

CAN A LIMITED LIABILITY COMPANY HAVE ONLY ONE MEMBER?

“If you are the only owner of the company, then you will need to determine if you can operate a single member limited liability company.”





A limited liability company is a type of business entity in Arizona. An LLC can have multiple owners, called members. An LLC can also have a single member. An experienced Arizona business law attorney can assist with the formation of a single-member LLC.

WHY FORM A SINGLE-MEMBER LLC?

Forming a single-member limited liability company provides:

- Protection from personal liability. The LLC has a separate legal identity. Personal assets of owners/shareholders are not at risk in case of debt default or legal judgments.
- Enhanced credibility. New businesses operating as LLCs may have more credibility than sole proprietorships because of the formal commitment to establishing the business.
- Pass-through taxation. Owners can declare profits and losses on personal tax returns. There is no risk of double taxation.
- Flexibility. There are few ownership restrictions on limited liability companies. LLCs can be owned by individuals (including non-USA citizens), corporations, trusts and other LLCs. LLCs also have no restrictions on subsidiaries.

FORMING A SINGLE-MEMBER LLC

To form a single-member LLC in Arizona:



- Select the business name. The organization's name must indicate that it is operating as an LLC.
- Prepare Articles of Organization for the LLC. The entity may be a Limited Liability Company (LLC) or a Professional Limited Liability Company (PLLC)
- Select a statutory agent for service of process. In a single-member LLC, the owner/sole member is often but not always the statutory agent. A physical street address in Arizona must be provided for the statutory agent. The agent must be an Arizona resident or an Arizona registered entity.
- Prepare an Arizona Corporation Commission Corporations Division Submission Cover Sheet. This must accompany documents filed with the Arizona Corporation Commission. The proposed name of the single member LLC must be listed in the "Regarding" line.
- Pay the filing fee. An additional fee may be paid for expedited review of paperwork.

- File the LLC's Articles of Organization by mail or hand-deliver the documents. The Arizona Corporation Commission will review the paperwork and send approval or rejection of the Articles of Organization to your place of business. Provided the paperwork is approved, the LLC is formed as of the date that the Articles of Organization were submitted unless a later date was specified with the initial filing.
- Publish a Notice of Publication. The Notice of Publication must be printed in a newspaper of general circulation in the county where the LLC is headquartered. The notice must appear within 60 days of filing the Articles of Organization and must run for three consecutive issues.
- Obtain a federal employer identification number (EIN) for tax purposes. The LLC must choose the form of federal income taxation. Single-member LLCs are unique as they can be treated as a disregarded entity.

An attorney can help you to decide if a single-member LLC is the right form of organization for your business. An attorney can also assist in completing the necessary paperwork to form a single-member LLC, as well as in preparing other documents that may be useful or appropriate, such as an Operating Agreement.

IMPLICATIONS OF FORMING A SINGLE MEMBER LLC

An LLC with two or more members is automatically treated as a partnership for federal income tax purposes, while an LLC with a single member is automatically treated as a disregarded entity.

A disregarded entity is a business organization that has a separate legal identity for purposes of liability but that does not have a separate legal identity for tax purposes. The Internal Revenue Service (IRS) will not collect taxes on the single-member LLC that operates as a disregarded entity directly from the LLC. Instead, the IRS will treat a single-member LLC as a sole proprietorship, disregarding the entity's separate legal status for income tax purposes. The single member/owner files a Schedule C, and all of the LLC's income and expenses will appear on that Schedule C.

A single member LLC is the only type of business entity that can be treated as a disregarded entity.

- Sole proprietors are not disregarded entities because there is no separation of the business and owner for liability purposes.
- An S-corporation is not a disregarded entity because owners are not taxed on Schedule C.
- Multiple member LLCs may not be treated as a disregarded entity. A multiple member LLC is generally taxed as a partnership.

A single member LLC does not have to be treated as a disregarded entity. A single-member LLC can file Form 8832 with the IRS and request that the IRS tax the organization as a corporation.

An attorney can assist in determining if your single-member LLC should be treated as a disregarded entity or if you should file Form 8832 to request different tax treatment.



About the Author

Lotzar Law Firm, PC was founded in 2005, and serves clients throughout the U.S. We pride ourselves on the level of service we provide our clients and are determined to see each project through to positive results.

In addition to bringing a legal expertise to the table, we offer clients sound ideas and invaluable advice that enhances their business. One of our greatest attributes is our ability to approach projects from a business-owner perspective. Rather than narrowing in on the setbacks of a challenge and informing clients of what stands in the way, we prefer to seek innovative ways to transcend issues and create a better path for clients. With an unparalleled savvy in developing modern methods of financing, we can present you with viable and efficient options.

Our diversified portfolio of clients is comprised of entrepreneurs, real estate developers, contractors and property managers. We also do business with numerous nonprofit clients including Chicanos Por La Causa, Inc.; Tiempo, Inc.; and The Industrial Development Authority of the City of Tucson, Arizona.

We work in a team-based environment, supported by a skilled and caring staff, eager to answer your questions and provide you with consistent access to your team. Whether your needs are small or large in scope, we look forward to working with you.

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