

# Understanding the Magnificent Limited Liability Company

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Every once in awhile, government passes a law that makes you smile. The creation of the limited liability company constituted just such an act.

## Understanding the Magnificent Limited Liability Company

There are two primary ways something becomes law. The first is for a legislative body to pass an act that creates or regulates some action by individuals or businesses. The second occurs when a court looks at the actions of the legislative branches and modifies or clarifies the acts pursuant to constitutional issues. In the case of the limited liability company, the act was pure legislative genius.

In 1977, the legislature for the State of Wyoming took a novel step. For the first time in a very long while, it created a new business entity. The goal was to create a business entity for small businesses that provided the protection of a corporation without much for the record keeping. Up to that time, there really wasn't any such beast. As an aside, this new entity would bring in needed revenues in the form of filing fees to Wyoming, but it was a small price to pay for most small business. With the signature of the then governor, the limited liability company came into existence.

Given the current number of LLCs you see, one might think the entity was an immediate hit with small businesses. It was not. There were two reasons. First, only small businesses in Wyoming could use it since no other state had passed a law allowing for their use in the other 49 states. Moreover, the IRS could not figure out how to treat the business entity for tax purposes. Under Wyoming law, the entity was supposed to provide the shield from liability of a corporation, but be taxed as a partnership. In 1988, the IRS finally issued a quasi-guideline indicating that the entity would be taxed as a partnership if so elected by the owner and the LLC gained new popularity. Thereafter, states started enacting legislation for their own LLCs at a mad rate and the business came to be.

The primary benefits of an LLC are two fold. As mentioned previously, the business provides a shield between business debts and a member's personal assets. In an LLC, a shareholder is known as a member. The second benefit is the LLC is taxed like a partnership, which means it is a fairly simple filing wherein the finances of the business are passed through to the personal tax returns of the individual members relative to their percentage of ownership. In legal terms, the entity was very attractive.

As things have moved forward, the LLC has proven to be a useful and popular tool for most small businesses. For once, a legislative body passed a law that seems to have had no negative repercussions! Gerard Simington is with [FindAnAttorneyForMe.com](http://FindAnAttorneyForMe.com) - an online attorney directory.