Choosing a Legal Structure, pt.3:
The Limited Liability Company

Limited Liability Companies (LLC) are a newer form of organization for businesses in Alabama, having been adopted on May 20, 1993 with passage of the Alabama Limited Liability Company Act. As defined in the act, Limited Liability Companies are non-corporate entities under which neither the owners nor the business managers are personally liable for the LLC's obligations.

How to Form an LLC

1. One or more people may form an LLC.
2. The LLC is formed by filing articles of organization with a probate judge of the county in which the initial registered office of the LLC is to be located.
3. These articles include the name of the company. The name must contain the words Limited Liability Company or L.L.C. as the last words of the name. These articles also include the purpose for which the LLC is organized, the names of the members of the LLC, and the roles of the members in the business relationship.

General Features

The LLC allows the owners of the company to be classified as a partnership for tax purposes. Partnerships do not pay any income tax at the company level. The partners pay personal income taxes on their share of any partnership earnings. Since January 1, 1997, a limited liability company with two or more members is treated like a partnership for tax purposes unless it elects to be treated as a corporation. Single member LLC's are treated like a proprietorship for tax purposes.

Advantages of an LLC

- Limitation on liability
- No restriction on number or type of owners
- Flexibility of capital structure
- Flexibility in allocating income and expenses to owners
- Flow through of taxes to individual owners

Disadvantages of an LLC

- May be more expensive to create
- Requirements vary from state to state; laws are not as uniform as with corporations
- May incur more legal issues, since the statutes governing LLCs are still untested in court in many situations