

## CLIENT REPORT

### Starting or Converting a Business - LLCs

Dear Client:

A few years ago, hardly anyone had heard of limited liability companies. Now businesses can operate as LLCs in all states, and the press and media have nothing but good things to say about them. Is all the hype justified? Much of it is. Limited liability companies offer an unprecedented combination of corporate-like liability protection and partnership pass-through taxation.

Limited liability company "members" don't have to limit their participation in the firm's management to protect their personal assets from the firm's creditors, as they do in a limited partnership. Yet they can qualify for true partnership taxation.

LLCs also have a number of distinct advantages over S corporations for many businesses. There are no limits on the number or kind of shareholders, giving LLCs greater access to capital. They're not restricted to a single class of stock as S corporations are, so LLC members have a greater ability to allocate gains, losses, deductions, and credits. LLCs have a lot more estate planning flexibility than S corporations, too. And there are other technical advantages that can make a bottom-line tax difference.

With all that going for them, should your business become an LLC? The answer depends on your particular set of facts and circumstances. Established corporations with appreciated assets might find the tax cost of conversion to be prohibitive. But most start-up ventures should at least consider operating as LLCs. And existing proprietorships should definitely consider conversion; that way the owner's personal assets will be protected from any financial problems that arise in the business. Many existing partnerships and even some S corporations also should consider making the switch. Real estate partnerships are especially suitable candidates.

Since LLCs are relatively new, however, there are some unanswered questions that require a cautious approach. Some states may try to tax them as corporations, or charge them annual fees. It's also not completely clear what kind of liability protection members of multi-state LLCs will have if they operate in states that don't authorize them. Nevertheless, there are great benefits from this new form of operation. We would be pleased to help you evaluate all of the relevant factors to determine whether an LLC would work for you.

Sincerely yours,

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