

# NEW YORK BUSINESS ADVISORY & CORPORATE SERVICES INC.

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## LIMITED LIABILITY CORPORATION VIS-À-VIS C-CORP

Below information explains difference between LLC & C-Corp and which best suits your situation.

C-Corporations, or C-Corps, are most common type of large domestic company. When you think about incorporating your small business, this might be the first option that comes to mind. Of late, a different business entity type has become the more common choice for newer and smaller businesses. Limited Liability Companies, or LLCs, are a newer entity type that offers unique differences that the C-Corporation cannot provide (and vice versa). Here's what you need to know in order to choose the entity type for your new company.

### Taxation Differences In C-Corps and LLCs

One of the primary differences between the two is from the taxing standpoint. C-Corporations are subject to corporate income taxes that are completely separate from their owner(s). Because of this, C-corporations have a greater and more complex tax reporting responsibility than most companies.

This differs from an LLC, which passes profits through to the owner(s), who are then subject to only personal income tax (i.e. The LLC does not pay federal income taxes to the IRS, unlike a C-corporation). This helps avoid double taxation, which C-corporations may have to face if they pay dividends to their shareholders (the corporate income is taxed, and then, if the net income that is left after taxes is distributed to the shareholders, it is then taxed at the personal level at the prevailing dividend tax rate.

While this may seem like an advantage for an LLC, that is not always the case. Because of the "Pass through" of profits, LLC owners must pay self-employment taxes on profits in addition to their personal income taxes.

**Ownership Structures and Corresponding Requirements** - Aside from taxes, a major difference between LLCs and C-Corporations is that of the ownership structure, and the requirements that go along with those structures. C-Corporations have sort of a hierarchal structure. Power is divided between stockholders, who then hire or appoint directors that make the overall decisions for the corporation. The directors in turn hire or appoint officers to run the day to day operations of the company. Stockholders with more shares are rewarded with more voting influence and profits.

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While this is a standard for most C-corporations, it is not the case with an LLC. LLCs are structured essentially like a partnership (or a sole proprietorship in the case of a single member or married couple LLC), but with the limited liability protection, similar to a corporation. Members (the generic term used for the owners of an LLC) run the company and make all decisions.

The division of ownership, as well as the distribution of the profits (which may be the same or different from the distribution of ownership) as well as most other matters are decided by private agreement amongst the owners. With an LLC, the owners make the rules in regards to profit distribution and power. A 5% shareholder could reap larger profits if the other owners deem it fair. Generally, LLCs are typically a better choice for smaller companies where only a few principals and workers are involved. Here are some other key differences between and LLC and a traditional corporation:

**Ownership:** An LLC doesn't need multiple owners to exist; only one member is required in order to have an LLC by all states.

**Meetings:** LLCs are also not required to hold corporate and shareholder meetings, which are a requirement for C and S Corporations.

**Paperwork:** Corporations typically require more ongoing paperwork than most other business entities in order to stay compliant with the law and maintain their corporate status. This includes holding and documenting annual meetings of shareholders and directors and keeping minutes of important corporate meetings.

**Growth:** C-Corporations offer ownership arrangement flexibility for venture capitalists who want to invest in the startup. This provides an easier transition to becoming a public company and the opportunity to collect future expansion earnings at a lower cost.

Both of these business entities have their distinct uses, and what is right for your company may change with time. An LLC is the best option for many smaller businesses who are just getting started. A C-Corporation may be the right choice when your business grows to become a larger entity with more shareholders.

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