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WHY CHOOSE A LIMITED LIABILITY COMPANY (LLC)?

By: Frank A. Natoli, Esq.

A limited liability company (LLC) is a business structure that combines the characteristics of a partnership with those of a corporation.

1. Pass-Through Taxation v. Double Taxation:

Like partnerships and sole proprietorships, limited liability companies have pass-through taxation. This means that the entity does not hold any of the profits it generates, and instead, any profits or losses flow directly to the owners of the entity. By contrast, profits of most corporations do not flow directly to the shareholders of the corporation. Instead, profits are held by the company, which pays taxes on those profits, and then the corporation distributes dividends to the corporate shareholders. The shareholders are then taxed on a personal level. Practically speaking, this means that members of an LLC pay only one round of taxes – personal income tax - on profits the company generates. In the corporation setting, on the other hand, profits are taxed on two levels. Once when the profits are collected by the corporation, and a second time when the shareholders receive dividends – the personal income tax.

2. Limited Liability:

Like corporations, LLC members are not personally accountable for company liabilities and debts. LLCs and corporations are treated as independent entities and, assuming that their status as independent entities is maintained, the liabilities of the company do not extend beyond the company to its owners. Thus, company creditors usually will be unable to reach the personal assets of LLC owners. By contrast, when a partnership or sole proprietor is sued, their owners are held liable for their entities' liabilities, debts and claims because partnerships and sole proprietorships are not legally independent of their owners. It is important to note, however, that LLC owners and corporate shareholders can lose the liability shield by acting illegally, unethically, or irresponsibly.

For many start-up companies, the LLC combines the best features of the partnership and corporate business structures.

I am Frank Natoli, Esq., the Founder & CEO of the law firm of Natoli-Lapin, LLC, home of Lantern Legal Services. Lantern Legal is our suite of cost-effective, flat-rate legal solutions designed for entrepreneurs, small businesses, independent inventors & artists. If you believe we can ever be of service, feel free to contact us - your inquiries are always welcome!
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