

What Is a Limited Liability Company (LLC)? A Complete Guide

A limited liability company, or LLC, is a business structure created under state law that separates you from your company.

If the business is sued or can't pay its debts, your personal assets, such as your home, car, and savings, are generally protected.

At the same time, an LLC avoids much of the paperwork that corporations face, and its profits can flow straight to your personal tax return.

That mix of protection and flexibility explains why LLCs are among the most popular choices for small businesses.

This guide explains what an LLC is, how liability protection works and where it stops, how LLCs are taxed, what it costs to form one, and how to set one up step by step.

Facts below carry a source and a date. State rules and fees vary, so confirm the details with your state's business filing office before you file.

The Short Answer

- **What it is:** A business structure allowed by state statute, according to the IRS.
- **Who owns it:** One or more people, called members.
- **Liability:** The SBA says LLCs "protect you from personal liability in most instances."
- **Taxes:** Not a separate federal tax class. The IRS taxes an LLC as a disregarded entity, a partnership, or a corporation, depending on the number of members and any election.
- **How you form one:** File articles of organization with your state, name a registered agent, and pay the filing fee.

How an LLC Works

Think of an LLC as a legal wrapper around your business. The company owns the assets, signs the contracts, and owes the debts.

You own the company. Because the two are separate, creditors of the business generally go after the business's property, not yours.

Cornell Law School's Legal Information Institute describes an LLC as a business organization that is not a corporation but blends features of partnerships and corporations (page last reviewed March 2022).

It adds that LLCs generally have far fewer formal procedures than corporations and that the structure can be built many ways to fit its owners' needs.

The SBA puts it simply: an LLC lets you take advantage of the benefits of both the corporation and the partnership structures (SBA, page modified August 28, 2026).

Who can own an LLC

The SBA's comparison table lists LLC ownership as "one or more people." So you can form an LLC by yourself, with a business partner, or with several investors.

Members can share ownership and control equally, or some can manage the business while profits and control are divided differently, according to Cornell's overview.

The operating agreement

An operating agreement is the document that sets out how the LLC runs: who owns what share, how profits are split, who makes decisions, and what happens if a member leaves.

Some states require one and others don't, so check your state's rules. Even where it isn't required, a written agreement helps prevent arguments later, especially with more than one member.

Limited Liability: What It Covers and What It Doesn't

What the protection covers

The SBA says an LLC's owners' personal assets, such as a vehicle, house, or savings, generally aren't at risk if the LLC faces bankruptcy or lawsuits.

If a customer sues the company over a contract dispute, the claim typically reaches the company's assets, not your personal ones.

Where the protection stops

Liability protection has limits, and the SBA notes that insurance can cover gaps. Three common ones:

- **Your own actions.** You stay responsible for your own wrongdoing. An LLC doesn't shield you from the results of your own negligence or misconduct.

- **Personal guarantees.** If you sign a loan or lease personally, you're on the hook even if the LLC is the borrower.
- **Piercing the veil.** Cornell explains that courts may disregard an LLC's separate status if it operates as an extension of its owner instead of as an entity with its own finances and records.
- Standards vary by state, and courts most often do this when the LLC is used to defraud creditors, particularly when there is only one owner.

How to keep your protection

- Open a business bank account and keep personal and business money apart.
- Keep basic records of major decisions.
- Pay LLC expenses from LLC funds.
- File your annual reports and fees on time.
- Make sure the business has adequate insurance.

How LLCs Are Taxed

An LLC is a state-law structure, not a federal tax category. The IRS says it assigns a tax treatment to an LLC based on its elections and number of members (IRS, limited liability company page, last reviewed October 10, 2026).

LLC type	Default federal income tax treatment	Can it elect corporate treatment?
Single-member LLC	Disregarded as separate from its owner	Yes
Multi-member LLC	Taxed as a partnership	Yes

Pass-through taxation

With default treatment, the LLC itself doesn't pay federal income tax. Profits and losses pass through to the owners' personal returns, which the SBA describes as the LLC's tax benefit.

Self-employment tax

Pass-through doesn't mean tax-free. The SBA says LLC members are considered self-employed and must pay self-employment tax toward Medicare and Social Security.

