

# SERIES LLC STRUCTURE PROS & CONS

AKRAM ASSURANCE, ADVISORY & TAX



RIVELES WAHAB LLP



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# INTRODUCTION

A Series LLC, a relatively new business structure, as entities go, and in some regards is merely a limited liability company that owns multiple divisions or sectors. The different entities within the company are all housed under a master LLC, which serves as an umbrella entity. Seventeen different states have legislation regarding series LLC, with Delaware being the first state to offer such legislation in 1996. Since then, 16 more states have added business legislation that recognizes series LLC companies. Texas passed legislation in 2009. Series LLC laws essentially removed requirements that each company had to be listed and filed separately. It made it possible to create new businesses, with private management, without having to file to incorporate a new business.

# Questions

The process of forming a Series LLC is different for each state and Delaware is most desired jurisdiction for Series LLC?

Yes

No

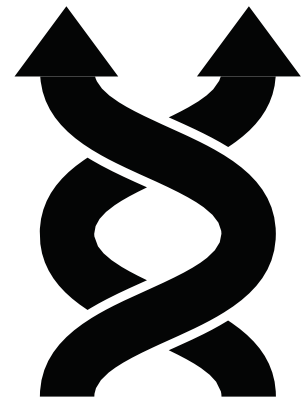


# HOW IS A SERIES LLC STRUCTURE FORMED?

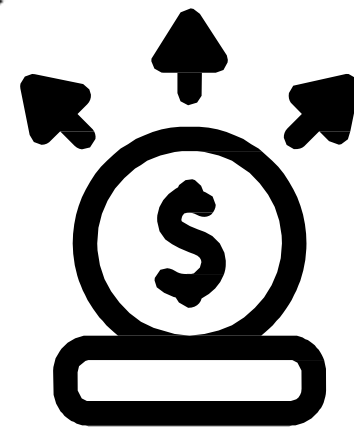
The process of forming a Series LLC is pretty similar to forming any other LLC. Each state has different filing requirements. The company agreement for a Series LLC is slightly different than with a traditional LLC and must include language that agrees the debts and creditors of one company will not be the responsibility of the other. The operating agreement also must ensure separation of liability between the series and the LLC as they are each separate entities. In short, the agreement must note that, while each series operates under an umbrella, they are fiscally independent from one another.

It is important to note that the books and records for each series must be kept separately and the best practice is to have separate bank accounts for each series. It is also important to remember that the financial health of one series does not automatically mean financial health for the others, so it is important to manage each series as an individual entity. This will also make it possible to better understand the overall outlook on the umbrella company and its series.

# PROS OF A SERIES LLC STRUCTURE



**FLEXIBILITY**



**LIABILITY  
PROTECTION**



**TAX SAVINGS**



# Questions

Does Series LLC offer liability protection?


Yes

No



# FLEXIBILITY

By forming a series, rather than a traditional LLC, companies were offered more flexibility in their management and liability shields. By allowing for series companies to be developed under one umbrella, companies were also afforded more flexibility in who holds the assets. Assets may be held under the series, under the LLC or through a nominee.



# LIABILITY PROTECTION

Because each series is viewed as legally separate, the master LLC and each series can not be held liable for the debts and obligations of another. For example, the debt of Series Company A cannot be transferred to Series Company B or the umbrella they are operating under.

# Questions

A series LLC were offered more flexibility in their management and liability shields

Yes

No



# TAX SAVINGS

Series LLC status can also save business owners money. In the past, each new company would need to be formed as an independent LLC and would be responsible for the setup fees, franchise fees, and filing fees of each independently formed LLC. With a series LLC, there is one setup fee, one franchise fee, and fewer filing fees. In some states, it can save several thousand dollars per year.

# Questions

A Series LLC offers tax savings than traditional LLC

Yes

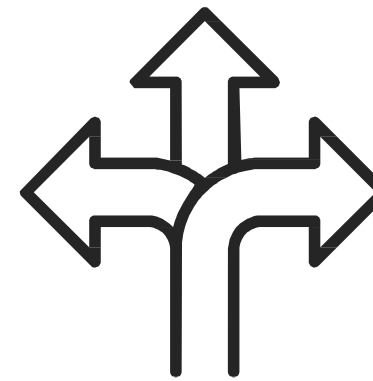
No



# CONS OF A SERIES LLC STRUCTURE



**DIFFICULTY IN  
CONTRACTING WITH  
FOREIGN STATES**



**AMBIGUITY**

# DIFFICULTY IN CONTRACTING WITH FOREIGN STATES

Because not all states recognize series LLCs, there can be difficulty in contracting with foreign states. Operating under the series LLC distinction does not pose problems in states that recognize the filing, but issues can arise in states that do not offer a series LLC distinction. There are currently 17 states that have legislation, but that means there are many states that do not recognize the distinction. In such states, the business will be identified as a traditional LLC.



# AMBIGUITY

Because the Series LLC distinction is relatively new, some feel there is not enough case law. While legislation in the states where it is allowed gives a clear-cut picture of how the entity operates, it is hard to get a full picture of how series LLCs will be dealt with on the federal level and how they will hold up in some foreign courts. Some highly complicated questions about how the IRS recognizes the concept remain, outstanding as well.

# CONCLUSION

While there are definite pros and cons of the series LLC label, you and a recognized financial firm will need to decide what business structure will work best for your business. Each business is unique and, thusly, its needs are unique, too. It is a good idea to sit down with a financial advisor to gain a better understanding how each structure can work for your business, and whether or not a series LLC is the best choice.

# THANKS FOR LISTENING

FOR MORE INFORMATION - CONTACT OUR OFFICE

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