

Dear Client:

October 2015

We are writing to inform you of an opportunity to restructure your proprietorship into a more advantageous form of business. Presently, as a sole proprietor, you enjoy the availability of simplified income tax reporting, which allows you to report business income on Schedule C with your Form 1040. However, proprietorship status exposes your personal assets to the risks and liabilities of your business operation.

Our state statutes allow a sole proprietor to conduct business as a Limited Liability Company (LLC). The intent is to provide a broader protection from liability. The concept of the LLC statute is that the owner (technically referred to as a “member”) does not have any liability for business debts solely by reason of being a member or owner. Of course, this does not relieve you of responsibility for your personal actions, nor for any debts you personally guaranteed. But personal assets would be protected from claims arising because of ordinary business transactions. This liability protection could be particularly advantageous if you have employees working in your business, as their actions presently may expose your personal assets. If this aspect of personal liability protection is of interest to you, your attorney should be consulted to more fully explore the protections that are relevant to your particular business situation.

The other attractive aspect of LLC status is that IRS regulations allow you to continue reporting for income tax purposes as a proprietor, despite forming an LLC entity under state law. Gaining the extra legal protection of an LLC entity will not entail any extra filing with the IRS.

Of course, there will be transaction costs to create the LLC. It will be necessary for your attorney to draft an LLC document to be filed with the state. Your attorney can provide an estimate of this cost, as well as any initial or recurring fees that must be submitted to the state office. Also, if you conduct business as an LLC, it will be necessary to consistently use the LLC designation on business letterhead, your business checking account, business licenses, and the like. You or someone you delegate would need to go through the process of adding the LLC designation to the various contracts and documents under which you conduct business.

In summary, you should weigh the advantages of the liability protection from LLC status against the initial legal and administrative costs of accomplishing the conversion. For many proprietors, the added liability protection will merit the costs of converting to LLC status, but this should be explored more fully with your legal counsel. If you have additional questions or wish to discuss this further, please contact us at your convenience.