

“Why do I need and how do I establish a: Limited Liability Company”

Sole Proprietorships

The sole proprietorship is the most popular form for operating a business in America. Many small start-up ventures operate in this form. A sole proprietorship is a business owned directly by one person. It is simple to operate, but there are serious disadvantages to operating your business as a sole proprietor. The foremost disadvantage is the unlimited personal liability of the owner.

Alternatives

There are various alternatives to operating your business as a sole proprietorship. These alternatives include, the General Partnership (when 2 or more persons carry on as co-owners of the business for profit; they remain personally liable); Limited Partnerships (in which the limited partners have limited liability, but no management authority); the Corporation, which can be formed as a Subchapter C or Subchapter S (the main advantages are limited liability of the shareholders; a defined capital structure, a defined management structure, separate entity status, and tax status; while the main disadvantages are the expense, maintenance, formalities, and double taxation with a Subchapter C); and the Limited Liability Company (which provides limited liability to members without the formalities, maintenance and typical expense of a corporation and it is normally not subject to double taxation).

What Alternative is best for you?

The answer to this question can only be given after a legal analysis of your business plans, your intended business operations, your intended business expansion, and your tax position.

The Limited Liability Company (LLC) as the Best Alternative

Assuming that it is determined that the preferred form of business for you is the LLC; then it is relatively easy to establish a LLC.

Articles of Organization

In many states, the Articles of Organization to establish a LLC can be completed using an on-line form. The states provide for a basic form of Articles of Organization that may be appropriate for you to utilize depending upon your business. In Michigan, the LLC Articles of Organization can be found at www.mich.gov under the Department of Energy, Labor & Growth. In Illinois, the LLC Articles of Organization can be found at www.Illinois.gov under the Business link.

The Operating Agreement

The LLC Operating Agreement is the key document that outlines how the company is organized and operated. The agreement typically includes the company name, address, resident agent, capitalization, loans, ownership, management and compensation considerations, member rights, voting rights, distributions, tax, membership transfer rights, membership death and disability rights, bank account and investment information, indemnification rights, dispute resolution choice, dissolution, and winding up considerations.

The Operating Agreement should be drafted or reviewed by competent counsel to ensure that the limited liability objectives of the members are achieved and to ensure that the rights and obligations of the members are understood as you commence, modify and grow the operations of your company.