



Which business entity is right for you?

Placing your rental property into a corporate entity is a great idea and I recommend it for many of my clients. However, which entity is best for you? That question is the most common question I receive from Clients looking to protect their portfolio from creditors and liability. I thought it would be helpful to explain some of the different type of entities and the positive and negatives associated with them.

Limited Liability Company (LLC)-

Background:

Limited Liability Companies or "LLC" is one of the most common types of corporate entities. LLC's are incredibly flexible and can have 1 or more members. An LLC refers to the owners of the entity as "members" and each member has an ownership interest in the entity. LLC's are free to elect officers (president, vice president, etc.) or not. LLC's can be run by the members or they can be managed by a designated manager. LLC's best quality is their absolute flexibility in how the entity will be structured and how it will be managed.

Rules:

LLC's can vary state to state but in Pennsylvania, they are created through the Pennsylvania Bureau of Corporations. Pennsylvania has provided some background rules for LLC's, but generally, your operating agreement will set the rules for the entity. An Operating Agreement is a contract that sets out the rules and regulations for the entity. The operating agreement determines how decisions will be made, how the entity will be managed, whether officers will be elected, and most importantly, what happens in the event of a dissolution, i.e. the entity winds down.

Protection:

LLC's provide corporate protection for the members of the LLC. Specifically, the LLC is the entity that could be sued in the event of litigation. For example, the LLC is sued. The LLC is found to be at fault and a judgement is entered. That judgement would only be enforceable against the LLC and not against the individual members of the LLC. This provides protection to the individual members. This corporate veil is good as long as it is not pierced, which only arises in very certain and limited circumstances usually dealing with fraud.

Taxation:

Despite popular opinion, LLC's are not taxed as a "C" corp entity. LLC's are flexible and this includes taxation status. LLC's can be taxed as a "C" corp, "S" corp, partnership or disregarded entity for a sole proprietorship. Without getting into tax code, just know there can be advantages and disadvantages to each setup. The major takeaway is that an LLC can be taxed however the members of the LLC choose.

Fees:

One of the negatives of an LLC is the annual registration fees. In Pennsylvania, an LLC must file annual registration fees which can be costly. These fees are approximately \$400 per member. In most circumstances, the liability shield is worth the annual registration fees, but it is certainly something to consider prior to formation.

If you have any legal questions regarding LLC's or any other entity formation, we are happy to help. We specialize in corporation formation and can answer any question you may have about the process. We also can perform these formation services on a flat fee basis, so you know the costs and fees prior to work being completed.

Give us a call at King and Huffines Attorneys at Law PLLC at 724-242-0230 or shoot me an email at www.kinghuffineslaw.com.