

## California Limited Liability Company An Overview

Many people are surprised to learn that the LLC business entity is a fairly recent phenomenon. Wyoming was the first state to legislate the creation of LLCs in 1977. Most states didn't jump on the LLC bandwagon until 1988 when the IRS classified the LLC as a pass through entity for tax purposes. This ruling turned LLCs into the popular monster they are today. Now every state has legislation allowing the creation of LLCs and California is no different. What Are The Advantages To Forming A LLC? The LLC business entity offers many advantages to small businesses. An LLC is going to provide a shield between [L Steven Platt](#) your business activities and personal assets identical to a corporation. Unlike a corporation, there are far fewer corporate formalities. Instead of setting up payroll, you can take draws from the entity. You are not required to maintain a balance sheet, although this is recommended. In short, the LLC entity is all about flexibility. Should I Form A California LLC For My Business? Maybe. While LLCs offer significant flexibility to small businesses, California charges an LLC tax that can really cramp your profits. This tax is charged on your gross revenues for the "privilege of doing business in California" as an LLC. Lucky you. Depending upon your situation, forming an S corporation may be a better option in California. Additional Tax Issues California allows a single person to own an LLC. This causes problems from a tax perspective. The IRS doesn't really acknowledge the existence of LLCs owned by one person. The IRS takes the position that you must have two people to be taxed as a partnership. Accordingly, it treats single owner LLCs as sole proprietorships. The problem with this result is that you end up paying self-employment taxes.



While LLC structures provide significant flexibility, the structure is not always the best choice for a small business. Make sure you speak with competent tax counsel prior to forming an LLC for your business.