



THE WHITE PAPER

Your Guide to Life Planning

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10 Things You May Not Know About an LLC

You probably know of several businesses whose formal names end with the acronym LLC. And you probably also know that LLC stands for limited liability company. Here are 10 things you may *not* know about this type of business structure.

1. An LLC generally protects its owners from personal liability for business obligations in much the same way a corporation does, but an LLC is not a corporate entity.¹
2. An LLC that plans to conduct business in a state other than the one in which it was established may have to register and/or qualify to do business in that state, depending on the particulars of the situation.
3. The owners of an LLC are called "members." There is no limit on the number of members an LLC can have, and members don't necessarily have to be individuals. Members' management roles are typically spelled out in an operating agreement.
4. Upon formation of an LLC, the members contribute cash, property, or services to the LLC in exchange for LLC shares or units.
5. An LLC may borrow money in its own name and is responsible for repayment of the debt.
6. An LLC is usually treated as a partnership for federal income-tax purposes. (The remaining four points assume partnership treatment.)
7. Like partners, LLC members are not considered employees of the company. However, an LLC can have non-member employees.
8. LLC members are taxed directly on company income. The LLC itself doesn't pay federal income taxes.
9. If an LLC has a loss, its members generally can deduct their share of the loss on their own tax returns.
10. For tax purposes, an LLC's income and losses are divided among its members according to the terms of their agreement. Tax allocations must correspond to economic allocations of profit and loss.

An LLC is but one structure you might consider using for a business venture. If you have yet to choose a structure for your business, or if you feel your business may benefit from a new structure, make sure you talk the issues through with an attorney who is well versed in the legal aspects of business formation, as well as an accountant who understands the potential tax implications.

This communication is not intended to be tax advice and should not be treated as such. Each individual's -- and business's -- tax situation is different. You should contact your tax professional to discuss your individual situation.

¹Each state has its own laws governing LLCs. Consult with an attorney before establishing an LLC.

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