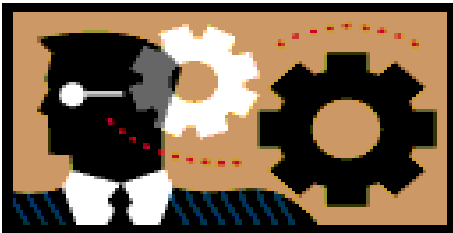


Limited Liability Company

Limited Liability Company (LLCs) should follow certain formalities and have written documentation of the major decisions of the LLC. These formalities include the operational agreement and management structure.

The organization structure of an LLC is that it is owned by its members.

Members ownership of an LLC is represented by their "interests" just as partners have "interest" in a partnership and shareholders have stock in a corporation.



358 East Blackstock Road
Spartanburg, SC 29301

PEOPLES TAX SERVICE, INC.

PEOPLES TAX SERVICE,
INC.

Formation of a LLC (Limited Liability Company)

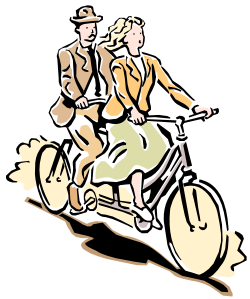


Tel: (864) 574-2961

The Organizational

Structure Of a LLC

An LLC is owned by its members. They are analogous to partners in a partnership or shareholders in a corporation, depending on how the LLC is managed. If the LLC does not utilize managers, the members will closely resemble partners because they will have direct decision making powers. A member will resemble shareholders



Enjoy
Limited Liability

if the LLC utilizes a manager or managers thus the members will not participate in direct decisions and in the management of the company. In essence, if a LLC operates like a partnership, then it is to be managed by its members. If managers are not selected in the

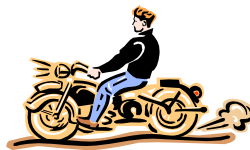
articles of organization, the members will direct the affairs of the LLC.

Publication requirements in a few states require notice to be published in a newspaper that a LLC is being formed. Please call our office for a list of these states.

Advantages of a LLC

Limited Liability Company earnings are taxed only once. This is known as **pass-through taxation**. The earnings of a LLC are treated like the earnings from a partnership, sole proprietorship and most S corporations.

The Limited Liability Company **owner's liability** is generally limited to the amount of money which the person has invested in the LLC. Thus the mem-



bers are offered the same limited liability protection as a corporation's shareholders.

Flexible Management / Flexible Ownership allows for profit interest to be separated from voting interest. Like partnerships, LLCs are generally free to establish any organizational structure agreed on by its members.

Disadvantages of a LLC

The dissolution date of the LLC, in some states, must be listed in the articles of organization. Although this date may be amended, the potential for events that require dissolution must be specifically addressed.

Paperwork is more than an ordinary partnership. Documents must be filed at the state level to create an LLC.

How is an LLC taxed?

One owner LLCs are treated the same as sole proprietorships. Profits are reported on Schedule C as part of your individual 1040 tax return. Self-employment taxes on LLC net income must be paid just as you would with any self-employment business. All profits are taxed even though they may not actually be distributed to the owner.

Multiple owner LLCs are treated as a partnership by the IRS. The tax return that the LLC completes is Form 1065—Partnership Information Return. The LLCs profits are reported and allocated to each of the owners according to the operating agreement. Each owner is given a Schedule K-1, that shows each owner's share of income or loss. The income or loss of each owner is then reported on Form 1040.

If elected to do so, the LLC can be taxed as a corporation. The proper form must be completed in order to be taxed as a corporation; however, this tax election may lead to a net income tax savings. The tax savings is a result of lower corporate taxable rates for the first \$75,000 than individual rates.

PEOPLES TAX SERVICE, INC.

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