Limited Liability Company:
Resources to help our next generation of farmers

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A ***limited liability company*** (LLC) is a business entity created by two or more people under state law. It has some aspects of a corporation and some aspects of a limited partnership. To create an LLC, you must file articles of organization and have an operating agreement. You must also determine a definite length of time that the business will exist. Costs of forming an LLC are similar to those of forming a corporation.

Just like a corporation, the LLC is recognized as a completely separate business entity than its owners. Members also have limited liability for company debts just like stockholders of a corporation. However, members can attain partnership tax status so that business profits and losses are not taxed at the LLC level, but flow through to the members similar to that of an S Corporation. Members can still be personally liable for their own acts and member managers may also shoulder more liability than non-managing members.

Management of an LLC is very flexible and can be handled as determined by the members. It can be as complicated as a corporate board of directors or as simple as a general partnership. The arrangement must be written in the operating agreement. Distribution of profits to members is also flexible.

Forming a LLC has two major disadvantages. First, an LLC may decrease the number of persons eligible to receive government payments. Second, for purposes of transferring interests in the company, an LLC may not be discounted as much as a limited partnership. Transferring business interests by gift and sale is very flexible, but cannot be accomplished as quickly as with entities that may be discounted.

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