LA BUSINESS Insider

L.A. business news and insights brought to you by Los Angeles industry and thought leaders.

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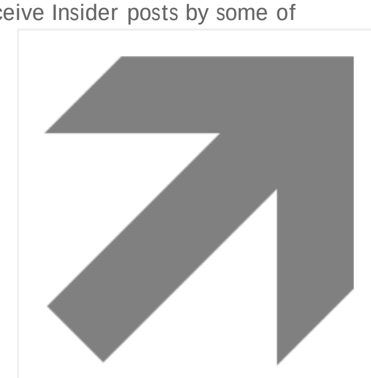
WELCOME TO LA BUSINESS INSIDER

Welcome to LAB-Insider.com home of the **Los Angeles Business Insider**, a site dedicated to insightful, poignant, relevant and applicable LA business insights from Los Angeles industry and thought leaders.

Take a look at our initial roster of posts brought to you by key LA Insiders. In this inaugural edition you will read(click on links to read full post):

- **Sperry Van Ness National Advisor and Broker Rodrigo Gonzalez, MBA** shows us how even $1 can mean thousands in multifamily real estate and how **the right investment strategy can lead to impressive returns** for years to come.
- **Bill Torres, CPA and Managing Partner at Bill Torres & Company** gives us the inside track on how **rental property owners may be footing some of the bill for Obamacare** how to avoid it.
- **Senior Litigator at Larson & Albert, LLP., Mark Anchor Albert, Esq.** breaks down the pros and cons of LLCs and C & S Corps in a **business structure showdown** for LA entrepreneurs looking to formalize or launch a venture in 2014.
- **Desi Gamez, VP of Risk Services for Pom & Associates**, **analyses the current "hard" insurance market** for businesses and how to operate and succeed within it.

We invite you to join our mailing list and be the first to receive Insider posts by some of LA's top business minds.



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Thank you for your readership and we trust you'll find these insights of value.

The LA Business Insider Team

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2014 APARTMENT INVESTMENT STRATEGY FOR LA INVESTORS

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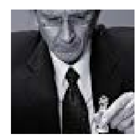
Top Insights

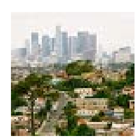
RENTAL PROPERTY OWNERS BEWARE: YOU WILL BE FOOTING SOME OF THE BILL FOR OBAMACARE

BY BILL TORRES, CPA THE NOTORIOUS LEGISLATION CAN POTENTIALLY COST YOU THOUSANDS IN INVESTMENT PROPERTY INCOME With all of the talk...



THE PROS AND CONS OF DIFFERENT BUSINESS STRUCTURES - ROUND 1: LLC vs CORPORATIONS

BY MARK ANCHOR ALBERT, ESQ. EXPERT ADVICE FOR THOSE LAUNCHING A NEW VENTURE OR LOOKING TO FORMALIZE AN EXISTING BUSINESS IN 2014 ...



2014 APARTMENT INVESTMENT STRATEGY FOR LA INVESTORS

BY RODRIGO GONZALEZ, MBA WHY INVESTING IN APARTMENT BUILDINGS IN 2014 COULD BE THE DIFFERENCE BETWEEN FLYING FIRST CLASS AND COACH IN RET...

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THE PROS AND CONS OF DIFFERENT BUSINESS STRUCTURES - ROUND 1: LLC vs CORPORATIONS

BY MARK ANCHOR ALBERT, ESQ.

EXPERT ADVICE FOR THOSE LAUNCHING A NEW VENTURE OR LOOKING TO FORMALIZE AN EXISTING BUSINESS IN 2014

Small businesses are the foundation of non-government employment sectors in the greater Los Angeles area. But entrepreneurs and business owners often are uncertain about which business structure they should adopt and implement as they grow their business. There are four common business structures that are typically used: (1) Sole Proprietorship; (2) Limited Liability Company (LLC); (3) Corporation (which has two types, a C-corp. and an S-Corp.); and (5) Partnership (which has 3 types, a General Partnership, a Limited Liability Partnership, and Joint Ventures).

