

CORPORATE ESTABLISHMENT IN BRIEF

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Before the enactment of the LLC Law, owners of businesses and professionals had only two entities available to limit their personal financial responsibility for the debts or liabilities of their business: Corporation and Limited Liability Partnership.

1- Corporation

The corporation limits shareholder's liability but creates problems of double taxation; The use of the "S Corporation" provisions solves many tax problems for the corporation but they replete with structural restrictions.

An S Corp. May have only one class of stock, is limited to no more than thirty-five shareholders. It cannot own 80% or more of another corporation. In addition, an S Corp. may not have other corporations, most trusts, pension plans or non-resident aliens as shareholders.

2- Limited Liability Partnership (LLP)

A limited partnership is not subject to the restrictions of an S Corp. However, it must have at least one general partner who is liable for the debts of the partnership. The participation of limited partners in the management of the partnership may result in a loss of limited liability protection.

3- Limited Liability Company (LLC)

None of the restrictions existing in the S corporation and LLP will apply to an LLC, which therefore is well suited for a business with a small number of active investors, since all members can enjoy limited liability protection while actively participating in the operation of the business.

The LLC may prove to be the vehicle of choice for many businesses, professionals and nonprofessionals. An LLC provides greater flexibility and advantages compared with an S Corp, or a limited partnership.

Omar T. Mohammedi, Esq.