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# AN LLC IS EASY TO FORM

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## Introduction

Forming a limited liability company (LLC) in Indiana is not difficult. You may be intimidated by the process because you've never done it before. When I was a brand-new Teacher Entrepreneur, I felt the same way. I made the mistake of having an attorney form my first LLC. Don't make that mistake! The process cost me over \$500, and the attorney probably had his secretary do it! Since then, I've learned that it takes one sheet of paper and less than \$100 in filing fees to form an LLC in Indiana! In the next few pages, I'll show you just how simple the process is.

This booklet is not designed to be legal advice. I suggest you speak with an attorney and a tax professional before forming any entity. Each entity carries with it both tax and legal implications, and it is important that you understand both before forming your entity.

The purpose of this booklet is to show you how simple and inexpensive the process of forming an LLC can be. I wish I would have had this kind of resource when I formed my first entity. It would have saved me over \$400.

This booklet explains the process of forming an LLC in Indiana because that is my home state. The process is very similar in most other states. If you spend a few minutes on your state's secretary of state's website, you should be able to understand the process pretty quickly. If you don't understand the process, you can always contact the secretary of state's office. However, I don't think you'll need to do that. Many Teacher Entrepreneurs before you have used this information to form their own LLCs quickly and easily.

It will be important for you to have an understanding of various business structures in order to make an informed decision about which structure is most appropriate for your business. To help you with that process, I have provided a quick overview of several business structures in the following pages.

The information contained in this guide is informational only and should not be used in place of the advice of legal or taxation professionals.

## Business Entities

**SOLE PROPRIETORSHIP** A sole proprietorship is a business that is owned and operated by a single person. Sole proprietorship is a simple and easy business structure that allows you to set up your business very inexpensively. However, this structure does not provide the asset protection of an LLC or corporation. For the sole proprietor, there is no separation of personal and business assets because the individual is the business. This means that the business owner is also personally responsible for all debts and obligations associated with the business. This also means that the sole proprietor has none of the liability protection available to the owners of LLCs or corporations. A sole proprietorship may be desirable for individuals in fields that have low risk of injury, limited personal liability, and limited business assets.

Some of the issues associated with running a sole proprietorship are the previously mentioned liability issues and problems raising capital, as the ability of the business to raise capital is tied directly to the individual running the business. Sole proprietorships are rarely attractive to investors because of the lack of personal liability protection available under other business structures. Other issues with being a sole proprietor may involve taxation issues associated with estimated quarterly tax payments and self-employment tax.

**GENERAL PARTNERSHIP** A general partnership, like a sole proprietorship, is considered an “informal association” in most states. This means that there are limited filing requirements and no liability protection for partners. A general partnership consists of two or more partners and should operate under a partnership agreement. This agreement spells out: the business operations, the responsibilities of the partners, the ownership interests, etc. If you enter into a general partnership, you should understand that each partner is personally responsible for the debts and obligations of the partnership and the partners do not enjoy the liability protection as they would through an LLC or corporation.

**LIMITED PARTNERSHIP (LP)** An LP is a variation of the general partnership. In an LP, there is at least one general partner and one limited partner. The general partner is responsible for all of the debts and obligations of the business, while the liability of the limited partner is restricted to only the amount the limited partner invested. In a partnership, each partner’s share of the income is reported to the IRS as part of each partner’s personal income.

**LIMITED LIABILITY PARTNERSHIP (LLP)** An LLP is a general partnership that chooses to operate as an LLP. This structure allows the members a greater degree of liability protection than a general partnership and reduces their exposure to the debts and obligations of the partnership. In an LLP, the partners' income is reported as part of each partner's personal income.

**LIMITED LIABILITY COMPANY (LLC)** The LLC is a relatively new business structure. There can be distinct advantages to operating as an LLC, especially if there are several individuals involved in the ownership of the business. The owners of an LLC are called "members."

An LLC may be classified for federal income tax purposes as a partnership, a corporation, or an entity disregarded as an entity separate from its owner by applying the rules in federal regulations section 301.7701-3. An LLC must file (state form 49459) from the secretary of state's office to establish articles of organization.

There are two variations of limited liability companies: single-member and multiple-member. The first we will discuss is simplest: the single-member LLC.

