

How to Start a Limited Liability Company (LLC)

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When choosing a small business structure, many owners go for a limited liability company (LLC) because of the protection from liabilities it provides. If you've thought about starting an LLC, follow this guide for step-by-step information.

What is a limited liability company?

LLCs are a type of business entity that are similar to corporations in many ways. As the name suggests, LLCs provide personal liability protection to their owners. They also boast a lot of flexibility in management, taxation, and the allocation of profits and losses.

As a company, an LLC can own assets and bank accounts; sign leases, loans, and other contracts; and file a lawsuit or be sued. Since it's legally a separate entity from its owners, no one person is liable for business obligations or debts.

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A step-by-step guide

Let's take a look at the six steps dividing you and your limited liability company.

1. Select the state

It's best to open any company, including an LLC, where you plan to do your business. If the company exists physically abroad, make sure to register a foreign LLC in every state where you plan on operating. At certain times, there are benefits to forming your company in a state with business-friendly laws. However, check the extra paperwork and fees connected with this feat before you take that step.

2. Name the company

Again, the rules related to names allowed for an LLC vary state by state. In general, these guidelines are in place:

- The name must include the phrase "limited liability company" or any of its abbreviations.
- The name must not include words that could lead customers to confuse your company with a government agency.
- Restricted words could require extra paperwork and a licensed person, such as a doctor or a lawyer, to be a member of your LLC.

3. Choose an agent

A registered agent is a third party, either a person or a business, whose task is to send and receive legal documents on your behalf. Such papers include official correspondence and document filings. In most states, there's a requirement that you name a registered agent who's a resident of your country of operation.

4. File the LLC

To make your limited liability company official, you must file formation documents with the state. These are often known as Articles of Organization, and you might need an attorney to

help you navigate the process.

5. Create an operating agreement

An operating agreement for your LLC is a legal document outlining the member roles and ownership structure of your company. Having such a record is not required in most states, but it's still a good idea for the following reasons:

- **Organizational purposes:** outlines the formation, members and ownership structure.
- **Management:** addresses how you manage the company and vote for decisions.
- **Capital contributions:** determines which members provide financial support for the LLC and structures how the funds get raised.
- **Distributions:** establishes how you share the profits and losses among members.
- **Membership changes:** explains the process of adding and removing members.
- **Dissolution:** explains when and how the LLC could get dissolved.

Having these on paper can help you avoid future misunderstandings.

6. Get an EIN

EIN, or employer identification number, is a social security number for your LLC. It allows you to open bank accounts for your business and hire people. It's free and straightforward to get an EIN through a government agency.

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Once you figure out the basics, you should take into account these four details before you officially launch your company.

1. Location matters

Rules, regulations and laws vary from one state to the next, so consider the state laws before you launch an LLC. Cost-benefit analysis can do wonders. In general, though, it's best to set it up in your state of residence for convenience.

2. Get professional help

Even if you decide to take up the challenge by yourself, it's vital to get professional help to navigate the process. An attorney who specializes in LLCs can help you avoid many hurdles that could slow down your progress. Plus, if you're not well-versed in taxation matters, you may miss out on tax benefits if you don't get proper advice.

3. Ensure initial capital

Investors tend to steer clear of LLCs because such legal entities give them no stock control. So, before you start, make sure you're aware of the business risks.

4. Check your privacy

Some states or countries offer additional privacy and anonymity. In such cases, LLC owners and managers are not required to be listed on the Articles of Incorporation. This means your LLC will not have to file any personally identifying information with the state.

The bottom line

Starting an LLC is not a massive feat, but it's not simple, either. Be sure that you're familiar with all key terms before you launch your business. Understand the structure and its implications to maximum the success of your business.

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