



How to create an LLC

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Benefits of an LLC

- **Advantages LLCs Give Real Estate Agents**
- Aside from [limited liability](#) protection, there are many advantages to having an LLC if you are a real estate agent. Some of them include:
- **Tax Flexibility.** Having an LLC allows you to take the [S Corporation election](#) with the IRS, which can save you money on self-employment taxes.
- **Low Audit Risk.** According to [Accounting Today](#), an LLC with S Corporation election will likely give you a lower risk of being audited. According to them, in 2018 only 0.22% of S [Corporations](#) were audited.
- **Separating Business and Personal Finances.** A big mistake real estate agents often make when starting out is to combine their business finances with their personal finances, such as when they put business expenses on their personal credit card. You can avoid this by having an LLC with a business bank account and thereby lower your chances of personal liability that might occur through the commingling of funds.
- **Raising Professional Credibility.** Because selling or buying a home is such a large commitment, potential clients will likely want to work with someone they perceive as being a professional. Operating through an LLC can create this perception. Having a [business name](#) on a contract or business cards can show that you are a responsible, legitimate business person, and thus you may receive more business.
- For all these reasons and more, an LLC can serve as a great benefit to your real estate career, and not setting one up would, in most cases, be doing yourself a disservice.

Corporate Veil – Legal Protection

The [corporate veil](#) definition is a legal [concept](#) that separates the [actions](#) of an [organization](#) to the actions of the [shareholder](#). In addition, it protects them from being liable for the company's actions. It does not necessarily mean that the protection is always in place. A court can also determine whether they hold [shareholders](#) responsible for a company's [actions](#) or not.

Piercing the Corporate Veil:

Piercing the corporate veil or lifting the corporate veil is a legal decision to treat the rights or duties of a corporation as the rights or liabilities of its shareholders.

How to Pierce the Corporate Veil

- whether the corporation or LLC engaged in **fraudulent behavior**
- whether the corporation or LLC **failed to follow corporate formalities**
- whether the corporation or LLC was **inadequately capitalized** (if the corporation never had enough funds to operate, it was not really a separate entity that could stand on its own), and
- whether **one person** or a small group of closely related people were in **complete control** of the corporation or LLC.

Failure to follow corporate formalities.

including:

- holding annual meetings of directors and shareholders or members
- keeping accurate, detailed records (called "minutes") of important decisions that are made at the meetings
- adopting company bylaws, and
- making sure that officers and agents abide by those bylaws.

Commingling assets

Steps to Creating an LLC

1. [Choose a name for your LLC](#)
2. [File Articles of Organization/Certificate of Formation](#)
3. [Choose a registered agent](#)
4. [Decide on member vs. manager management](#)
5. [Create an LLC operating agreement](#)
6. [Comply with other tax and regulatory requirements](#)
7. [File annual reports](#)

Corporation Search

Search by Name or UBI:

Contains Begins With Exact Match

BUSINESS NAME

OR

UBI

Q Search

Advanced Search >

Search historical records at the [Digital Archives](#).
View our current list of Commercial Registered Agents [here](#).

Charity/Fundraiser/Trust Search

Search By:

Registration Number Organization Name

FEIN Number UBI Number

Q Search

Advanced Search >

Trademark Search

Search By:

Registration # Owner's Name

Trademark Text UBI Number

Q Search

Advanced Search >

To search federal trademarks, visit the USPTO at
<https://www.uspto.gov/trademarks-application->

How to choose a name

www.sos.wa.gov

Articles or Incorporation

www.sos.wa.gov

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Office of the Secretary of State
Corporations & Charities Division

Washington Profit Corporation

See attached detailed instructions

- Filing Fee \$180.00
- Filing Fee with Expedited Service \$230.00

This Box For Office Use Only

UBI Number:

ARTICLES OF INCORPORATION

Chapter 23B.02 RCW

ARTICLE 1

NAME OF CORPORATION:

(Must contain one of the following corporate designations: Corporation, Incorporated, Limited or Company, or an abbreviation Corp., Inc., Ltd., or Co.)

