



## Memorandum

To: Clients, Friends, Family & Associates of Pro@ctive CPA  
From: Mark Wyssbrod, Managing Member  
Date: July 6, 2011  
Re: Am I A LLC or S-corporation?

One of the most beneficial, but confusing, legal entities is the Legal Liability Company, aka LLC. For years it was not clear how these entities work, but the tax authorities have created some ground work which can be relied on.

Generally speaking an LLC is a legal entity. A legal entity provides legal protection from investment and business transactions. Another legal entity you may have heard of is the corporation or being incorporated (INC). A corporation (INC) can be taxed in two primary ways as an s-corporation or as a c-corporation.

LLC can be taxed in multiple ways. If there is only one Member (owner), then the LLC is considered a disregarded entity for tax purposes. Being a disregarded entity does not mean the LLC does not have to file a tax return! However, it does mean it does not have to file a separate tax return. The LLC's information would be reported on the Member's tax return. If the Member is an individual, then the LLC would be reported on their individual tax return (usually Schedule C for a business and Schedule E for rental properties). If the LLC is owned by another LLC or INC then the information is consolidated with the owner's entity and filed in the same tax return.

However, if the LLC has more than one Member, then the LLC defaults to being taxed as a partnership. Many small businesses find that partnership tax obligations lead to inefficient tax strategies and ineffective use of capital.

To make things even more confusing, the IRS permits LLCs to elect to be taxed as a c-corporation or s-corporation. The LLC can elect to be a c-corporation by using Form 8832 Entity Classification Entity and can elect to be an s-corporation by using Form 2553 Election By A Small Business. S-corporations usually allow for a more efficient amount of self-employment taxes (Social Security and Medicare) to be remitted and better tax benefits for equity distributions. C-corporations usually allow for more efficient employee benefit plans to be established.

So your LLC can be taxed in several different ways, but it is still the same old LLC. LLCs have been increasing popular by small businesses for the legal protection benefits instead of being a sole proprietorship (with no legal protection benefits). The flexibility of difference tax elections and strategies available make the LLC structure favorable. To understand the legal and tax benefits of your LLC please contact your professional team for guidance.

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