Take Your Sole Proprietorship to an LLC in California

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Many people, when they first start a business, take the sole proprietorship approach since it's the most basic and easiest business structure to implement. However, for those in the Golden State, many small businesses, including sole proprietorships may find that a limited liability corporation or California LLC can be beneficial option when choosing a structure for their company.

Legal Protections for Owners in an LLC

The benefits of converting to an LLC are multiple. First, a limited liability company creates a legal barrier between a business owner's private status and the business. This is important, particularly if the business is sued. A sole proprietorship makes the owner vulnerable to losing his or her personal assets in the case of a claim. However, an LLC is its own legal entity so the claim damages stop with the business. This protection is not absolute, however. An owner can still be personally liable where the owner personally backs up a business debt, if he comingles his personal money with the business, or if the LLC has no professional insurance or coverage for claims. Additionally, tax agencies can go after owners for tax liabilities of the business.

Legal Protections for Investors in an LLC

In terms of generating investment and operating capital, and LLC has many benefits. Sole proprietorships have to report funding they receive as revenue. An LLC, however, can trade business ownership for investment funds, allowing the business to grow faster. Additionally, investors get protection with an LLC due to the business barrier, protecting them from the businessâ€™ debts and claims. Again, a sole proprietorship cannot afford this legal protection to its partner owners.

Transferring the LLC Ownership

Because the LLC is its own legal entity, it can be transferred to other owners beyond the first owner that created the business. Ownership transfer can occur by selling the business or giving the ownership away. A sole proprietorship canâ€™t be transferred in this method. Instead, each of its assets has to be transferred individually.

Don't Forget the Paperwork

In California, registering an LLC needs to happen by paying fees and paperwork with the CA Secretary of Stateâ€™s Office. The cost is not insignificant. Filing a limited liability corporation form and fees can be as much as $900 a year, depending on how the filing is submitted. In addition, there are one-time costs for starting a California LLC for the first time, which add to the expense. Because of the formal filing with the Secretary of Stateâ€™s Office, LLCs involve far more legal paperwork than a basic small business. Sole proprietorships donâ€™t have to deal with this limited liability corporation form burden. A basic small business can be set up with a simple handshake. An LLC, on the other hand, doesnâ€™t exist without the right paperwork officially approved.

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The author has an immense knowledge on a California LLC. Know more about a limited liability corporation form related info in his website.

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