ARTICLE 2

NUMBER OF AUTHORIZED SHARES:

(Minimum of one (1) share must be listed)

A registered Agent?

- A **Registered Agent** in **Washington** is a person or company who agrees to accept legal mail (known as “service of process”) on behalf of your **LLC** in case your business gets sued.

Comply with Tax

- Additional tax and regulatory requirements may apply to your LLC. These include:

- **EIN:** If your LLC has more than one member, it must obtain its own [IRS Employer Identification Number \(EIN\)](#), even if it has no employees. If you form a one-member LLC, you must obtain an EIN only if the LLC will have employees or you elect to have it taxed as a corporation instead of a sole proprietorship (disregarded entity). You may obtain an EIN by completing an [online EIN application](#) on the IRS website.

(SS4 - [Apply for an Employer Identification Number \(EIN\) Online | Internal Revenue Service \(irs.gov\)](#))

- **Business Licenses:** Depending on its type of business and where it is located, your LLC may need to obtain other [local and state business licenses](#). Check with the appropriate state agencies to ensure you are properly registered, licensed, and permitted to do business in your state.

[Apply for a business license | Washington Department of Revenue](#)

- **Sales and Employer Taxes:** In some cases (for example if you will be selling goods and collecting sales tax or if you have employees), you'll need to register with the appropriate state taxing authority. For more information on LLC tax registration rules, see [LLC Tax and Annual Filings Requirements: 50 State Guide](#).



Operating Agreement

- An **operating agreement** is a key document used by LLCs because it outlines the business' financial and functional decisions including rules, regulations and provisions. ... Once the document is signed by the members of the limited liability company, it acts as an official contract binding them to its terms.

Get a copy here:

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File Annual Reports

- Many states require LLCs to file an annual report with a filing fee.

S-corp vs. LLC



How an LLC is Taxed

If you're set up as a single owner LLC, then your business is a "disregarded entity" in the eyes of the IRS. This means that your LLC is taxed exactly the same way a sole proprietorship is taxed!

- Here's what happens: You report your business income on Schedule C of Form 1040. You take your Gross Commission Income (GCI), and deduct all your real estate expenses from it, which leaves you with your net income.
- Then your net business income is taxed two ways:
- Your net income from real estate sales is then subject to *regular income tax*, plus
- Your business net income is subject to *self-employment tax* (at a 15.3% tax rate).

LLC Tax Example

- Suppose an agent's GCI is \$100,000, and Expenses are \$20,000 (including Advertising, Auto Expense, MLS Dues, Association Memberships, and so on). This yields a net income of \$80,000.
- If you are netting \$80,000, and you're operating as a sole prop or single owner LLC, you're paying over \$11,000 in self-employment tax before regular income tax
- If you are a single filer, you'll pay an additional 22% in *regular income tax*, for an additional \$17,000 to the IRS.

What is self-employment tax?

- The money that goes for social security and medicare
- Remember back when you were a W2 employee, and you paid 7.65% toward social security and medicare? You probably saw it deducted on your paystub. You just shook your head because you couldn't do anything about it anyway. But you probably didn't realize your employer matched your 7.65% tax with money coming out of his / her pocket.
- Well, now that you're self employed, you pay **both** the employee and employer portions, for a total of 15.3% tax on your net business income for social security and medicare.

- You'll get a W2 for that salary at the end of the year, just like any other employee. The rest of the business entity's net income, after your salary is paid, will then pass through to your personal tax return as what's called a "shareholder distribution".
- This effectively divides your \$80,000 net income into two parts. The first part (\$40,000 salary to you from your S Corp) is subject to Social Security and Medicare. But the second part (\$40,000 distribution to you) is NOT subject to employment taxes.
- Which means you'll save \$5,184 in self-employment tax.

The S-corp Strategy