Many new owners overlook this line item when they budget.

Employment taxes for single-member LLCs

The IRS also notes that a single-member LLC, while disregarded for income tax, is still considered a separate entity for employment tax and certain excise taxes.

If you hire employees, those rules apply to your LLC.

Electing corporate treatment

An LLC can file Form 8832, Entity Classification Election, to be taxed as a corporation. The IRS says the election generally can't take effect more than 75 days before the filing date or more than 12 months after it.

The IRS page doesn't cover S corporation elections, which have their own rules, so ask a CPA whether an election could lower your tax bill.

LLC vs. Other Business Structures

Structure	Owners	Personal liability	Typical tax treatment
Sole proprietorship	One	Owner is personally liable	Personal return
General partnership	Two or more	Partners are personally liable	Personal returns
LLC	One or more	Owners generally not personally liable	Pass-through by default, or corporate by election
Corporation	One or more shareholders	Shareholders generally not personally liable	Corporate tax, with shareholders taxed on dividends

The SBA's table lists the LLC's liability as "owners are not personally liable" and its taxes as self-employment tax plus personal or corporate tax.

The sole proprietorship and partnership rows above follow standard legal definitions, so a lawyer can confirm how they apply in your state.

Pros and Cons of an LLC

Advantages

- Personal asset protection in most cases
- Flexible ownership and management
- Pass-through taxation by default, with a corporate election available

- Fewer formalities than a corporation
- Credibility with banks, customers, and vendors

Drawbacks

- State filing fees and annual costs
- Self-employment tax on active members' earnings
- Rules that vary by state
- A limited life in many states, according to the SBA
- Liability protection that depends on good record keeping

How Much Does It Cost to Form an LLC?

The SBA says registering an LLC typically costs under \$300, though fees vary by state.

Based on LLC University (updated June 10, 2026) and Tailor Brands (updated August 13, 2026), a few examples:

State	Formation fee	Ongoing cost to know about
Wyoming	\$100	\$60 minimum annual report
Delaware	\$110	Annual franchise tax (sources list \$300 or \$400, so check the state site)
New York	\$200	\$9 biennial statement, plus a newspaper publication requirement of about \$300 to \$4,500
Texas	\$300	No fee for most LLCs, but a yearly Public Information Report is required
California	\$70	\$800 minimum annual franchise tax, plus a Statement of Information fee
Massachusetts	\$500	\$500 annual report

Tailor Brands' cost page puts state filing fees between \$35 in Montana and \$500 in Massachusetts, not counting optional expedite fees.

Bizee estimates that annual report filings may cost anywhere from \$10 to \$500, and that yearly ownership costs run at least \$100 but rarely more than \$1,000, not counting taxes (Bizee LLC page, no date shown).

How to Form an LLC Step by Step

1. Choose a state

For most small businesses, forming in the state where you operate is the simplest route.

The SBA says an LLC will probably need to register in any state where it does business, such as where it has a physical presence or employees.

2. Pick a name

Check your state's business name database to confirm that your name is available.

Many states set rules on required words such as "LLC" or "Limited Liability Company," so read your state's naming rules.

3. Appoint a registered agent

The SBA says an LLC needs a registered agent in your state before you file. The agent must be located in that state and accept official papers and legal documents for the company.

Many owners hire a registered agent service instead of serving themselves.

4. File the articles of organization

This is the main formation document. The SBA says it lists the company name, address, member names, and registered agent.

Some states allow online filing, while others require paper forms.

5. Write an operating agreement

Spell out ownership shares, voting rules, profit splits, and what happens if someone exits.

6. Get an EIN for free

An employer identification number identifies your LLC for tax purposes. The IRS says the online tool issues an EIN "for free," that you never have to pay a fee for one, and that you should beware of websites that charge for it.

You can apply online if your principal place of business is in the U.S. or a U.S. territory and you have the responsible party's SSN or ITIN (IRS, EIN online application page).

7. Open a business bank account

Keep business money separate from personal money from the first day.

8. Handle licenses, permits, and taxes

Depending on your industry and location, you may need state or local licenses, a sales tax permit, or professional registrations. Check with your state and local business offices.

