

LIMITED LIABILITY

Does an LLC protect personal assets?

There are many considerations in starting a new business. In addition to the market you'll be serving your product or service, the hiring of employees and myriad other decisions, you will want to consider the best business structure for your venture.

Sole proprietorship is the most common form of business ownership. However, the entity provides the owner no liability protection. The owner is personally liable for all expenses, debts, encumbrances and contractual obligations of the business.

For some types of businesses with low exposure to liability, this may not be a problem. But for many business owners, having no protection is not a satisfactory solution.

Today, the limited liability company has become the entity of choice for many types of businesses. There are several reasons for this. It is a simple entity to set up and maintain. There are no officers, as there are in a corporation. There is no



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board of directors. An LLC also does not have to hold an annual meeting. No minutes of the company are required, and in Missouri you do not even have to make an annual filing with the secretary of state in order to remain in good standing. Perhaps most importantly, the owners receive liability protection from the debts

and obligations of the business in the manner of a corporation. An LLC thus provides many of the benefits of a corporation without the formal requirements.

It is especially important for new business owners to protect their personal

assets from creditors. If the business gets over-extended or is not adequately capitalized to sustain its operations, then the business, rather than the owners, will be liable for such obligations.

The liability protection of owners is premised on the fact that creditors and others dealing with the company are aware the entity is an LLC and are therefore on notice they should look to the creditworthiness of the entity rather than the owner. For that reason, it is important for the business to make it clear to everyone with whom they do business that the entity is an LLC. Toward that end, the letterhead of the company, its business cards, purchase orders, informational brochures and promotional materials should all show the name of the company, followed by the abbreviation LLC or LC. Without the indication that the entity is an LLC, creditors may be able to claim the owners should be personally responsible for the company's obligations because they failed to provide notice the creditors were dealing with an entity with limited liability.

A very important reason for carrying on business as an LLC is when the company will have people driving or operating equipment on its behalf. If, for example, an employee of a large company

is negligent when driving within the scope of employment and injures people in another vehicle, the company is liable. While it is true that you also can sue the employee directly, it is generally the company that has the deep pockets and is the target of such litigation.

But the liability protection is not without limits. For example, if the company owner is acting within the scope of the business and injures another driver or negligently performs an action, the fact the owner was operating in an LLC will not shield personal assets from the person harmed. Simply stated, you cannot shield yourself from your own misdeeds or negligence.

While an LLC is very helpful in protecting your personal assets from the obligations of your business, the protection it offers is not absolute. You will still be responsible for damages resulting from your own actions, but you will not generally be liable for the wrongful or negligent actions of your employees.

These are many other reasons to explore why you might want to operate as an LLC.

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