

## Overview of the Pros and Cons of LLC's

The limited liability company combines the limited liability advantage of a corporation with the protection for the ownership interest. Yet, for several reasons we may prefer an LLC to either the LP or corporation:

- As with the S corporation, you can avoid double taxation with a limited liability company. The limited liability company can avoid the C corporation's corporate income tax, if you so elect. Income from the limited liability company can be singly taxed to its members, as with a partnership. You may also avoid state corporate franchise tax by using an LLC.
- You incur no personal liability with a limited liability company. As with the corporation, LLC managers and members are personally protected from the creditors of the limited liability company, even when its members manage the company. In contrast, general partners of a limited partnership are personally liable for partnership debts. Moreover, the limited partners of a limited partnership cannot participate in managing without incurring personal liability for partnership debts.
- The LLC is a strong organizational choice for these two reasons. Still, the limited liability company is not always your best organizational choice. There are more subtle reasons why we may instead use a corporation or limited partnership:
- The limited liability company may be less frequently adopted by business owners and professionals; only because the limited liability company is a newer entity. Fewer court cases have tested the protection afforded by the limited liability company. Thus, the LLC is less battle-proven than limited partnerships or corporations.
- Limited liability companies do not have the corporate advantage of prior IRS rulings concerning the sale of worthless stock or stock sold at a loss.
- LLC membership interests arguably do not get the same discounted valuations for estate tax purposes as do limited partnership interests. This point, however, must still be clarified by future court cases.
- If you sell 50% or more of your ownership in the limited liability company in any one year, it ends the tax advantages of the limited liability company.
- Owners of a limited liability company pay greater unemployment taxes on their earnings than corporate officers.
- You can't "go public" with an LLC. To do so you need a C corporation. Other accounting, tax, and organizational issues may influence your decision about whether or not the LLC is your best option. We repeat: No one entity is perfect. You must consider a wide range of factors when you decide upon your best organizational choice. That decision should involve both your accountant and your attorney.