WORKSHOPS TO GO

ARE YOU READY FOR AN LLC?

Questions to ask before adding another set of initials to your business

A coach's guide to examining risk, cost, control, taxation, and readiness

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Educational resource - not legal, accounting, or tax advice

The coaching question: Why do you want an LLC? What are you trying to accomplish or protect?

"I'm thinking about getting an LLC."

That is one of the most common statements I hear from new entrepreneurs. Sometimes it is framed as a question: "Should I form an LLC?" My first response is usually another question: Why do you want one?

I am a business coach, not an attorney or accountant. I cannot tell someone which legal entity to select, interpret the extent of a particular liability shield, or calculate the tax consequences of that decision. Those questions belong with a qualified attorney, CPA, or enrolled agent who understands the person, the business, and the applicable state law.

But I can help entrepreneurs identify the questions they need to ask.

Begin With What You Are Trying to Accomplish

An LLC is a limited liability company. It is a business entity created under state law, and one of its central purposes is to separate certain obligations of the business from the personal assets of its owner or owners.

That sounds attractive - and it often is. But it should lead to a more specific question:

Ask: What liability are you trying to limit?

Consider your business:

- Do you have employees?
- Do customers enter your property?
- Do you sell products that might injure someone?
- Do you give medical, financial, legal, psychological, or other professional advice?
- Do you operate vehicles or equipment?
- Do you sign substantial contracts or borrow money?
- Do you handle sensitive customer information?
- What could realistically go wrong, and how damaging could it be?

An LLC may help protect an owner from certain business debts and claims, but that protection is not unlimited. It ordinarily does not excuse someone from responsibility for their own wrongful conduct or professional negligence. Lenders may also require the owner to personally guarantee a new company's loans.

Failure to keep the company's money, records, and operations separate from the owner's personal affairs can weaken the protection as well.

Remember: An LLC is part of a risk-management strategy - not a magical shield.

What Protection Might Insurance Provide?

Before choosing a structure, ask what risks can be addressed through insurance. Depending on the business, that could include:

- General liability insurance
- Professional liability or errors-and-omissions coverage
- Product liability coverage
- Commercial automobile insurance
- Cybersecurity coverage
- Workers' compensation insurance

The question is not necessarily “LLC or insurance?” A growing business may need both. The useful coaching question is:

Ask: What combination of entity structure, insurance, contracts, procedures, and recordkeeping appropriately addresses your actual risks?

How Will the LLC Be Taxed?

Creating an LLC does not automatically produce a federal tax advantage.

By default, the IRS generally treats a single-member LLC as part of its owner's tax return. If the owner actively operates a business, its income and expenses commonly appear on Schedule C, much as they might for a sole proprietorship.

A domestic LLC with two or more members is generally treated as a partnership unless it elects another tax classification.

An eligible LLC may elect to be taxed as an S corporation, or it may elect corporate taxation under the rules applicable to C corporations. Those elections introduce additional questions about payroll, reasonable compensation, tax returns, distributions, bookkeeping, and professional fees.

Ask: Will the likely benefits of a tax election outweigh the added expense and administrative work?

California's $800 Question

Entrepreneurs in California have an additional consideration.

For 2026, an LLC doing business in California - or organized or registered there - is generally subject to an $800 annual LLC tax. That is a separate entity-level obligation, not simply the first $800 of the owner's regular California income-tax bill. It may be due even if the LLC has little revenue or reports a loss.

California's earlier first-year exemption applied to qualifying LLCs formed during 2021 through 2023. It is not available to an LLC formed in 2026. The Franchise Tax Board has announced a reduced $400 first-year amount for qualifying LLCs beginning in 2027 through 2029, but anyone relying upon that provision should verify the current requirements when forming the company.

California LLCs with at least $250,000 in California-source total income may also owe an additional LLC fee.

Ask: Is the business sufficiently established to justify the annual cost?

Suppose it is a small side business that is still testing its market. It has few customers, limited revenue, no employees, appropriate insurance, and comparatively little exposure. The owner may reasonably ask whether this is the year to form an LLC or the year to validate the business model, strengthen the records, and prepare for a later transition.

That is not an argument against LLCs. It is an argument for making the decision deliberately.

Don't Confuse an LLC With a Nonprofit

I also hear people ask whether their promising idea should become a nonprofit. That is a different question.

A nonprofit can receive donations, charge fees, sell products, operate programs, and earn more money than it spends. What it cannot do is distribute those earnings to private owners. In fact, it does not have owners in the ordinary business sense.

The founder may become an employee and receive reasonable compensation, but the founder does not personally own the organization. The governing board has fiduciary responsibility for its mission, finances, policies, and executive leadership.

The executive director normally reports to the board. The rest of the staff generally report through the executive director or the organizational structure authorized by the board.

