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Taxation of Limited Liability Company

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## **Taxation of LLC**

A LLC represents a form of business structure where shareholders are not liable for the liabilities of a company (Molk, 2017). The primary benefit associated with limited liability company is tax flexibility. Furthermore, the company requires fewer legal formalities to form as compared to other forms of business structure. The few formalities required to form a limited liability company facilitate the formation and operation of the business. Lastly, limited liability is the key advantage that the shareholders enjoy for starting a limited liability company.

The IRS considers that one member as a sole proprietor for tax purposes. In this case, the member does not pay taxes with the IRS. Instead, the owner files a return where the member submits a document of all the profits recorded in the year. The profits are submitted together with a 1040 tax return.

There is a different form of taxation for limited liability companies with members of more than one. In this case, the mode of taxation is similar to those of partners so that the taxable profits are accurately dividend according to the ratios given. Then the members are taxed in filing form 1040, which shows the sharing of profits and loss. After sharing the taxable profits among the members, the members are supposed to include them when filing their returns.

When filing the tax return of a limited liability company, one may decide to use the IRS system whereby the one the files returns. In this case, one must submit together with the tax the statement of financial position showing the company's financial statement (Leahy & Richardson, 2019). The second payment method for a limited liability company with minimum members is payment when filing personal returns at the end of financial year. In this case, the shareholders

must ensure they have submitted the statement of financial performance and the financial position of a business.

Finally, the other essential method possible for filing returns for an LLC is filing as a corporation. The LLC is flexible when it comes to tax issues. The LLC firm can decide to file as a c corporation. While filling as a corporation, one need to complete file 8832, where there are multiple members. In conclusion, LLC enjoys the flexibility of its ability to use different tax laws.

### References

- Leahy, P., & Richardson, M. (2019). Natural Resources: Parker County Appraisal District v. Bosque Disposal Systems, LLC. *Tex. Envtl. LJ*, 49, 165.
- Molk, P. (2017). Protecting LLC Owners While Preserving LLC Flexibility. *UCDL Rev.*, 51, 2129.

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