

Small Business - The Single Member LLC

Last time I talked about the Sole Proprietor business entity and some of its advantages and disadvantages. In this installment, I discuss the Single Member Limited Liability Company (SMLLC). The SMLLC is a relatively new business entity, but it is very popular. Here are some of its characteristics.

Single Member LLC

SMLLCs have popped up across the country very quickly. They are easy to form, flexible, and have easy tax reporting requirements. SMLLCs are neither a corporation nor a partnership; they are unique. SMLLC must be registered at the State level. In Texas, they are registered with the Secretary of State, in the [forms](#) section. The form is about 6 pages long, but half the pages are instructions or descriptions. LLCs have members; obviously the SMLLC just has one member. After the form is completed, it can be faxed to the SoS along with a \$300 filing fee payment.

Liability

As the name implies, your liability is limited to your investment. In other words, you can only lose as much as you invest in the company. So, if you invest \$10,000 in your SMLLC, the max that you can lose is your \$10,000 investment. But you have to be very careful with how you conduct your business. You must keep the SMLLC separate from your personal finances. If you don't and you get sued, the person suing you may try to *pierce the veil*. That is, they may argue that there is really no distinction between your SMLLC and you personally. If they are successful, your personal assets are at risk. So, conducting your business as a separate entity is important.

Income Tax Reporting

The income tax return for a SMLLC is prepared the same way as it is for a Sole Proprietor. You would prepare IRS Form 1040, and report business income and expenses on Schedule C. If you actually work for someone and your wages are reported on Form W-2, and you also run a business and either get issued or do not get issued a 1099-MISC, you report all of your income on the same tax return. You do not create two tax returns, just one that contains both your W-2 wages and your SMLLC income.

Additional Taxes

If you are an employee, Social Security taxes are withheld through the FICA system. Under this system, half of the Social Security taxes are paid by your employer, and the other half is paid by you. However, if you have income from self-employment, you are going to have to pay the entire Social Security tax on this income. This is in addition to income tax, and usually comes as a surprise to new self-employed individuals. Additionally, you may be required to make estimated tax payments throughout the year.

Franchise Tax

In Texas, LLCs are subject to a franchise tax, collected by the [Comptroller of Public Accounts](#). Although most companies will be taxed at the 1.0% rate, the no tax due limit is less than or equal to \$1 million of total revenue for tax reports originally due on or after January 1, 2010 and before January 1, 2012.

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