

Professional Limited Liability Company - PLLC Document Checklist

The business entity information on the Business Knowledge Center website is intended to provide you with background organizational information on the structure of various business entity types. To ensure legal and accounting compliance, you should review and verify your specific organizational documentation with your lawyer and your accountant.

One of the Entity Structure choices you may choose for your business is a Professional Limited Liability Company or PLLC. A PLLC is a type of Limited Liability Company formed for the purpose of providing professional services. A professional service is any type of personal service to the public which requires the provider to obtain a license or other legal authorization before they can make the service available.

Creating a PLLC requires the submittal of a series of documents to the Secretary of State's office in the State you choose to form your business. As part of the documentation review, the State will verify the professional licenses of the proposed members of the PLLC. The State will charge a filing fee for processing the entity formation application and reviewing the required organizational documents. Filing fees will vary by State and will typically fall in the \$150.00 - \$500.00 range.

The state licensing board for your profession must approve the Articles of Organization for the PLLC before they can be submitted to the Secretary of State for review and approval. When you set up a PLLC, you create a separate legal person in the eyes of the law.

The PLLC will have a birth certificate in the form of a Certificate of Organization. It will have its own Federal Tax Identification Number. A PLLC will typically file a Partnership Federal Tax Return – 1065, but the business entity will not pay federal income taxes. The income tax payment requirements will be passed through to the members who own the PLLC based on how the PLLC organizational documentation defines profits distribution for tax purposes.

Single member PLLC's may file a Personal Federal Tax Return – 1040. The individual filing the IRS Form 1040 is responsible for the payment of any federal income tax created by the inclusion of taxable income from the PLLC in their personal taxable income calculations.

The difference between an LLC and a PLLC is that only professionals recognized in a State through formal licensing requirements can form a PLLC. Professionals include architects, engineers, medical practitioners, lawyers and accountants. Most states will require proof of professional licensing before granting approval of the Articles of Organization. Some states require licensed professionals to form PLLCs and do not allow them to form LLCs.

A PLLC does not protect members from liability associated with malpractice claims related to their own professional actions. PLLC members retain personal liability protection resulting from malpractice claims by other company members. PLLC members will generally need to carry malpractice insurance to cover claims made against them personally.

Common reasons why business owners choose an PLLC Entity Structure:

Limited Business Liability – PLLC owners do not have personal liability exposure for business entity liabilities. Owners are personally liable for what they have invested in the entity plus anything in addition they have intentionally obligated themselves for or have at risk. This includes any business-related obligation(s) they have personally guaranteed like a loan from a financial institution or a lease from a property owner.

Unlimited Business Life – PLLCs have unlimited business life. If the business owner(s) becomes sick, disabled or dies, the PLLC does not cease to exist. To achieve pass through tax status, PLLCs typically intentionally limit business life expectancy to a defined time period.

Unlimited Number of Business Owners – PLLCs can have an unlimited number of owners. Owners are called Members. They can have different classes of membership units with different ownership rights. Members can be individuals or other legal person business entities.

Ease of Ownership Transfer – Ownership in an PLLC can be easily transferred by the sale of Units of Membership held by the Member. The Membership Units legally represent their ownership interest in the business. To achieve pass-through tax status, PLLCs typically restrict ownership transfer.

Capital Formation – Additional equity capital can be raised by selling more Membership Units to an existing Member(s) or an incremental Member(s). There is no limit to the amount of capital that can be generated through the sale of equity in the business entity. Different types of Membership Units with unique ownership rights can be created.

Treated for Tax Purposes as a Pass-Through Tax Entity – PLLCs are treated for federal income tax purposes as a pass-through tax entity. They can also file a 1120 Corporate Federal Tax Return and pay income taxes at the entity level on their income like a C Corporation.

Important Documents

(Check off after you have filed, recorded, copied and stored each item)

Articles of Organization

Document filed with the Secretary of State to create a Professional Limited Liability Company. The Articles list the name, address and principal place of business. They define; the business purpose of the PLLC, the number of Membership Units authorized, the name and addresses of the initial Board of Managers elected by the Members, and the name of the Registered Agent who will accept official mail and legal papers on the PLLC's behalf.

Business Name Reservation Form

Reserves a unique name for the business while you complete the registration process with the Secretary of State.

Membership Agreement

Document that supplements the Articles of Organization defining how the Members and Managers will organize and manage the day-to-day business activities. The Agreement should address how conflicts between the Members will be resolved. It should establish protocols for dealing with departing owners as well as incoming new owners and how profits and losses will be divided.

Certificate of Organization

A Certificate issued by the Secretary of State after all required organizational documentation have been submitted, reviewed and approved and the related filing fees have been paid. It serves as the effective birth certificate for the PLLC.

Annual Report

A document required to be filed by the PLLC annually with the Secretary of State. This report is required to maintain approval to do business in the State. The report updates information on the business's address, the names and addresses of the Members, and the contact information for the Registered Agent. A processing fee is required to be paid.

Certificate of Authority

A Certificate issued by the Secretary of State to an PLLC organized in another State authorizing it to do business in the State.

Certificate of Existence/Good Standing

A Certificate issued by the Secretary of State as proof the PLLC is currently in good standing and authorized to do business in the State.

LLC Membership Records

Records need to be maintained listing the specific Units of Membership in the PLLC issued and are outstanding. Unit Certificates should be numbered and specify the PLLC Name, the Member's Name, the Date of the Sale, and the Signature of the Board Member who authorized the sale of the Unit(s). The individual Unit Certificates should have the Company's Seal affixed. The membership unit records should enable a reconciliation between the number of Units authorized, issued, and presently outstanding.

Board of Managers and Member Meetings Records

Minutes should be recorded for all meetings of the Board of Managers and the Members. These meetings effectively document the PLLC's business management decisions. The minutes should record who was in attendance and indicate if there is a sufficient quorum present to vote on and make binding all significant governance decisions on behalf of the PLLC. State law requires at least an Annual Meeting.

Board of Managers' Meetings – Resolutions

Board Resolutions document decisions and show specifically how Directors voted on matters affecting the PLLC. It is a good idea to create Board Resolutions for key business management decisions like; approving the sale of additional units of membership, taking out a business loan, electing new Directors or appointing new Managers, acquiring another business, signing a lease, or approving a major new contract with a supplier or a customer.

Federal Tax Return – 1065

Partnership Return if more than one (1) member. 1040 if it is an PLLC with a single individual person Member.

Registered Agent

Person or business entity named in the Articles of Organization to receive notices or service of process.

Registered Office

The office address where the Registered Agent must be located during business hours.

Certificate of Existence/Good Standing

A Certificate issued by the Secretary of State as proof the PLLC is currently in good standing and authorized to do business in the State.