

Advantages and Disadvantages of LLC vs. LLP

Many small business owners choose to set up an LLC, or **limited liability company**. LLCs offer flexible management and tax options. They also limit personal liability for their owners, who are formally known as "members."

If you're a new business owner, the term "member" can be confusing. You probably think of your co-owners as your business partners. And that can make you wonder whether an LLP, or **limited liability partnership**, would be a better choice.

LLC or LLP? The initials are nearly identical, but there are important **differences between LLP and LLC** as forms of business organization.

LLP or LLC? Each Offers Liability Protection

Both an LLC and an LLP help business owners limit their personal liability. In both types of businesses, owners may lose the money they've invested in the company, but their personal assets aren't at risk if the business or a co-owner is sued. LLC members and LLP partners always remain personally responsible for their own wrongful actions.

Limitations on LLP vs. LLC Ownership

Many states limit LLP ownership to certain professionals such as lawyers, doctors, and accountants. In these states, other types of business owners can't [form an LLP](#), and business professionals may not be able to [form an LLC](#). Find about your state's LLP restrictions before you consider forming one.

In addition, an LLP is a type of partnership, and by definition it must have more than one partner. An LLC can have just one member. There is no upper limit on the number of owners that LLCs and LLPs may have. LLCs can have corporations, trusts, or other LLCs as owners, but this may not be true for LLPs in your state.

LLC Taxes vs. LLP Taxes

An LLP is taxed like a general partnership. The partnership reports business income and expenses on a partnership tax return, and each partner in turn reports a share of the profits or losses on his or her personal return. This is known as "pass through" taxation because there are no corporate taxes or **LLP taxes**. The profits "pass through" to partners who pay tax at their individual income tax rates.

By default, an LLC with more than one **LLC member** is also taxed like a general

partnership, and a single member LLC is taxed as a sole proprietorship. However, all LLCs have the flexibility to choose corporate taxation instead. This tax flexibility is one of the **advantages of an LLC** over an LLP.

LLC versus LLP: Management and Profits

An LLP operates like a general partnership, but with liability protection for its partners. This means that, by default, the partners share equally in decision-making and management, and each partner has the power to bind the company to contracts. Partners also equally share profits and losses. Depending on your state, some or all of these rules may be modified by a partnership agreement. LLPs can be well-suited to professional partnerships where the partners tend to operate independently.

LLCs can be managed by the members, or they can be managed by a group of managers, with the nonmanaging members acting in an investor role. An LLC operating agreement can specify a management structure, contributions of members, responsibilities of members, how decisions will be made, and how profits and losses will be distributed. Many small, informally-run businesses choose LLCs because of this flexibility in structure and management.

Forming an LLC vs. Forming an LLP

To form either an LLC or an LLP, you must file organizational documents with your state agency responsible for business filings. Forms and instructions are typically available on the agency website, and filings must be accompanied by a filing fee. In addition, all LLCs should have an operating agreement and all LLPs should have a partnership agreement to spell out the rights and responsibilities of the owners.

In many states, LLP formation paperwork requires more detailed and specific information than LLC formation documents. LLPs also may face greater restrictions on their ability to do business in states other than the one where they were formed. LLCs can generally do business in other states, so long as they file foreign business registration documents in those states.

LLCs and LLPs both offer liability protection for owners. In many states, however, LLPs are reserved for professional partnerships, while LLCs are used for other types of businesses. If you have a choice between forming an LLC and an LLP, consider the advantages and **disadvantages of an LLC vs. LLP**. Investigate taxation, management structure, and the logistics of forming the business before deciding which is better for you.

Whether you want to start an [LLC](#) or [LLP](#), LegalZoom can help. Get started by answering a few questions. We'll assemble your documents and file them directly with the Secretary of State, and you'll receive your completed business formation package by mail.