This concise article discusses the basic nature, tax structure, and relative pros and cons of two of these forms of business structure: LLCs and Corporations.

CONTENDER: Limited Liability Company

An LLC in effect is a rough combination between a corporation and a partnership that is designed to offer the limited liability features of a corporation – protecting owners from business liabilities – together with certain tax efficiencies and operational flexibilities characteristic of partnerships.

The "owners" of an LLC are not “shareholders,” they instead are called "members." In California, an LLC can consist of a single member (one owner), or two or more individuals, or corporations, partnerships, or other LLCs, which collectively own the company.

There are several steps required to form an LLC in California. Preparing and filing "articles of organization" is the key step. It is equally critical to prepare a well-thought-out Operating Agreement that defines the rights, duties, and obligations of the members, including control, buy-out, and dissolution provisions. Otherwise, the “default” provisions of the California Corporations Code may apply to your disadvantage.

An LLC must apply for and obtain all the same types of business licenses as would a corporation or partnership.

Unlike corporate shareholders, LLCs are not taxed as individual business entities, but rather profits and losses "pass through" the LLC to each individual member of the LLC. Each LLC member therefore files his or her, or its, own personal federal tax returns, just as partners would in a partnership or an owner of a sole proprietorship. Accordingly, LLCs must file a corporation, partnership, or sole proprietorship tax return.

Pros of an LLC

- **Limited Liability:** LLC Members generally are protected as are corporate shareholder from personal liability for LLC business actions.
- **Relatively Minimal Recordkeeping:** Unlike C-Corps and S-Corps, an LLC is not as operationally complicated and does not require as much registration paperwork. There also typically are fewer and less expensive start-up costs (depending on the complexity of the business). For example, corporate minutes of meetings are not required.
- **Profit Sharing:** LLC members have great latitude in deciding by their Operating Agreement the amount, timing and manner of distribution of LLC profits and the sharing of LLC losses.
- **Reduced Fiduciary Obligations:** The drafters of an LLC Operating Agreement have broad flexibility to define their respective rights and obligations, including eliminating or narrowing some fiduciary duties owned by the Managers to members.

Cons of an LLC

- **Limited Life:** Unlike corporations, but similar to partnerships, an LLC may dissolve when a member dies or leaves, unless special provisions are adopted in a carefully-crafted Operating Agreement.
- **Self-Employment Taxes:** Because LLC Members are considered self-employed, they are required to pay the self-employment tax contributions towards Medicare and Social Security, and the entire net income of the LLC also is subject to this tax.

CONTENDER: Corporation

A standard corporation (a “C-corp.”) is an independent legal entity owned by shareholders, but which is held liable for the actions and debts the business incurs in its name.

Corporations tend to be more complex and expensive to administer and run than other business structures due to administrative fees and tax and legal requirements. Corporations typically are appropriate for larger, well-established businesses with large numbers of employees.

To established and register your business as a corporation, you need to prepare and file with the Secretary of State articles of incorporation. By-laws should be prepared also. If you intend to sell shares of stock, there are a whole series of steps that must be undertaken to ensure that regulatory, statutory, and securities laws are not violated.

Obviously, numerous permits and licenses will be required, depending on the location and nature of your business.

Corporations must pay federal, state, and local taxes in California. The corporation itself is a separate tax-paying entity. “C corps” typically file their tax returns under subchapter C of Chapter 1 of the Internal Revenue Code.

C-corps may be subject to double taxation: once, when the corporation makes a profit, and again, when dividends are paid to shareholders.

Pros of a C-Corp

- **Limited Liability:** The personal assets of shareholders are protected from liability for the business debts and actions of the corporation. Absent individual misconduct or alter ego liability, shareholders can only be held accountable to the extent of their stock investment.
- **Capital Generation:** Corporations can raise money through the issuance of stock and bonds.
- **Corporate Taxes:** Corporations file taxes separately from their owners, at a lower rate than individual taxes. Shareholders only pay taxes on dividends, salaries, and bonuses paid to them by the corporation.