Ask: Am I creating an organization devoted to a public or charitable mission, or am I building an asset that I want to own?

Both can serve the community. They are simply different commitments.

Perform a Risk-Benefit-Cost Analysis

Before forming an LLC, put the decision on paper. Ask:

1. What problem would the LLC solve?
2. What personal assets or business risks concern me?
3. What protection would insurance provide?
4. What protection might the LLC provide?
5. Will I need to personally guarantee the company's obligations?
6. How will the LLC be taxed federally?
7. What state taxes, fees, filings, and deadlines will apply?
8. How much will bookkeeping, payroll, tax preparation, and legal compliance cost?
9. Do I have partners, and have we agreed upon ownership and management?

10. Is the business producing enough - or likely soon to produce enough - to justify these costs?
11. What would trigger a decision to form the LLC later if I do not form it now?

Then take those answers to someone qualified to advise you.

If you already have a CPA, enrolled agent, or business attorney, start there. A prepaid legal plan or established online legal service may also provide a useful initial consultation, although standardized filing services cannot replace individualized advice when the issues are complicated.

The LLC Should Follow the Business Decision

An LLC can be a useful and important tool, but forming one should not be an automatic reaction to opening a business or making the first sale. Nor should it substitute for insurance, careful contracts, separate bank accounts, accurate bookkeeping, safe practices, and professional advice.

Better questions: What am I trying to accomplish? What will it cost? What will it protect? What will it require of me - and is my business ready? A coach can help organize those questions; qualified professionals should make the final legal and tax recommendations.

WORKSHOPS TO GO | CLIENT WORKSHEET

LLC Readiness Conversation

Use this page to organize your thinking before talking with your mentor, attorney, CPA, or enrolled agent.

1. Purpose

Why am I considering an LLC? What problem do I expect it to solve?

2. Exposure

What are the three most realistic ways my business could face a claim or financial loss?

3. Protection

What risks might insurance cover? What risks do I believe an LLC could address?

4. Guarantees

Will a landlord, lender, or supplier require me to personally guarantee an obligation?

5. Ownership

Who will own the company? How will decisions, profits, departures, and disputes be handled?

6. Tax treatment

What is the default federal treatment, and am I considering an S-corporation or C-corporation election? Why?

7. California cost

Can the business reasonably absorb the annual LLC tax, filing fees, professional fees, and any additional state fee?

8. Administration

Can I maintain separate banking, contracts, books, records, licenses, and required filings?

9. Timing

Why form now? If not now, what revenue, risk, contract, hiring, or growth milestone would trigger the decision?

10. Professional review

What questions will I take to an attorney and to a tax professional?

WORKSHOPS TO GO | REFERENCE NOTES

Corrections, Qualifications, and Sources

Important Qualifications

Terminology: LLC means limited liability company, not limited liability corporation.

Federal default: A single-member LLC is generally disregarded for federal income-tax purposes. A domestic multi-member LLC is generally taxed as a partnership unless another classification is elected.

S corporation: An LLC can elect S-corporation taxation if it qualifies. The LLC is the state-law entity; S corporation is a federal tax status.

EIN: A single-member LLC does not always need a separate EIN for federal purposes, although it generally needs one for employees or certain excise taxes and may want one for banking or administrative reasons.

California annual tax: The $800 annual LLC tax is a separate entity obligation. It is not a credit against the owner's ordinary California personal income tax and can apply even when the business has a loss.

Nonprofit surplus: A nonprofit may earn a surplus, but it may not distribute earnings to private owners. Compensation must be reasonable and the organization's assets must remain devoted to its authorized purposes.

Primary Sources Checked August 2026

- IRS - Limited Liability Company (LLC)
  https://www.irs.gov/businesses/small-businesses-self-employed/limited-liability-company-llc
- IRS - Single-member limited liability companies
  https://www.irs.gov/businesses/small-businesses-self-employed/single-member-limited-liability-companies
- IRS - S corporations
  https://www.irs.gov/businesses/small-businesses-self-employed/s-corporations
- California Franchise Tax Board - Limited liability company
  https://www.ftb.ca.gov/file/business/types/limited-liability-company/index.html
- California Secretary of State - Business Entities
  https://www.sos.ca.gov/business-programs/business-entities

Educational-Use Disclaimer

Please note: This handout provides general educational and coaching information. It is not legal, accounting, tax, insurance, or investment advice. Laws, fees, filing requirements, and tax rules change and vary by jurisdiction. Consult appropriately licensed professionals before selecting an entity, making a tax election, drafting an operating agreement, accepting investment, hiring workers, or relying upon liability protection.

Continue the Conversation

A coaching conversation can help you clarify your business model, risks, costs, milestones, and questions before you meet with professional advisers.

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Resources and current links: linktr.ee/tomsims

Schedule a conversation: calendly.com/coachtomsims