

The LLC Form of Business

The limited liability company form of business provides insulation to the owners of the company from creditors just as incorporating does. Also, LLC formation is similar to forming a [corporation](#) in that Articles are filed with a regulatory office of the state.

Much comparison is made between the limited liability company and corporation forms of business, however, an LLC business entities' organization is more analogous to a partnership than it is to a corporation.

The Limited Liability Company business structure provides management flexibility, asset protection and a simplified taxed structure which make the LLC entity the fastest growing form of doing business in the United States. Key aspects include limited personal liability of owners from creditors, simplified management as opposed to a corporation and a tax structure which avoids double taxation. Members of an LLC (owners) pay taxes on the income, yet have the advantage of limited liability as the shareholders of a corporation do.

Composition and Management of Limited Liability Companies

Basically, limited liability companies are a combination of the partnership and corporate forms of business. However, running an LLC is significantly easier than operating a corporation.

One or more members (owners) can generally manage the business without the burdensome paperwork requirements that are found in operating a corporation. An LLC can consist of one or more members who may actively manage the business of the company or designate other persons to do so. Arizona and California both allow for single member LLCs.

Members can choose to distribute their profits and losses in any manner they wish, regardless of the percentage of ownership of each members. For example, profits of the business could be allocated to two owners on a fifty-fifty basis, even though one of the owners might only have 10% management rights over the company. With a corporation, this type of income distribution is generally not possible without significant burdens.

Forming an LLC gives owners many options in determining who manages the company and what each members particular duties will be.

Organizational Documents

To form an LLC in [Arizona](#) or in [California](#), you begin by filing Articles of Organization. This formation document contains basic information about the framework of the company and generally, the name of the company, the names and addresses of the members, the names and addresses of the managers (if any) and the name and address of a person or agent to accept notice on behalf of the company. Arizona has an additional requirement that the Articles be published in a legal newspaper.

An Operating Agreement should be prepared to outline the respective rights and duties of the members and managers. A Limited Liability Company Operating Agreement is analogous to corporate bylaws, or a partnership agreement in a partnership business structure. An LLC's Operating Agreement should outline the management structure of the business, how the profits and losses will be divided, what the members' capital contributions will be and what the members' voting rights will be.

Perpetual Existence of LLC's In Arizona & California

In the past, the time duration for existence of an LLC was restricted under most states' laws, but recently almost every state, including Arizona and California, allow a limited liability company to exist perpetually, unless otherwise stated in the LLC's Articles of Organization.

Continuing Operations

To maintain limited liability characteristics of the company, an LLC must be properly formed and operated. Legal requirements exist to establish and preserve the organization. These requirements vary by state jurisdiction. We provide information on the states of [California](#) and [Arizona](#) on separate pages. However, all states are becoming more uniform in governing the LLC.

The company must maintain a records book where the Articles of Organization and Operating Agreement are kept. Records of meetings of members and managers should also be maintained to preserve the legal integrity of the entity. In the event a creditor attempts to hold an owner personally liable, the records book should support the legitimacy of the business.

A limited liability company, unlike a corporation, is not subject to double taxation (unless the members elect to be taxed as a corporation). Profits and losses of the business are "passed

through" to the individual owners, in the same manner as with a partnership or proprietorship. The Internal Revenue Service classifies a Limited Liability Company as a "pass-through entity". Income from the LLC is passed through the entity to each member, and each single member reports their share of the profits on their income tax return.

For detailed information on specific jurisdictional requirements, please see the respective pages at this site for forming a [California](#) LLC and our [Arizona LLC](#) formation page. You might also want to check the Secretary of State or Corporation Commission [filing offices](#) listed here if you intend on doing business in other states.