9. Skip the federal ownership report

Many older articles say new LLCs must file a beneficial ownership information (BOI) report with FinCEN.

That is out of date for U.S. companies. FinCEN says U.S. companies are exempt, and it finalized a rule on August 11, 2026 that took effect August 14, 2026. Only certain foreign-formed entities registered to do business in a U.S. state remain potentially subject to reporting (FinCEN BOI page).

Do You Need a Formation Service?

No. You can file with your state directly and pay only the state fee. A formation service handles the paperwork and often adds a registered agent, reminders, and other extras for a price.

Bizee (formerly Incfile) advertises LLC formation for "\$0 + state fees" and says every package includes one year of registered agent service free.

A review published by Rho (updated October 5, 2026, and Rho is a competing provider) lists Bizee's Basic package at \$0, Standard at \$199, and Premium at \$299, plus state fees. \

It says the EIN and operating agreement cost extra on Basic, and that the registered agent renews at about \$119 per year after the free year, which it calls a common source of complaints.

Bizee's own pricing page didn't display package prices when checked, so confirm them on its order form. For more opinions before you decide, read this [Bizee review](#).

Whichever route you take, compare the second-year cost, not just the first-year price, and remember that the IRS issues an EIN for free.

Common Mistakes to Avoid

- **Mixing personal and business money.** This is the fastest way to weaken your liability protection.
- **Skipping the operating agreement.** Even a single-member LLC benefits from written rules.

- **Missing annual reports.** States can add late fees and, over time, dissolve an LLC that stays out of compliance.
- **Forgetting self-employment tax.** Set aside money for it from the start.
- **Paying for an EIN.** The IRS provides it at no cost.
- **Assuming one state's rules apply everywhere.** Fees, taxes, and requirements differ widely.

How Common Are New Businesses?

New business filings are running at a high pace. The U.S. Census Bureau's Business Formation Statistics show about 534,947 seasonally adjusted business applications in September 2026, up 0.5% from August 2026 (release dated October 14, 2026).

Business applications count filings for an Employer Identification Number, so they include many types of entities, not only LLCs.

Also Read: [Limited Liability Company \(LLC\) Explained for Beginners](#)

Frequently Asked Questions

What does LLC stand for?

It stands for limited liability company.

Is an LLC a corporation?

No. Cornell describes it as a business organization that is not a corporation but blends features of partnerships and corporations. An LLC can elect to be taxed as a corporation, however.

Does an LLC protect my personal assets?

In most cases, yes. The SBA says LLCs protect you from personal liability in most instances. The protection has limits, including your own wrongdoing, personal guarantees, and courts piercing the veil.

How many people do you need to form an LLC?

One or more. The SBA lists LLC ownership as one or more people.

How is an LLC taxed?

By default, a single-member LLC is disregarded for income tax and a multi-member LLC is taxed as a partnership. Either can elect corporate treatment with Form 8832, and members generally owe self-employment tax.

How much does an LLC cost?

The SBA says under \$300 is typical, but fees range widely by state, and some states add annual fees or publication costs. California, for example, charges an \$800 minimum annual franchise tax.

Do I need a lawyer to form an LLC?

Not necessarily. Many simple LLCs are formed without one. Consider legal advice if you have multiple owners, unusual ownership terms, outside investors, or professional licensing rules.

Do I need to file a BOI report?

Not if you're a U.S. company. FinCEN says U.S. companies are exempt, effective August 14, 2026.

The Bottom Line

An LLC gives you a legal wall between your business and your personal life, plus tax flexibility and light paperwork. It isn't a free pass, since you still need to keep clean records, file on time, and pay self-employment tax.

Start with your state's fees and rules, name a registered agent, write an operating agreement, and get your EIN free from the IRS.

Whether you file yourself or use a service, check the full cost beyond the first year before you commit.

Sources

- U.S. Small Business Administration, [Choose a business structure](#). Page modified August 28, 2026.
- Internal Revenue Service, [Limited liability company \(LLC\)](#). Reviewed October 10, 2026.
- Internal Revenue Service, [Apply for an Employer Identification Number \(EIN\) online](#).
- FinCEN, [Beneficial Ownership Information](#). Final rule announced August 11, 2026, effective August 14, 2026.