

The background of the slide is a collage of overlapping US one hundred dollar bills. The bills are oriented in various directions, creating a sense of movement and abundance. The portrait of Benjamin Franklin is prominent on several bills, and the text "ONE HUNDRED DOLLARS" and "FEDERAL RESERVE NOTE" is visible. The serial number "DF 20493661 B" is repeated on multiple bills.

# **Business Law and Bankruptcy**

## **Class 5**



# Limited Liability Company

- Designed to be a hybrid between the corporation and the partnership
- Formation:
  - Articles of Incorporation must be filed with the state (as with the corporation) describing the purpose and organization of the firm.
  - The “shareholders” are called “members”.
  - There are also “managing members who run the LLC.



# Limited Liability Company

- Advantages:

- Limited Liability for all owners
- No double taxation (“pass through” taxation only)
- Easy transferability of shares (liquidity)
- Good capitalization potential and no cap on number of members
- Control of the LLC: The members do not get rights to vote, etc.



# S Corporation

- Not really an entity type in and of itself; the S Corp is just a manner in which a corporation can elect to have itself treated when filing its tax return
- Advantage: Allows “pass through” taxation (avoids double taxation) simply by “checking the box” on the tax return to be considered an S corp.
- Formation:
  - Simply start a “regular” C corp and elect to be treated as an S corp.



# QUIZ TIME!

# Form 2553 – S Corp Election

Form <b>2553</b> (Rev. December 2007) Department of the Treasury Internal Revenue Service	<b>Election by a Small Business Corporation</b> (Under section 1362 of the Internal Revenue Code) ▶ See Parts II and III on page 3 and the separate instructions. ▶ The corporation can fax this form to the IRS (see separate instructions).	OMB No. 1545-0146
--	--	-------------------

**Note.** This election to be an S corporation can be accepted only if all the tests are met under **Who May Elect** on page 1 of the instructions; all shareholders have signed the consent statement; an officer has signed below; and the exact name and address of the corporation and other required form information are provided.

## Part I Election Information

<b>Type or Print</b>	Name (see instructions)	<b>A</b> Employer identification number
	Number, street, and room or suite no. (If a P.O. box, see instructions.)	<b>B</b> Date incorporated
	City or town, state, and ZIP code	<b>C</b> State of incorporation

**D** Check the applicable box(es) if the corporation, after applying for the EIN shown in **A** above, changed its  name or  address

**E** Election is to be effective for tax year beginning (month, day, year) (see instructions) . . . . . ▶ / /

**Caution.** A corporation (entity) making the election for its first tax year in existence will usually enter the beginning date of a short tax year that begins on a date other than January 1.

**F** Selected tax year:

- (1)  Calendar year
- (2)  Fiscal year ending (month and day) ▶ \_\_\_\_\_
- (3)  52-53-week year ending with reference to the month of December
- (4)  52-53-week year ending with reference to the month of ▶ \_\_\_\_\_


If box (2) or (4) is checked, complete Part II

**G** If more than 100 shareholders are listed for item J (see page 2), check this box if treating members of a family as one shareholder results in no more than 100 shareholders (see test 2 under **Who May Elect** in the instructions) ▶

<b>H</b> Name and title of officer or legal representative who the IRS may call for more information	<b>I</b> Telephone number of officer or legal representative ( )
--	---

If this S corporation election is being filed with Form 1120S, I declare that I had reasonable cause for not filing Form 2553 timely, and if this election is made by an entity eligible to elect to be treated as a corporation, I declare that I also had reasonable cause for not filing an entity classification election timely. See below for my explanation of the reasons the election or elections were not made on time (see instructions).

\_\_\_\_\_



# S Corporation - Requirements

- Must be a U.S. domestic corporation
- Shareholders may only be individuals, estates, or some trusts and the company cannot be a member of a group of corporations. Types of trusts that can hold S Corp stock include:
  - Grantor trusts
  - QSST
  - ESBT
- The corporation may have only one class of stock
- There must be fewer than 100 (formerly 75) shareholders for the firm
- No shareholder can be a non-resident alien in the U.S.