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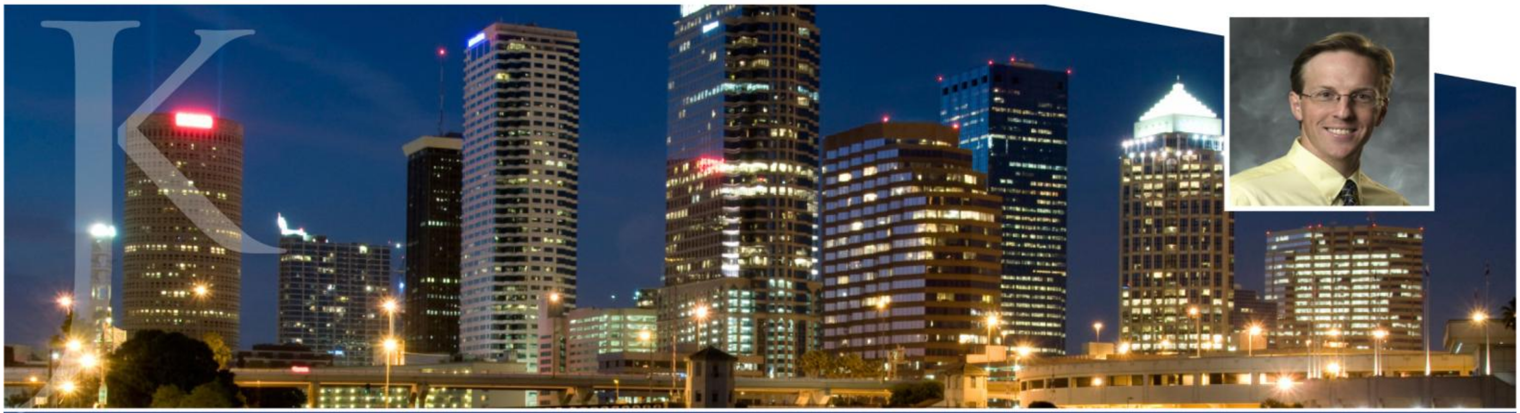

Converting a Sole Proprietor to an LLC

As sole proprietors, business owners enjoy the advantage of simplified tax reporting. However, sole proprietorship status exposes a business owner's personal assets to the risks and liabilities of his or her business operations.

Florida Statutes allow a sole proprietor to conduct business as a limited liability company (commonly referred to as a "single-member LLC"). LLCs generally provide for protection of the owner (or "member") for business debts and liabilities. Of course, this protection does not relieve a member of responsibility for personal actions or personally guaranteed debts. Personal assets, however, would be protected from ordinary business transactions.

A distinct advantage of using a single-member LLC is that Treasury Regulations allow a business owner to continue reporting for income tax purposes as a sole proprietor, despite forming an LLC entity under State law. In other words, the use of a single-member LLC will not require the filing of a separate tax return for the business.

The use of a single-member LLC does have its drawbacks. Aside from formation expenses, the distributive share of an LLC is "earned income" and subject to social security taxes, which is identical to the payroll tax obligation on income earned by a sole proprietor. This obligation can be reduced, although not eliminated, if the LLC member files an S-corporation election. In that event, a separate income tax return for the business becomes necessary. Finally, the State of Florida imposes modest initial and annual filing fee requirements.

A sole proprietor should consider the advantages of the liability protection from LLC status against the initial formation costs related to the conversion. For many owners, achieving a level of liability protection will likely merit the expense of converting to an LLC.

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