

Title:

Why Opt For A Limited Liability Company?

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Summary:

Entrepreneurs must already choose the legal structure of their business even before they start such venture, if only to make sure that they know the risks and the advantages involved in starting that kind of business. Business owners can choose to put up a sole or single proprietorship, enter into a partnership or form a corporation.

Each of the three legal structures has its own advantages and disadvantages. A sole proprietorship is the easiest type of business to put up a...

Keywords:

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Article Body:

Entrepreneurs must already choose the legal structure of their business even before they start such venture, if only to make sure that they know the risks and the advantages involved in starting that kind of business. Business owners can choose to put up a sole or single proprietorship, enter into a partnership or form a corporation.

Each of the three legal structures has its own advantages and disadvantages. A sole proprietorship is the easiest type of business to put up and operate because only one person is responsible for decision making and for running the business. However, being alone in business means you are solely responsible for whatever happens to your business and you only have to rely on your own capital and resources.

A partnership is better considering that two or more heads are always better than one. A partnership offers more possibility in terms of capital base and of brain power. However, partnerships do not always work due to conflicting business decisions.

The next if not the best option is to form a corporation which would be composed of incorporators who will put up the seed capital for the business. A corporation can provide more sources of funds and the owners are only liable to

as much as the money they have invested in the business. Provided of course that the corporation does not indulge in illegalities or does things in bad faith. Doing so would necessitate the application of the principle of piercing the veil of corporate fiction. This means that the owners can be made accountable even beyond the amount of their investments if they are found to be in bad faith in certain transactions.

While the corporation has proven to be the best option for business owner, there is apparently another option called the Limited Liability Company which offers the characteristics of both partnership and corporation. Members of a Limited Liability Company can enjoy the limited liability enjoyed by corporations unless a personal guarantee has been signed. This legal structure also offers tax benefits much like the benefits available to corporations.

A Limited Liability Company does not however require the bureaucracy of a corporation in terms of the taking of minutes. And unlike in a partnership where the partners can only participate in decision-making depending on their partnership status, members of a Limited liability Company can take part in decision making without losing their limited liability protection.

However, while a corporation can last for 50 years renewable for another period, a Limited Liability Company can be easily disbanded particularly when a member dies or becomes bankrupt. It is also more feasible to form a corporation if there are plans to do a public offering.

Despite the disadvantages of forming a Limited Liability Company, it is still the best choice for business start ups that are still testing the waters but already want to give their business a legal structure.