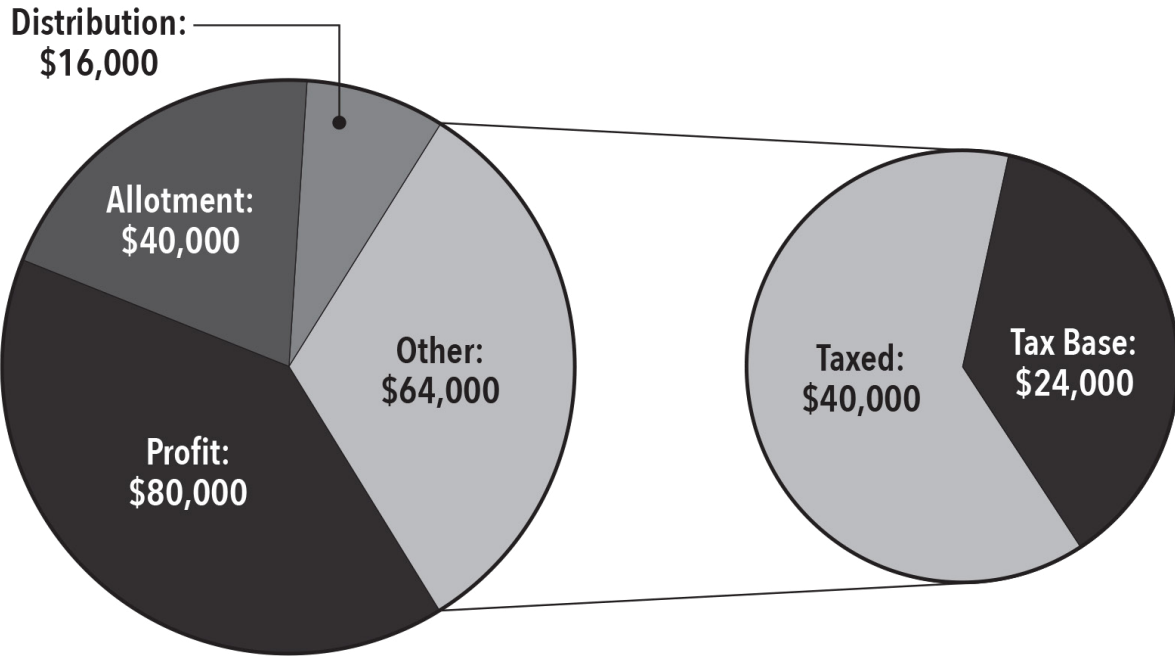


fig. 7

EAST SIDE MEATS – YEAR 2

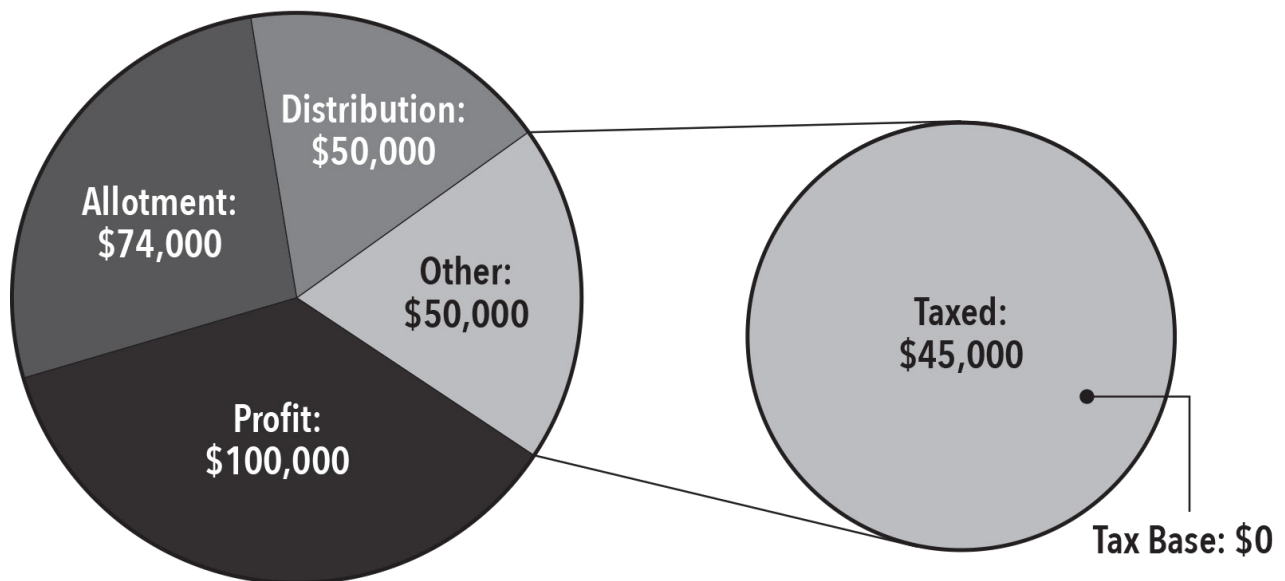


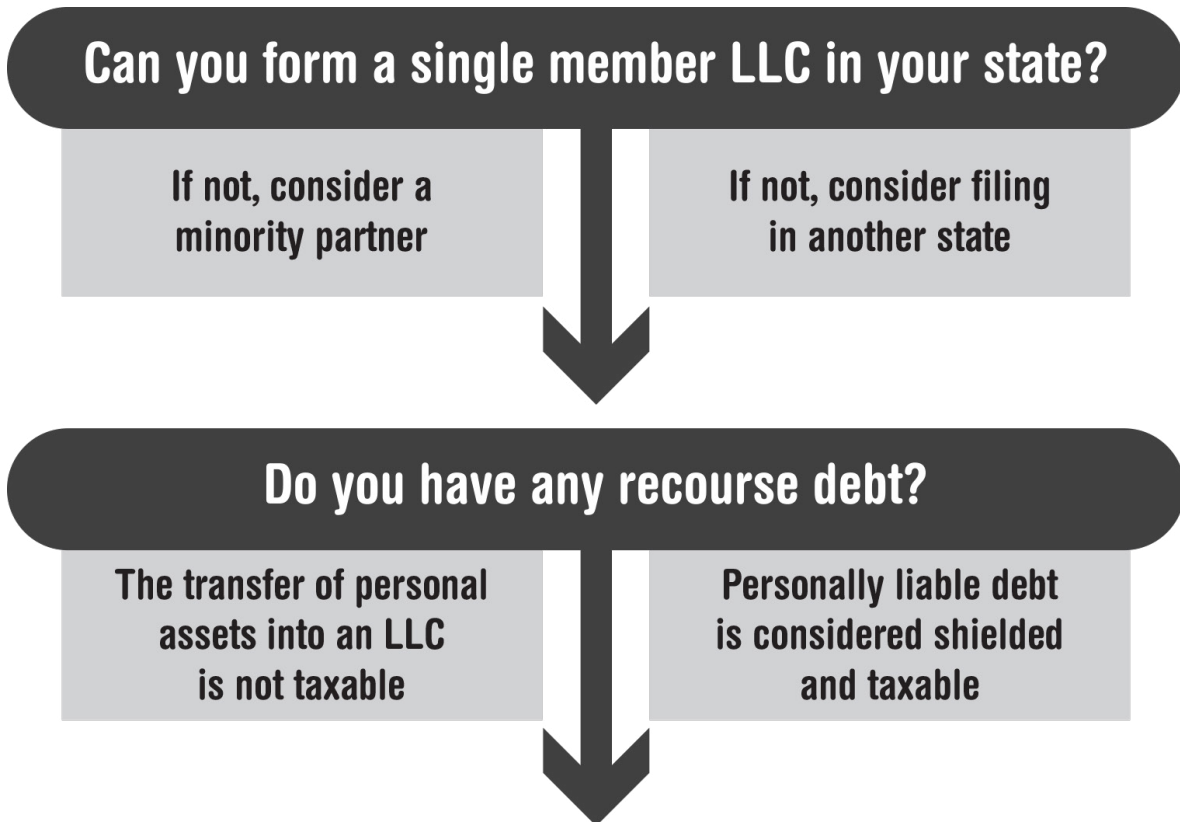
fig. 8

FORM	DETAILS
Form 1040	<ul style="list-style-type: none"> » Single-member LLCs » Filed as a sole proprietorship with a Schedule C form
Form 1065	<ul style="list-style-type: none"> » Multi-member LLCs » Release of information on the IRS
Schedule K-1	<ul style="list-style-type: none"> » Summary of capital contributions by members » Contributions can be written off as deductions
Schedule E	<ul style="list-style-type: none"> » Report of income from the LLC » Don't use if your primary source of income is from the LLC
Form 8832	<ul style="list-style-type: none"> » Only needed if your LLC is taxed as a corporation
Form 1120	<ul style="list-style-type: none"> » US Corporate Income Tax Return » Only needed for LLCs that are taxes as corporations

CHAPTER 7

How to Convert into an LLC

fig. 9



CHAPTER 8

Knowing When Not to Form an LLC

fig. 10

C Corporation	The business entity is subject to federal income tax, and shareholders are not subject to tax unless they collect dividends, distributions, or salary.
S Corporation	The business entity is not subject to federal income tax, though the company's shareholders pay federal income tax on the taxable portion of the company's profits.
LLC	Like S Corporations, LLCs are pass-through entities (unless they elect to be taxed as corporations). LLCs are effectively sole proprietorships for tax reasons (or partnerships in the case of multi-member LLCs) with a legal shield.
Sole Proprietorship/ Partnership	These are easy and cheaply established. They offer no liability protection, and profits are considered taxable personal income.

