Victor Harris

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BUS 161 OL B Assignment 2:

Operating my own business has always been a dream of mine. So, in 2019, I filed my Articles of Organization, and started my own LLC, and took my first step toward making that dream a reality. In brief, my fiancé and I had just bought our home in late 2018 and being that we opted to go a little over-budget to get the perfect home, furnishing our home right away as we had planned simply was not an option. As a result, nearly every night of the subsequent winter I would come home from work, and then immediately head up to my barn to get to work on building whatever furniture that I could to furnish our seemingly vacant home. As winter passed, I continued to construct whatever I things I had the materials and tools to make. I realized then that even though it felt like work, I generally enjoyed doing it. I dreaded going to work in the mornings, but I could not wait to “go to work” in the evenings. After a while, I started asking everyone that I knew if there was anything that they would be willing to pay me to make; after making a few things for colleagues and friends I decided that this could be my chance to become the entrepreneur that I had always aspired to be. From there I decided to make it official and form my own business.

After several hours of research and a few weeks of contemplating, I decided to form my business as an LLC. I did this for a few reasons, most of which were highlighted in Chapter 6. The first of those reasons, and the primary reason I chose to register as an LLC instead of as a Sole Proprietor, is that it allowed me to operate my business as a separate entity, register for an EIN, and in turn permitted me to open accounts under the business name. This was an important factor in my decision because I knew that many sole proprietors are often unable to qualify for financing of any type due to being unable to prove their income to potential lenders. Although my business does not currently generate the kind of that justifies the purchase of a company vehicle, or downtown store-front, I wanted to plan so that in the event of a large purchase becoming necessary, I would be able to do so by having a proven record of on-time payments and a transparent bottom line; all without jeopardizing my personal credit or assets.

Another advantage of forming my business as an LLC is the way that LLCs are taxed. ***“If an LLC has one member and it has not elected to be taxed as a corporation using IRS Form 8832, the IRS treats the LLC as a sole proprietorship” (Mancuso).*** In some states, there are additional taxes that LLCs must pay for being allowed to do business within that state. Luckily, Michigan is not one of those states, and instead allows me to file my business as a pass-through entity on the state-level as well, which prevents me from being subject to double taxation. This tax treatment allows me to take advantage of many of the benefits of a corporation (especially in terms of raising capital), while minimizing and simplifying the taxes that I must pay.

Overall, I think the advantages of forming as an LLC outweigh the disadvantages, but there are two distinct disadvantages that I have had to deal with. The first of which, is mentioned several times in Chapter 6, among all business types outside of sole-proprietorships general partnerships -- regulatory fees. Albeit they are relatively minimal compared to that of a corporation, I do have to file an annual statement each year to LARA, which includes paying a $25 fee. The second disadvantage comes from my uncertainty in regard to what exactly I want my business to be. When I formed my business, I registered it with the state as a business that primarily generated revenue through the manufacturing of wooden goods, however, since then I have realized that that industry is quite saturated, which would make my goal of replacing my current income with that of the business’ quite difficult. As much as I love to do it, making furniture full-time would likely result in my income being cut by half, or more, for at least the first year or two. That said, that significant of an opportunity-cost is not something I am able to afford without sacrificing mine and my future family’s future. Because of this I plan to shift my business toward one of my other, higher-potential interests —software development and I.T. I have been apprehensive, though, due to the tax laws in place, being that a business’ taxable income is supposed to be from within the industry that a business operates. **“The IRS has issued regulations to indicate what is included and excluded in this type of income, but an important statutory requirement is that the income must be ‘connected with the conduct of the trade of business.’” (Mancuso).** Frankly, I am hopeful that I will learn how to overcome this difficulty by taking this course, but because these two things are completely opposite, I have refrained from doing any kind of I.T. work outside of my full-time job. This has resulted in my business earning negligible revenue and ultimately a net loss in 2020. Had I chosen to operate as a Sole Proprietor, I would not be running into these types of barriers, as I could simply operate as a general contractor.

Reference List

Mancuso A. CHAPTER 3: Tax Aspects of Forming an LLC. *Form Your Own Limited Liability Company*. September 2019:41-50. Accessed February 3, 2021. http://search.ebscohost.com.ezproxy.ncmich.edu/login.aspx?direct=true&db=b9h&AN=138684352&site=sbrc-live