A single-member LLC is a structure in which there is only one member in the LLC. That member may be an individual or another entity. For tax purposes, the single-member LLC may be considered a "disregarded entity." This means that the business will not have to file a separate tax return; the "single member" may only be required to file schedules C, E, and F as part of their personal federal tax return. An LLC that has only one member may also be taxed as a sole proprietorship.

A multiple-member LLC, however, will have more than one member, and those members don't have to be people. Those members may be other entities. Multiple-member LLCs will be required to file a separate tax return as an independent entity. A multiple-member LLC may also be the owner of a single-member LLC.

There are several advantages to operating as an LLC. One of the major advantages is that it can provide liability protection for the members. This protection may be in the form of personal protection from lawsuits, personal protection from the debts and debtors of the business, and personal protection of the member's individual assets.

If the LLC qualifies under IRS guidelines, it may be taxed only once, like a partnership, at the employee or member level while not having the same restrictions as an S corporation.

Another advantage of an LLC is that income may be taxed as passive income, not as earned income, allowing the members to pay less tax on profits. Most of the disadvantages of an LLC revolve around the taxation and tax benefits of the managing member

versus the passive members. I will not discuss these issues because they can be complex and are best left explained by an accountant or tax professional.

As I mentioned earlier, it is important to seek the advice of both an attorney and a tax professional before choosing a business structure. If you have done so and have selected an LLC, the following pages will walk you through the process and give you confidence that you can do this on your own.

## Filing the Paperwork

In addition to the filing fee, you will need the following information in order to form an LLC in the state of Indiana:

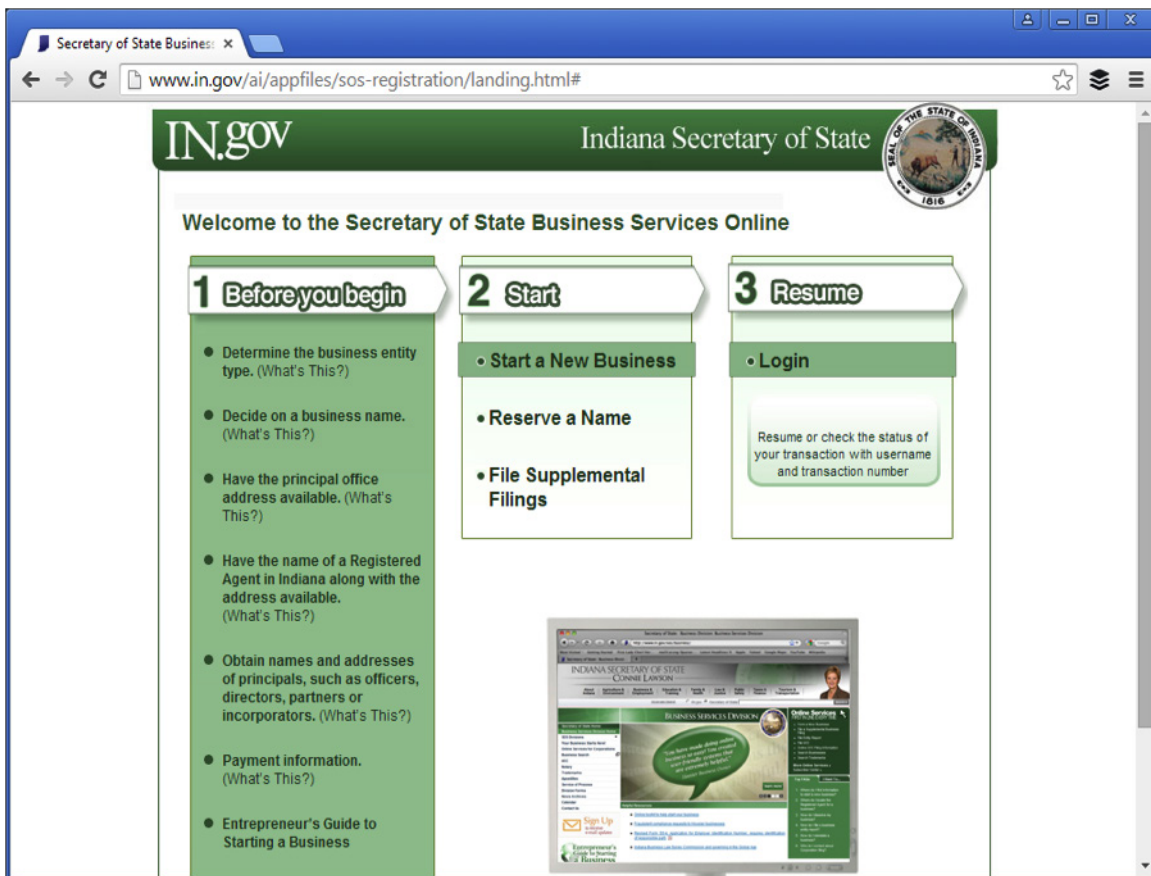
- **a business name** (must be distinguishable from other businesses and end with “Limited Liability Company” or “LLC”)
- **the period and duration of the LLC** (can be perpetual)
- **the name and street address of the registered agent** (the person who will act as the legal agent of the business)
- **a statement about who will manage the LLC** (can be brief, such as, “The company will be managed by its members.”)
- **the signature of at least one organizer, member, or manager** (probably you)

