
LIMITED LIABILITY COMPANIES

DEFINITION:

A limited liability company (“LLC”) is a unique business entity that combines the flexibility and favorable tax treatment generally associated with partnerships and the protection from liability available to corporation shareholders and limited partners in a limited partnership. LLC’s may engage in any trade, occupation, or profession other than those that require licensing, such as banking, insurance, or rendering professional services such as a construction contractor (there are a few exceptions to this general rule).

LLC’s generally are organized to achieve classification as a partnership for state and federal income tax purposes. As a pass-through entity, the LLC is not subject to federal income tax at the entity level. Rather, the LLC members report their respective shares of LLC income, gain, loss, deduction and credit on their individual federal income tax returns. The same applies to state income taxes except for the franchise fees discussed below. The LLC reports its income on an annual informational return, which also indicates each member’s distributive share. Because members are attributed basis for their share of the company’s debt, the LLC is often the entity of choice for real estate related ventures.

FORMATION:

LLC’s are formed by filing Articles of Organization with the Secretary of State. The filing fee is \$70. Either before or after filing the Articles of Organization, all LLC members must enter into an operating agreement, which addresses all the material issues among the members. Within 90 days after filing the Articles of Organization, the LLC must file a Statement of Information with the Secretary of State, which provides the members’ names and addresses, states the general nature of the LLC’s business or activity, and names an agent for service of process.

FRANCHISE FEES:

LLC’s doing business in California must pay an \$800 minimum state franchise fee for the privilege. This payment is not made when the Articles of Organization are filed, but is due within the first four months of the LLC’s taxable year. There is an additional state franchise fee on the business’ annual gross reportable income that is calculated according to the following table:

Total Income	Fee Amount
Less than \$250,000	\$ - 0 -
\$ 250,000 - less than \$ 500,000	\$ 900
\$ 500,000 - less than \$1,000,000	\$2,500
\$1,000,000 - less than \$5,000,000	\$6,000
\$5,000,000 and over	\$11,790