Introduction to Limited Liability Companies

In the last 15 years there has been extraordinary rapid growth in the adoption by states of statutes allowing the formation of "limited liability companies." These statutes allow for the formation of legal entities that have the ownership and management flexibility of partnerships, the tax benefits of partnerships and the equivalent of corporate limited liability for *all* of its equity investors. This rapid growth of LLC's is a result of I.R.S. acceptance of certain types of LLC's as partnerships for purposes of taxation — even though there is no general partner with unlimited liability. LLC's are very close in nature to statutory close corporations. However, LLC's allow far greater flexibility in management, investor agreements and other matters. Unlike statutory close corporations, there is no need to comply with Subchapter S requirements in order to avoid corporate double taxation.

California jumped on the bandwagon in 1994 and adopted a limited liability *company* statute. In 1995 the Limited Liability *Partnership* bill passed allowing law firms, architects and accountants to form entities that have the limited liability of corporations yet are taxed as partnerships ("LLP's"). In an LLP, attorneys can practice law in a partnership-type entity, without being liable for the debts, obligations, or liabilities of the partnership or other partners, whether tort or contractual. Each partner, however, is liable for his/her own tortious conduct.

Law firm LLP's must register with the Secretary of State and the State Bar and must provide security for claims against them based on actions, errors or omissions arising from the practice of law. The firm must have insurance (or cash/cash equivalents in trust or escrow) in the amount of 100,000 for each lawyer with a cap of $7.5 million. The State Bar registration fee is $50 per partner with a cap of $2,500. The Secretary of State filing fee is $70. There is also an annual $800 franchise tax.