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Q: What is an LLC and how can you benefit by owning one?

A: Many people mistake the acronym "LLC" as meaning a Limited Liability Corporation, when an LLC doesn't create a corporation at all. "LLC" is the acronym for a Limited Liability Company. LLC's are used quite commonly in business, especially small business, primarily as an asset protection tool.

The primary benefit of owning and operating a business under an LLC is the protection of your personal assets from creditors and lien holders. Here's how it works. Say Natalie wants to open her own fitness business. Instead of operating the business as an individual, Natalie sets up an LLC. First, she gives it a name, "Natalie's Fitness Gym, LLC".

After that, she files the necessary paperwork required by the State, including the formation documents and Articles of Organization. Once she has been approved by the Secretary of State (which can be expedited and approved within days for a higher filing fee) she must acquire an Employer Identification Number (EIN) from the IRS. (This can be done within an hour, online) Once she has the filing approved, and her EIN, Natalie must open up a business checking account under the name of the LLC. And Voila, Natalie now has her own Limited Liability Company!

So why did Natalie do this in the first place? Well, in the asset protection world, she is limiting the exposure of her personal assets whenever she conducts business through the LLC, rather than herself, personally. Creditors and lien holders of the gym may be limited to seizing the assets of the business rather than Natalie's personal assets, like her house, car and other possessions. I said "may be limited" for a reason. This is because these protections are not guaranteed, depending on the type; especially if Natalie provides a personal guarantee when signing contracts for the business, or causes harm to one of her fitness gym members due to her gross negligence.

There are two basic types of LLC's; single member or multiple members. A single member LLC occurs when you alone own and run the business. A multiple member LLC is when you have partners and for all intents and purposes, is a partnership. There is no better type of LLC. The only real difference is the paperwork and business documents.

So why set up an LLC rather than a corporation? Simple; cost and ease. With a corporation you have so many various issues of stock, annual filings, and

different taxation structures. With an LLC, you get the same protections as a corporation, but the business earnings are simply added as a schedule to your personal tax return. Additionally, an LLC is far less expensive to set up.

Corporate formations are time consuming and can be expensive, but they may be necessary depending on the type of business you intend to own. To that end, a word of caution: Despite the relative ease of setting up an LLC, I highly discourage anyone from doing it themselves without at least some legal advice. There are a variety of considerations to be made when determining if an LLC is the right choice for you. Also, lawyers who set up businesses know how to prepare the documents correctly and expeditiously, which can be a blessing when starting a new venture.

LLC business formations are yet another aspect of estate planning and asset protection. I have seen them in action protecting my clients and I recommend forming an LLC whenever you intend to own a business or real estate. They are inexpensive but invaluable business tools.

***Anthony J. Medico, Esq.,** has practiced law for over 27 years. To ask a question regarding this article, send an e-mail to info@medicoandassociates.com or call us at (203) 661-8151. To read more highly informative Estate Planning articles, visit our website at www.medicoandassociates.com, where you can also download our free Estate Planning Survival Guide. Enjoy.*

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