

# How to start an LLC in 2024



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Learning how to start an LLC is key for small businesses — especially if you want protection from business-related liability issues. It is a fairly straightforward process that includes naming your LLC, appointing a registered agent, writing an operating agreement and filing articles of organization. Here's what you need to know about starting an LLC and giving your small business a legal structure that will serve you for years to come.

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# What is an LLC?

LLC stands for limited liability company. It's a business structure that limits the liability of an entity's owners (called members) in the event of company debt/bankruptcy, a lawsuit or other legal issues. LLCs can also offer some tax advantages to small-business owners as generally profits "pass through" the LLC to only be taxed once as personal income. However, owners can choose to have their LLC taxed as a corporation instead if they determine that to be a better option.

As H&R Block chief strategy and small business officer Jamil Khan shared, the LLC structure "creates a layer of protection between personal and company assets. Additionally, entrepreneurs who form an LLC and elect S corporation taxation could see significant savings at tax time — to the tune of thousands of dollars, in some cases." Tax benefits will vary based on eligibility and how companies choose to be taxed.

## Understanding LLC tax strategy

Income earned by an LLC is generally not taxed at the business level. Instead, it's taxed as a sole proprietorship (also called a disregarded entity) or partnership where members pay federal and applicable state income tax on their earnings.

LLCs can be advantageous come tax season compared to other business structures, such as corporations, which see income taxation at both the business and employee levels.

LLCs can also choose to be taxed as a corporation if it makes sense to do so *and* they meet the necessary requirements. S corp taxation is still pass-through like a sole proprietorship/partnership (meaning earnings are taxed on the owner's personal tax return and not at the business level), but there are some possibly beneficial differences in employment taxes. LLCs can be taxed as a traditional C corp as well.

## **How much does an LLC cost?**

The [Small Business Administration](#) estimates that the average initial cost to get your business registered will be \$300 or less, whether as an LLC or some other business structure. Of course, costs vary significantly depending on your filing state and what kind of LLC you're starting. The biggest fee you pay is the filing fee. Other costs might include paying for applicable business licenses, setting up a fictitious or doing business as (dba) name, expedited filing fees if you need to speed up your application, and publication fees if you are in Arizona, Nebraska or New York (some states require you to notify the public of a new LLC via newspaper).

Check out our [in-depth LLC cost guide](#) to learn more about LLC costs and get a specific state-by-state breakdown of filing and other applicable fees.

## **How long does it take to form an LLC?**

As with most small business questions, a variety of factors go into how long it takes to form an LLC. On average, you can expect processing to take one to three weeks. Often, online applications process a bit quicker than if you file with a paper form. The biggest factor is how quickly the state you're filing in can process your application, which can be affected by how many applications are in the queue ahead of yours. In many states, you can also pay an expedited filing fee to get your application processed quicker (often in one business day or less). Many states have several expedited options with quicker processing resulting in a higher cost.

## **4 steps to setting up an LLC**

The first step in the LLC process is simply to name it. Let's take a closer look at that and the other basic steps involved in setting up an LLC.

### **Step 1: Name your LLC**

The name of your LLC must be distinct within your state. You can check your state's LLC registry to verify whether or not

your chosen name is available. Generally, these registries (you can find the one for your state via the [Small Business Administration](#)) are hosted by Secretary of State offices. Once you register your LLC, no one else in your state will be able to use the name for another LLC.

The name should include "LLC," "Ltd." or "Co." Make sure to avoid any words that are not allowed in your location. Some common examples of words disallowed in LLC names are "bank" and "trust" since banks cannot be LLCs. Similarly, "incorporated" can't be part of an LLC name since a corporation is a different business structure.

If you're not quite ready to start your LLC yet but already have a name picked out, you can also reserve your business name with your desired state. Time and costs vary, but the national average is around \$28. In the majority of states, a name reservation is good for 120 days.

