

## PROTECT YOUR ASS(ET)

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A prime reason for incorporating or forming a Limited Liability Company (LLC) is the limited liability that it offers its owners. The owners generally have no personal responsibility for the debts, obligations or liabilities beyond their initial investment in the business (as long as they didn't sign for anything personal). But the limited liability may be lost if the shareholders/members don't act like persons doing business in the proper corporate/LLC form. Then creditors may enlist the help of attorneys and forensic accountants (that be us) to "pierce the corporate veil" and pin personal liability on the owners for what otherwise would be corporate/LLC debts and liabilities.

The risk is often particularly acute for sole proprietorships and partnerships switching to the corporate or LLC form. They're apt to ignore the change and the requirements of corporate or LLC operation (board meetings, shareholder meetings, notice of meetings, waiver notice, motions, resolutions, voting procedures, proxies, election of officers, fixing of compensation, etc.). They may treat the corporate/LLC treasury as their own. At the very beginning of corporate or LLC operations, they may neglect to do such simple things as notifying creditors of the change, consistently using the "Inc." or LLC designation on business letterhead, the business checking account, business licenses and the like, signing correspondence and documents as an officer/member, and so forth.

Failure to comply with one or more of these corporate requirements won't necessarily be "fatal". To play it safe, have your lawyer supply you with a list of essential "housekeeping" chores to preserve limited liability. Of course, liability exposure questions almost always turn on state law which is why we always advise clients to seek competent legal counsel for answers to all specific questions about the liability aspects of business and investment operations. In our line of work, an abiding principle is "One size doesn't fit all". Thus, we'd be happy to recommend one or more lawyers we've worked with seasoned in this arena.

### FOR MORE INFORMATION:

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