GLOSSARY

Allocations

Since LLC's aren't taxed as independent entities, the owners of the LLC are subject to pass-through taxation, and the LLC's earnings are taxed through the owners' personal tax incomes. Allocations simply refer to the amount of an LLC's earnings or loss attributed to the members within the LLC.

Articles of Organization

Formal documentation filed with the state—usually at the Secretary of State's office—that brings an LLC into legal formation.

Corporation

A business entity that exists and can be taxed wholly independently from its owners and shareholders. This is distinct from an LLC, which isn't treated as a separate taxable entity by default.

C Corporation

The standard legal form of a corporation, named for Subchapter C of the IRS tax code.

Distributions

In the context of LLCs, distributions refer to profits that are given to the LLC's members in the form of cash or some other asset. Distributions are separate from allocations. An LLC owner, through the allocation of profits that the LLC earns, may be allocated a portion of profits on which he must pay taxes, but this does not necessarily mean that he receives the same amount in distributions. See "Phantom Income."

DBA (Doing Business As)

A fictitious name or trade name used by businesses, usually sole proprietors or partnerships, that operate under a name that's not their legal name.

Disregarded Entity

An entity that is not taxed directly, usually because the owner claims any taxable profits the entity achieves through allocations. The owners of the entity then pay the required tax on their personal tax returns. See "Pass-through Taxation."

Dual Entity Strategy

A strategy employed by a corporation seeking to convert into an LLC, whereby the corporation remains legally existent and the LLC leases the corporation's assets for operational use.

Dual Protection

A unique feature of an LLC, whereby not only are the members limited in their personal liability for the actions of the company, but the company is also immune from the personal actions of its members. If a member of an LLC acquires a personal liability—such as a judgment against him in a lawsuit—his shares of the LLC cannot be confiscated, even if he has nothing else available to confiscate.

Formation Company

Companies that specialize in creating (forming) LLCs and other business entities, usually offering their services for a significant discount relative to what one would pay an attorney for similar services.

Form 8832

The form that must be filed when an LLC elects to be taxed as a corporation.

LLC (Limited Liability Company)

A relatively new type of business entity that's characterized by pass-through taxation and protecting its members' personal assets from liability hazards common in business.

Manager-Managed

A type of management arrangement in which the LLC partners elect or hire a manager to conduct affairs on behalf of the business. The manager may or may not be a member of the LLC.

Member-Managed

A type of management arrangement in which the LLC partners manage the business on their own through voting and designating various member responsibilities for the business's executive functioning.

Operating Agreement

A legally binding document that defines ownership roles, responsibilities, authorizations, and profit-shares in an LLC.

Partnership

Two or more individuals who go into business together. Members of a partnership may be personally liable for the debts and legal judgments (liabilities) incurred against the business.

Pass-through Taxation

A system whereby a business entity is not taxed independently, but the business entity's profits are allocated and taxed on the business's owners' individual tax returns.

Phantom Income

A phenomenon that occurs when a member of an LLC is taxed on income that was never distributed. If, for example, a two-member LLC achieves \$500,000 in profits one year, \$400,000 is invested back into the business, and only \$100,000 is distributed equally among the two partners, \$50,000 apiece. Each partner will still have a tax liability of \$250,000, even though he or she only received \$50,000 in distributions.

Professional Service LLC

LLCs available in some states that are specifically designed for groups of licensed professionals such as accountants, doctors, dentists, lawyers, or engineers. Professional service LLCs often aren't guaranteed as much insulation from personal liability as standard LLCs.

Registered Agent

In an LLC's Article of Organizations, registered agents are named and these individuals essentially personify the LLC, acting as its ambassador to the outside world. An LLC that's being sued, for example, is considered to be formally served with legal paperwork once the LLC's registered agent is served.

S Corporation

A type of tax filing available for corporations that subject them to tax governance under Subchapter S of the IRS tax code. The members of an S Corporation are subject to pass-through taxation as opposed to having the corporation taxed as an independent entity.

Self-Employment Tax

The combination of Social Security and Medicare taxes levied on individuals who receive certain types of income – such as LLC business profits. These taxes are higher than the Social Security and Medicare taxes paid by wage earners, because the self-employed individual is paying both his half of the obligation as well as the half normally paid by an employer.

Sole Proprietorship

When an individual goes into business, the business is considered a sole proprietorship. It's the simplest type of business to form, but the individual's personal assets are at risk for any liabilities incurred by the company.

Tax Basis

In the context of LLCs, the tax basis is a type of ledger that provides a way of keeping track of tax liabilities in the business when distributions vary from year to year, often disproportionate to the business's allocations.