Cons of a C-Corp

- **Time and Money:** Corporations are expensive and resource-consuming to establish and operate. Start-up, operating and tax costs often exceed those of other business structures. More paperwork typically is involved.
- **Double Taxation:** Corporations can be taxed twice – on both profits and dividends.

CONTENDER: S Corporation

An S-Corp. is created through an IRS tax election that avoids double taxation. An S-Corp. different from a traditional corporation (C-Corp.) because in an S-Corp. profits and losses pass through to the owners’ personal tax returns. Any shareholder who works for the company must pay himself or herself a "reasonable compensation."

To file as an S-Corp., all shareholders must sign and file IRS Form 2553. Once the S-Corp. is registered, the shareholders must obtain all necessary business licenses and permits, just like a C-Corp.

It also may be possible to seek S-Corp. status for your LLC. You would have to make a special election with the IRS to have the LLC taxed as an S-Corp. using Form 2553. If done properly, the LLC would remain a limited liability company but would be treated as an S-Corp. for tax purposes.

Pros of an S-Corp

Tax Savings: In addition to the advantages it shares with C-Corps., an S-Corp. has additional tax benefits. For example, while LLC members are subject to employment tax on the business’ entire net income, only the wages of the S-Corp shareholder who also is an employee are subject to employment tax. The remaining S-Corp. income is paid to owners as "distributions" which are taxed at lower rates.

Cons of an S-Corp

The cons of an S-Corp. are similar to those of a C-Corp., although typically they are small corporations so the regulatory, tax, and paperwork burdens tend to be less.

Which Business Structure Is Better for You?

In deciding the winner of the showdown between corporations and LLCs, a business owner needs to weigh multiple factors that depend on individual circumstances. These factors include, but are not limited to, the need to raise capital by issuing equity, debt, or selling membership interests; the relative legal and regulatory costs; the ability and ease to transfer ownership interests; the ability to manage and reduce fiduciary obligations; and likely tax ramifications. In businesses which involve significant assets, investors, or personnel, it is prudent to consult experienced counsel to assess and weigh the pros and cons of alternative business forms available to you.

About the Insider:

Mark Anchor Albert, Esq. is a Senior Litigation Partner at Larson | Albert LLP, a high-end Los Angeles litigation boutique. He has recovered nearly $500 million for his clients, and defeated claims totaling over $5 billion, involving every type of business structure. See www.LAlitigationlawyers.com; Albert@LAlitigationlawyers.com

The author is a LA Business Insider contributor. The opinions expressed are those of the writer.

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TOP 3 STEPS TO SUCCEED IN A HARD INSURANCE MARKET

BY DESI GAMEZ

A WINNING RISK MANAGEMENT STRATEGY IN TIMES OF SKYROCKETING RATES

Since about 2007, businesses across the country were reaping the benefits of downward spiraling insurance rates. During this "Soft Market" property and casualty insurance rates were extremely low, legislative changes helped reduce the cost of insurance claims, and insurance underwriters had expanded their appetite for risk. It was much needed relief for Los Angeles businesses, especially those who had been affected during the recession.

Unfortunately, the soft market wasn't enough relief as many businesses had to do more to lower their insurance cost. We saw CFOs and Human Resource Managers assume the responsibilities of risk managers and safety personnel who were laid-off; safety and compliance programs were put on back burners; and claims began their ascent. The result is a "Hard Market" where rates have more than doubled and companies are struggling to pay expensive premiums. Loss ratios, the cost of claims measured against premiums collected, are at all time highs. Legislative overhauls of the work comp system designed to reduce costs have eroded. It seems almost every insurance carrier has filed for rate increases in 2014 in order to recover from poor investment results, which have negatively impacted profit margins, surplus capital and insurance ratings.

While making decisions to insure against loss is smart, preventing losses from ever happening is unquestionably smarter. In a hard market, companies need to be well equipped and risk savvy while moving their organization forward. There are three important steps businesses can take to insulate themselves from rate increases, emerging risks like data breach and cyber attacks, and work-related accidents: