

Overview of Limiting your LLC Liability

Limited liability company managers and members have limited liability. The limited liability company compares to a corporation. However, several states are less protective of LLC's. A one-member limited liability company may expose the single member to the debts of the limited liability company, much as a general partner would incur liability for the debts of a limited partnership. Moreover, this one member/manager must have sufficient personal assets (set by state law) to meet the foreseeable obligations of the limited liability company.

Every business has its lawsuit risks. Your business may default on a debt, an employee may have a car accident, a customer may be injured, or a disgruntled ex-employee may sue for discrimination. You'll want to protect your personal wealth from these and other potential business risks, and want to organize your LLC in a state that insulates the LLC manager from personal liability.

Fortunately, most states limit the manager's personal liability. They give outside protection for LLC's managers and members, as the corporation's protects officers, directors, and stockholders. However, you must follow formalities. Only then would the limited liability company's assets be exposed to its creditors and lawsuits and the LLC manager's and member's personal wealth would remain untouchable.

Before you form a corporation, consider the limited liability company with your professional advisor. You will have limited liability, possibly pay less tax, and obtain more protection for your ownership interest than you would as a corporate stockholder.

Because a member, manager, agent, and employee of an LLC would not ordinarily be personally liable for the debts, contracts, or liabilities of the LLC, (and would have basically the same protection as corporate officers, directors, and stockholders or *outside* protection), they can lose only their investment. However, as with both the corporation and family limited partnership, you have personal liability for torts (negligence, etc.) that you commit personally, as well as contracts you guarantee and debts where managers have statutory liability.