## **Step 2: Appoint a registered agent**

The next step in setting up an LLC is appointing a registered agent. In the unfortunate event of a lawsuit against your company, legal entities and your state need to know where to find you. A registered agent is a person or service with a physical address. This address will be kept on file and used for contact during a potential lawsuit. Each state may have different requirements for a registered agent, so it's

important to verify local rules.

You can name a fellow businessperson or your personal lawyer as your registered agent. If you don't have a satisfactory option among people you know, you can use a registered agent service to meet your LLC requirements. Professional services vary but can cost [from \\$150 to \\$300 annually](#).

You can also be your own registered agent if state law allows it. Requirements vary, depending on your state, but most states have three main requirements to be your own registered agent:

- You must be 18 years of age or older
- You must have a physical address in the same state as the business which you will represent (can't be a P.O. Box)
- You have to be present during business hours to receive mail and notices on behalf of the business (there are legal ramifications if you can't satisfy this requirement)

### **Step 3: Craft an LLC operating agreement**

Creating an LLC operating agreement is an essential step in starting an LLC, though individual states may not mandate doing so. A few states — including California, Delaware, Maine, Missouri and New York — require LLC operating

agreements, but they're a good idea even if you operate elsewhere. This important agreement spells out how the LLC should work, including functions such as:

- Managing day-to-day operations
- Sharing profits and losses
- Member rights
- Member responsibilities
- Voting rules
- How to close the business

These agreements help protect your business liability status and your personal assets. They also pin down informal agreements and operational structures in a written, legal document.

## **Step 4: File articles of organization**

The final step in forming an LLC is filing your articles of organization. This document is what the state uses to recognize your business as a new, legal entity. Follow these steps to file your articles of organization:

1. Fill in the relevant state's document with the LLC name and registered agent's information. You may also need to provide any required information about the owners or members as well as the intent of the business.
2. Submit the document via the state's preferred method,



such as online, by mail, by fax or in person along with your payment. Fees vary by state, but most often fall into the [\\$100 to \\$250 range](#).

3. Confirm acceptance by the state and wait for your certificate of formation. Seven to 10 days is the average amount of time it takes to approve your request, but that varies based on the state, your method of submission (online vs mail, etc.) and if you request — and pay for — an expedited process.

## **How to pay yourself from an LLC**

There are several different ways you can pay yourself from an LLC. If you're a single-member LLC, whatever income your business makes is added directly to your tax return. In other words, whatever the business clears is what you pay yourself and then claim on your personal tax return.

An LLC can also elect to be taxed as an S corporation. In that case, owners can be paid a salary from the business (which can be deducted on business taxes), receive distribution payments, or both. S corps are also considered pass-through entities, meaning that the income passes through and is claimed on your personal tax return. In some cases, this can result in a lower tax bill overall. Technically, an LLC can also elect to be taxed as a C corporation. This means income is taxed once at the corporation level and then again at the personal tax return level, resulting in what is known as

double taxation. In most cases, double taxation isn't advantageous for LLC owners.

## **Should you use an LLC service to start your business?**

There are two main options for setting up an LLC. One is to do the work yourself. That includes researching your specific state requirements, identifying applicable forms that need to be filed, and ultimately filling out and submitting the correct paperwork to the state along with your state filing fees. It's not rocket science, but it does take some time and effort and requires either a certain amount of comfort navigating online (to file online) or time to go to your local county clerk's office to inquire about and fill out the right paper forms in-person.

The other option is to use an LLC service. An LLC service collects your business information online and then files the necessary paperwork for you, saving you quite a bit of time and hassle. Many LLC services even offer a filing option where their services are free, saving you time but not costing you any more money. And, if you pay for premium plans, you can get additional services and features for your startup — like a business license search, virtual mailbox setup, registered agent services, etc.

Check out some of our LLC service comparisons — [ZenBusiness vs Incfile](#) (now Bizee) and [ZenBusiness vs](#)

[LegalZoom](#) — to help you decide what's right for you.

