From: Dennis L. Hayden [dhayden@Haydenci.biz]
Sent: 07/06/2010 8:37 AM
To: 'dhayden@Haydenci.biz'
Subject: Newsletter 7/05/2010

Hayden Consulting, Inc.

Dennis L. Hayden, Editor

Offices:
11805 N Pennsylvania St
Carmel, IN 46032-4555

301 East Clinton St
Frankfort, IN 46041-1908

Newsletter Dated 07/05/2010 **Volume 1, Number 20**

In This Issue

Contact Us:

http://www.Haydenci.biz

J. Michael Hayden, CFP® CPA
mhayden@Haydenci.biz

Dennis L. Hayden, CPA CVA MST
dhayden@Haydenci.biz

Hayden Consulting, Inc.

Last Week:

- Interview Hiring Tips
- Top Scams Against Business
- The American Recovery and Reinvestment Act of 2009

Important Links:

Internal Revenue Service
Indiana Department of Revenue

Know someone who would benefit from this Newsletter? Send us an e-mail address.

SINGLE MEMBER LLCs

With the advent of the Limited Liability Company, most states allow the creation of an entity with only one member. But for tax purposes, the Internal Revenue Code looks upon these entities as sole proprietors.

Many small businesses operate as sole proprietors, therefore, to protect personal assets from business liabilities there may be a benefit for operating a business as a single member LLC (SMLLC) rather than the traditional sole-proprietor. The LLC offers the same protections as a traditional corporation when set up and operated correctly, and maintains a barrier between personal and business dealings. The operating agreement adopted provides the framework for an "arms length" relationship between the business and the member, and should contain provisions for a smooth transition upon death.

A SMLLC protects an owner from personal liability on business assets, but does not change the tax structure for the entity. Just as any sole-proprietor, the member (owner) of the LLC will be responsible for Self-Employment tax as well as income tax on the net profits of the entity depending on the nature of the income. For example, an operating business selling products or performing a personal service such as a lawyer, accountant, or insurance agent, is subject to SE tax; rental income is exempt.

If someone is in business for the long haul and wishes to operate a business as a sole-proprietor, consider using an LLC to avoid personal liability. But keep in mind, a personal guarantee negates debt protection and allows a creditor to proceed against an owner.

THE LIMITED LIABILITY COMPANY

If the LLC is not a single member entity, it is established with multiple members similar to a partnership. For the purpose of reporting income, an LLC has the option either of adopting partnership classification or to elect corporation status. If electing to be a corporation, members have a choice to report income as a regular corporation that pays tax or, if it qualifies, become a pass-through entity with income reported by the members, commonly known as an S corporation.

Deciding how the LLC is taxed is a critical consideration and affects both the entity and its members. If partnership status is adopted the partnership rules guide how the entity is structured. When electing to be a corporation these rules come into play. Therefore, whether a partnership or corporation is established, the rules governing an entity for capital formation, basis, gains, losses, and distributions are poles apart.

With a partnership, the net income flows to the partners in proportion to the division partners prefer and set out in the operating agreement. This may be based on percentage of ownership or some

FOR SALE

BUSINESSES AVAILABLE

1. BRAND NAME garage door installation and repair company - Marion County and surrounding counties.
2. "C" store
3. Office Industrial complex- occupied with long-term tenants, 3 acres of land.
4. Operating Day Care Franchise
5. Beauty shop – Fishers

other rationale of the partners. A partner is taxed on this income at individual tax rates, and possibly self-employment tax, depending on the nature of the income.

If the LLC elects taxation as a corporation, the company will pay corporate tax on its net income. Dividends paid by a regular corporation to the shareholders are taxed at individual tax rates.

When S corporation status is elected, the net income passes to the shareholders and taxation is at the individual level similar to a partnership. The rules governing the S corporation are entirely different from a partnership.

Be careful with whichever entity is chosen. This decision could make a significant difference in the overall tax paid on income.

THE LIMITED PARTNERSHIP

A General Partnership has one class of ownership. Each general partner is subject to all debts, liabilities, and decisions of management.

A Limited Partnership has two classes of partner, general and limited. There must be at least one general partner but may have multiple limited partners. The general partner has personal responsibility for all debts and liabilities of the entity but also controls partnership decisions. Whereas, a limited partner's liability extends to his or her amount of partnership equity, and has little or no control concerning partnership decisions.

The general partner in a limited partnership may be another entity, such as a corporation. Therefore, individual liability may be avoided for all participants concerned, although the structure will be more complex.

A limited partnership may be a viable choice for certain types of business, such as the oil and gas industry. But, similar advantages can be had through the use of the LLC with no attachment for personal liability of the entity unless signed away by the member.

Carefully choose an entity to operate a business. There may be a drastic difference in how a company and its owners are taxed.

THESE ARTICLES MAY NOT BE USED FOR PENALTY PROTECTION