That’s it. That’s all the information you need to form an LLC in Indiana.

If your LLC has more than one member, you should create an operating agreement that spells out the role and responsibilities of each member

Business entities are formed through the Indiana Secretary of State’s Office at <https://inbiz.in.gov/start-business>

I have included a screen shot of the above link just to familiarize you with site and help you feel more comfortable about where to go and what to do. *Although the link and the look of the site may change over time it will give you an idea of the process required to form your LLC.* If you are filing an LLC, you should only need the info listed above.



When forming an LLC, you will be required to obtain an Employee Identification Number from the IRS. Don't stress about this. It is a remarkably quick and simple process.

## Obtaining an Employee Identification Number (EIN)

An EIN must be obtained for almost all business structures. A sole proprietor may not need an EIN under certain circumstances. These circumstances can be complicated, so it is best to check with your tax professional. An EIN is like a Social Security number for your business and allows the federal government to track your business.

An EIN is very easy to obtain from the federal government either online or by calling a toll-free number. The number is only toll free if you are calling from within the United States. See the below paragraphs for information directly from [irs.gov](http://irs.gov) for directions on how to apply for an EIN.



The Internet EIN application is the preferred method for customers to apply for and obtain an EIN.

You can apply for your EIN at

[http://www.irs.gov/Businesses/Small-Businesses-&Self-Employed/Apply-for-an-Employer-Identification-Number-\(EIN\)-Online](http://www.irs.gov/Businesses/Small-Businesses-&Self-Employed/Apply-for-an-Employer-Identification-Number-(EIN)-Online)

Once the application is completed, the information is validated during the online session, and an EIN is issued immediately. The online application process is available for all entities whose principal business, office or agency, or legal residence (in the case of an individual), is located in the United States or U.S. Territories. The principal officer, general partner, grantor, owner, trustor etc. must have a valid Taxpayer Identification Number (Social Security Number, Employer Identification Number, or Individual Taxpayer Identification Number) in order to use the online application.

Taxpayers can obtain an EIN immediately by calling the Business & Specialty Tax Line at (800) 829-4933. The hours of operation are 7:00 a.m.–7:00 p.m. local time, Monday through Friday. An assistor takes the information, assigns the EIN, and provides the number to an authorized individual over the telephone. Note: International applicants must call (267) 941-1099 (Not a toll-free number).

## Conclusion

It's just that simple. You can form an LLC in Indiana in less time than it took you to read through the information in this booklet. I hope this information has helped you realize how capable you are of forming your own entity. You are a more capable entrepreneur than you realize. Being a teacher has prepared you well for small business ownership.

I'm honored that you have allowed me to play a part in your journey to become a Teacher Entrepreneur. Once you have formed your entity, I'd love it if you would take a moment to send me a quick email to let me know what your new entity is called.

I hope the information has been helpful to you. If you have suggestions for how this guide could be improved, please contact me at [Feedback@TeacherEntrepreneur.com](mailto:Feedback@TeacherEntrepreneur.com).

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