Everything you need to know about setting up your 1099 tax structure on one page.

Why it matters: The structure you choose significantly impacts your legal liability & taxation.

LLC (Limited Liability Company) VS PLLC (Professional Liability Company)

Key Things to Know

LLC: Blends the advantage of being a sole-proprietor with personal liability protection.

Gives you the privilege of pass-through taxation: Profits & losses pass through to your personal taxes & you don't get taxed twice.

PLLC: Specially created structure for licensed professionals like lawyers, CRNAs, physicians, architects, e.t.c.

Key Feature: Requires a license & implies a certain professional standard is maintained.

Similarities ≈

Both protect personal assets in the event of a lawsuit.

Both insulate the individual from their business debts.

Both are governed by individual state laws. Laws vary by state.

Neither require rigid management structures and formalities that corporations have to demonstrate.

Both require Articles of Organization & an Operating Agreement to be filed.

Differences

LLC: Does not require professional licensure.

Provides broad liability protection from business related stuff.

PLLC: Not available in all states & may have restrictions/require approval from licensing body.

Does not protect from liability related to malpractice. ⓘ

How You Are Taxed

LLC: As a disregarded entity. This means as a SOLE OWNER, your business is taxed by default as a sole-proprietorship.

PLLC: As a disregarded entity. This means as a SOLE OWNER, your business is taxed by default as a sole-proprietorship.

You can elect a different status by choosing to be taxed as an S-Corp. The main advantage here is saving on your self-employment tax.

Steps To File

LLC:

1. File Articles of Organization.
2. Create an Operating Agreement
3. Register your LLC & Get an EIN. You need this to open a business account.
4. Open a business account & keep all expenses separate.
5. Maintain compliance with state laws like annual reporting & paying fees.

PLLC:

1. Verify your eligibility. Do you have a professional license for this business?
2. File Articles of Organization.
3. Create an Operating Agreement
4. Register your PLLC & Get an EIN. You need this to open a business account
5. Open a business account & keep all expenses separate.
6. Maintain compliance with state laws like annual reporting , renewing your license & paying fees.
7. Get malpractice insurance.

Special States

New York: Some professionals are REQUIRED to file PLLC & get Board approval.

Texas: Only certain professionals can file PLLC (CRNAs can). Requires Board approval. Subject to franchise tax.

California: Doesn't Recognize PLLCs. Only PCs.

Florida: PLLCs need to file an annual report to maintain active status.

Washington: Requires an annual license renewal & report. Has specific naming guidelines.

S-CORP VS SOLE PROPRIETORSHIP

Since LLCs & PLLCs are considered "disregarded entities" the IRS doesn't recognize them as distinct entities. Which gives them the right to elect a status as either an S-Corp or C-Corp.

Key Advantages & Pitfalls

S-Corp: Robust protection from personal liability, protection from federal corporate taxation & easy transfer of ownership.

The business & the owner are separate entities.

Sole Proprietorship: Inexpensive to start because of low legal filing requirements, straightforward taxation.

The business & the owner share taxes & liabilities. if your business goes into debt or gets into legal trouble, then so do you.

Key Things to Know

As a sole proprietor, you'll be required to pay income taxes on all income your business makes. But if you file as an S Corp, you will only be responsible for taxes on your set salary. You save on Federal Coorporate Taxes.

Less extensive record keeping & reporting + oversight + regulation.

All income is taxable.

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