

THE LIMITED LIABILITY COMPANY EXPLAINED

What Makes the LLC So Popular with Businesses?

LLCs are easy to form, simple to maintain, and can scale as your business grows. LLCs are popular because the business can be structured like a corporation or partnership, can opt for pass-through taxation, and will face fewer operational requirements than corporations. Here is what you need to know about this entity option.

What Is an LLC?

An LLC is a business entity created by state law that is:

- > Formed by filing "Articles of Organization"
- > Managed by members (owners) or managers
- > Governed by the Operating Agreement, which sets out rights and responsibilities of members and how the LLC conducts business

How Does an LLC Work?

- > It is a business entity separate from the owners
- > It has its own rights and liabilities, and can enter into contracts
- > It can buy and sell property and sign contracts
- > The members have limited liability and are not individually responsible for its debts and liabilities



LLC Disadvantages

- > Lacks flexibility when adding or removing members
- > Fewer statutory protections for owners
- > Can be difficult to find investors; people still prefer to buy stock in corporations

LLCs Choose Their Type of Business Tax

The IRS allows LLCs to choose their form of taxation:

- > **Pass-through Taxation** - The entity is not taxed on its earnings; income and losses flow through to the owners
- > **Double Taxation** - The entity pays income tax if dividends are declared and if the owners pay taxes on their earnings as well

What Kind of Businesses Choose LLCs?

LLCs are a smart choice for businesses that:

- > Own property
- > Operate commercial businesses
- > Are in the same line of work as most corporations



LLC History

1977

Wyoming is the first state to have an LLC law

1992

Delaware adopts its own LLC law

1996

Hawaii, Vermont and Massachusetts are the last states to adopt LLC laws

2018

Delaware - There are more than three times as many LLCs as corporations formed.

157,143 LLCs and only 44,669 Corporations

An LLC Success Story

How a \$1 billion retailer scaled its business while maintaining 100% ownership of the company: **The Vineyard Vines LLC Story**

You can get started forming your LLC online today. Visit ct.wolterskluwer.com/llc-limited-liability-company or our team of compliance experts is available to answer any questions at 855.974.9883.