

The meaning behind the confusing alphabet soup of business ownership

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You have decided to start your own business and have begun researching into, among other things, which business entity is right for you. There are partnerships, S-corps, C-corps, LLPs, LLCs and PCs. Quite frankly, your research is starting to look like alphabet soup. So, which one is the right one for you? As always, it is imperative that you contact your attorney to aid you in making this important decision. However, if you are going to go into business by yourself or with your spouse, an LLC may be right for you.

A limited liability company, commonly known as an LLC, is a relatively new business entity that has rapidly become a popular choice for small business owners. An LLC is a hybrid of a corporation and a partnership.

Like a corporation, LLCs are a structured entity that has, among other things, an operating agreement, articles of organization and managers, but it most importantly offers the benefit of limited liability.

Limited liability limits the personal liability of the owners (called members) in the LLC's transactions and interactions with other businesses and the public by acting as a shield between the owners' personal assets and the LLC. For many small business owners, having this shield allows them to take greater risks and opportunities with their new business without jeopardizing their or their family's personal assets.

For example, if the LLC is sued or has an outstanding debt, the owner is normally only liable for the amount he or she already has put into the business and nothing more. The aggrieved party can only look to the LLC, and not the owner, to satisfy any judgment or debt. To obtain this protection, just like corporations, an LLC must register with the Illinois secretary of state.

An LLC also has some characteristics of a partnership, namely flexibility, informality and tax reporting options. If there is a single member, or a married couple who are the sole members, no separate income tax return needs to be filed for the LLC as it can be "disregarded" for tax purposes. Rather, the member simply reports the LLC's income and deductions on their individual or joint tax returns on a Schedule C. This eliminates the headache associated with filing two tax returns. If there are two or more persons who are not married, a separate partnership tax return can be used, which uses pass-through taxation. The partnership return will pass through the income and expenses to be included on the individual's income tax returns.

There are many more advantages, and some disadvantages, to forming an LLC. It is essential that you contact your attorney to help you decide which business entity is right for your business, and let him or her lead you through this confusing alphabet soup of business entities.

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