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CKR Financial Services

monthly journal

HELPING OUR CLIENTS GET THE ADVANTAGE OVER THE COMPETITION

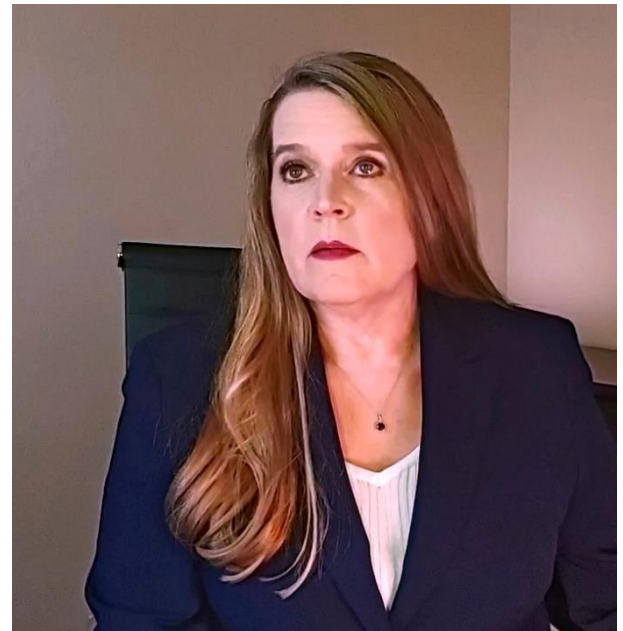
So far, we've covered the Sole Proprietorship and the Partnership as far as entities are concerned. This month, we take a look at the...

Limited Liability Corporation

I hope this series has been helpful to you business owners and for those of you thinking of taking the plunge. By setting things up correctly from the start, you make life easier for yourself down the road. I see folks making mistakes in their initial setup, so I'm hoping this topic gives you an opportunity to re-think your business structure and make sure that it is serving you or if you may want to reclassify your business so that it falls in line with your needs.

This month, I'm going to discuss the Limited Liability Corporation, or LLC. Hopefully, by the time you complete this, you will understand why this is a business model that is widely suggested for start-up businesses.

INTRO: The Limited Liability Corporation, or LLC, is a business structure that offers limited liability protection and pass-through taxation. As with traditional C-Corporations, the LLC legally exists as a separate entity from its owners. If you will remember, Sole Proprietors and Partnerships shoulder the liability when accidents occur or when things go wrong. Debt collectors and sheriffs can literally go after cars, jewelry, and homes of the owners to satisfy a judgement. A Limited Liability Corporation LIMITS the collection process to assets of the company. (*There is a caveat here. If one has been using the company as a personal ATM, comingling funds between business and personal accounts



without a clear delineation between business and personal finances, this will open up the personal accounts and assets to seizure. We have covered commingling of funds in a previous newsletter.)

SETUP: Initial paperwork and fees for an LLC are relatively easy. Nevada makes it particularly simple with the SilverFlume website. It also doesn't require the cumbersome record-keeping of a traditional C-Corporation. Instead of officers, the owners are Members and annual meetings aren't required. <continued on next page>



NO RAGRETS!

Yes, you read that right – or wrong, as the case may be. It reminds me of a movie where a young chap had this tattooed on his neck and called it his “credo”, blissfully ignorant of the misspelling staring at him from the mirror. *At least he was happy.* Sometimes we get so wrapped up in details that we don't finish projects, become miserably trapped in minutia, and lose the joy of the moment. Find your bliss. Start that project. Live with no ragrets! 😊



LLC continued

You can see why this is one of the favored entity types when starting a business.

“FAILURE IS SIMPLY THE OPPORTUNITY TO BEGIN AGAIN, THIS TIME MORE INTELLIGENTLY”

Henry Ford

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PROS: Easy set-up, pass-through federal taxation on profits, management flexibility, easy upkeep and liability limitation should things go wrong all make this a desirable entity for small business start-ups. Keeping your business and company checking accounts separate is VERY important or you “Pierce the Corporate Veil”, which makes the members (owners) responsible for liabilities. Taxes are generally passed onto the members’ Form 1040 through a K-1 or Schedule C if it is a Sole Member LLC. An LLC can also be put into a living trust, so if a family member wants to pass down the business through a trust, it is much easier to do so. This is when you need the

assistance of an asset protection attorney.

CONS: While a pass-through on the Form 1040 is easy, the members will incur a self-employment tax, which is a higher rate than being taxed as an employee. In some states, if a member leaves or dies, the LLC must be dissolved and the remaining members must start a new LLC from scratch. That is not the case here in Nevada. However, if a member dies in NV, their percentage of the business passes to their next of kin. So the remaining member may be saddled with the wife or offspring of their business partner who may not be a good fit for the partnership or the business. This is why we recommend getting with an asset protection attorney like Rick Cunningham to work out an agreement to protect personal

and business interests as well as what happens if a member leaves or dies.

TAXES: A single-member LLC will report activity on a Schedule C on the member’s Form 1040. Multi-member LLC’s file a Form 1065 but no money will be owed or refunded. Profits or losses are recorded on the members’ Form 1040 tax return.

FINAL THOUGHTS: The Limited Liability Corporation is a good starting point for small businesses. It allows room for growth and if you need to adjust your entity status later, it is easy to maneuver. I often recommend this to start-ups. As your business grows, you may find the need to move up to an S-Corp, which I will discuss next month.

“I made my money the old-fashioned way. I was very nice to a wealthy relative right before he died”

-Malcom Forbes

“Empty pockets never held anyone back. Only empty heads and empty hearts can do that.”

-Norman Vincent Peale

“You can only become truly accomplished at something you love. Don’t make money your goal. Instead, pursue the things you love doing, and do them so well that people can’t take their eyes off you.

-Maya Angelou



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