## Other LLC considerations

### Setting up finances for your LLC: EIN and business bank account

Your EIN, or employer identification number, is the identification number under which you file business taxes. Think of it like a Social Security number for companies that helps to isolate business finances from personal finances during tax time. You can [apply for an EIN directly with the IRS](#) online, by fax or by mail if you're in the U.S. International applicants must apply by phone.

Setting up a business bank account is also a smart choice to separate personal and business spending. Business bank accounts may also offer benefits unique to businesses, such as debit cards for multiple employees.

### Securing necessary business licenses and permits for your LLC

Make sure to secure any necessary business licenses or permits. Though these may vary across locations, common requirements include:

- **Federal licenses or permits:** Certain types of

businesses or business activities that federal agencies regulate, such as agriculture, alcohol sales, fish and wildlife and more, must apply for the appropriate documentation from the applicable agency.

- **State licenses or permits:** Register with the applicable Secretary of State's office or Department of Commerce as required.
- **Local licenses:** Apply for any licenses required at the local level, such as building permits, health licenses or operating licenses.
- **Sales tax licenses:** If you sell a taxable product, make sure to apply for a state tax license and renew as needed.

## **Consulting legal and tax professionals specializing in small businesses**

While some single-member LLCs are fairly simple, others are not. Let's say you have a multi-member LLC. One member is the primary investor. The other is involved in the day-to-day management of the business and takes most of the profit. It's important to make sure that all profit splits are clearly structured upfront in the operating agreement to avoid cost conflicts or disputes between members down the road.

That's where legal and tax professionals specializing in small businesses come in. They can weigh in early to help make

sure your business is structured in the most appropriate, tax-efficient and compliant way.

Here are some other common reasons businesses might want to consider professional help:

- Multiple owners/members involved
- Outside investor obligations
- Plans to hire employees in the first year
- Operate in a heavily regulated industry
- Plans to file for any patents

**When in doubt, we always recommend checking with an experienced attorney or accountant.** As a general estimate, in 2022 the Bureau of Labor and Statistics calculated the average hourly rate for [accountants at around \\$44/hour](#) and [lawyers/attorneys at \\$80/hour](#).

## Disadvantages of an LLC

Although establishing an LLC protects your personal assets and provides tax advantages, there are some disadvantages you should be aware of. Make sure to consider the following before starting an LLC:

- **Expense:** LLCs may cost several hundred dollars to establish and come with annual fees and taxes ranging from \$10 to \$800.

- **Difficult ownership structure:** It is challenging to transfer ownership in an LLC compared to other business structures. Changes in ownership may require the dissolution of the LLC.
- **Less flexible funding options:** Using outside investment funding and stock issuance is not simple in LLCs.

## Frequently asked questions (FAQs)

Small businesses may benefit from an LLC when looking to limit their personal liability and protect personal assets from business legal issues. These businesses may also benefit from tax advantages that prevent income taxation at the business level for LLCs.

You must check the relevant state's registry to see if your LLC name is available and does not contain any disallowed words. The Secretary of State's office can help you find and check this registry.

LLC structures offer the benefit of pass-through taxation. Income is generally not taxed at the business level — as it would be for a corporation — but instead only at the personal income tax level of members. However, if qualified, LLCs may elect to be taxed as S-corps or C-corps, depending on which offers the best tax advantages.

A single-member LLC is basically a limited liability company that has just one owner or member. That owner or member can be an individual or another company. Unless a single-member LLC specifically elects to be taxed as a corporation or S corp, it is considered a "disregarded entity" and the income passes through to the member's tax return instead of being taxed at a corporate level.

There are very few limitations regarding how many dbas an LLC can have. If you have a specific number in mind, you can always check with your state's Secretary of State office; they'll be able to give you an answer or at least point you to the people who can. It's important to note that while you can have many dbas, you can only have one legal name per LLC.

A disregarded entity LLC is a designation given to an LLC for tax purposes. Essentially, this means that the LLC's income is not taxed at the corporate level as an entity. Instead, the entity is disregarded and the income passes through to the personal tax return of the owner(s)/member(s). In most cases, this applies to single-member LLCs that don't elect to be taxed as corporations.