**Introduction to the SMLLC**

Q: **What is an SMLLC? How is it different from a regular LLC?**

A: To answer these questions, let’s first define the term LLC, also known as a Limited Liability Company. An LLC is a business structured as a hybrid of a corporation and a partnership. An SMLLC, or Single Member Limited Liability Company, designates the LLC business entities that have only one owner.

Q: **What are the advantages and disadvantages of starting an SMLLC as compare to an LLC?**

A: Unlike a regular LLC, business entity with a single member can be classified as an

association taxable as a corporation or it can be disregarded as an entity separate from its owner. If a corporation is a separate entity from the owner, this falls under the tax classification category of a disregarded entity, which means it is taxed as a sole p proprietor for income tax purposes. In addition to the tax benefits, there is also the benefit of being the sole owner of any profits earned from the business. Another advantage of sole membership is having complete control over the decision-making process. LLCs with a large number of members increase the risk that decision making will be cumbersome and, because of this, members might take actions on behalf of the LLC without the knowledge or approval of other members.

Q: **What are the steps necessary to form an SMLLC? Do the steps need to be followed in any particular order?**

A: Click on the remaining tabs below this introduction tab to learn more about each of the

required steps needed to form an SMLLC. These steps do not need to be completed in any particular order; although, it is advisable to create the Operating Agreement as soon as possible. Completing this step protects the company because it dictates what should be done in the instance of the death or disability of the member, and it safeguards the integrity of the LLC’s ownership by limiting transfers of interests.

**Research State Requirements**

Most states permit the formation of an SMLLC; although, a few types of businesses generally cannot be LLCs, such as insurance companies and banks. Research you state’s requirements and the federal tax regulations for more information. Don’t forget to also investigate the state licenses and registrations requirements.

**File the Certificate of Formation**

The Certificate of Formation is filed with the Secretary of State division of corporations.

**File the Articles of Organization**

The legal existence of an LLC commences when the articles of organization are filed with the secretary of state. The articles of organization provide information creditors concerning the existence of the LLC, its designated acting authorities, and whom to serve process when initiating a lawsuit.

**File IRS Form 8832**

Complete IRS Form 8832, Entity Classification Election, and elect corporate tax treatment. According to the IRS, not electing this tax option results in the SMLLC being classified as a disregarded entity, meaning that it would be taxed as a sole proprietor for income tax purposes. For more information about SDMLLCs and LLCs, go to the IRS website.

**File Form SS-4**

An LLC applies for an Employer Identification Number by filing Form SS-4, Application for Employer Identification Number (EIN) , including the completion of lines 8 a, b, and c. Unless otherwise specified within the laws of the particular state of incorporation, an SMLLC does not need an EIN if it is a disregarded entity with no employees and no exercise tax liability. If the SMLLC, however, has taxable income and loss reported by the single member, an EIN is required so that the business can open a bank account.

**Create an LLC Operating Agreement**

An operating agreement explains how LLC functions are managed, and the agreement must be signed by the members. Even an SMLLC needs an operating agreement, because it is impossible to open a bank account without one. SMLLC operating agreements are typically short because there is only one equity owner who is affected by management decisions and concerned with obligations incurred by the company.

**Contribute Capital**

A capital contribution by its member is essential because it provides the company with the means to conduct business. Once contributed, assets become property of the SMLLC.