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Choosing between an LLC and Corporation for a real estate startup

August 16, 2012 - Front Section

The real estate coursework hours have been put in, you're now a licensed broker, and the decision has been made to start your own private real estate agency - welcome to the world of startups!

Along with all the other major business decisions headed your way such as choosing a brokerage name, whether you'll focus on selling commercial or residential real estate, and if you'll decide to take out a loan to cover capital, one of the biggest and first decisions that should be faced first is deciding what sort of business entity to go with.

Out of all the entities, forming an LLC or a Corporation are the two most popular routes to go. Even though both legally protect the individual's assets from the business if it goes belly-up, which is what's most important, there are a few additional differences between the two.

One of those differences is how the two are taxed. An LLC has a choice as to which tax identity it wants to take on. It can go under the category of a sole proprietor/partnership, a C-corp, or an S-corp. Since there is no true LLC tax entity, an owner may pick the tax route that best suits his business. A Corporation, on the other hand, has been around a bit longer so it has more set traditional rules. Corporations are taxed as the traditional corporation tax entity states with no alternatives.

A benefit of the Corporation being around for so long is the uniformity of its laws. Because Corporations have been around for centuries, courts have case upon case to go off of to see how to resolve disputes between individual corporations. LLCs came about in the 1970s, causing them to be a little less uniform. LLCs take on characteristics of corporations and partnerships so different states handle LLCs differently. However, with time, LLCs will begin to gain some consistency and concrete rules just as Corporations have.

Lastly, the ownership rules differ with an LLC and a Corporation. For an LLC, owners are members and any member can be a manager- there can be no difference between owners and managers if desired. Additionally, LLCs have the freedom to distribute its ownership to its members without regard to members' capital contribution. With a Corporation, owners are shareholders (who remain separate from business decisions). An individual shareholder may be elected as a director or officer. Corporations must also have a corporate structure with a board of directors handling management responsibilities and corporate officers handling day-to-day operations.

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