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## Series LLCs provide cost-effective liability protection for your interests

**B**usiness owners, particularly those owning rental real estate or small businesses, often organize Limited Liability Companies (LLCs) to own assets and insulate them from personal liability.

Similarly, a business owner may desire to minimize risk of loss by segregating business assets into multiple limited liability entities, providing there is a valid business purpose in doing so.

Recently, a client – we'll hypothetically call him "Dan Developer" – approached me with the following challenge. Dan owned five income-generating properties.

Some properties were rental units; others were more risky business ventures. He was in the process of acquiring more rental properties and considering a development project.

His dilemma: Dan wanted a risk management and asset protection strategy that was flexible and affordable. He understood that individual LLCs would minimize his risks, but the administrative and legal costs were substantial.

Further, as his business changed, such as when he bought or sold properties, he also would need to form or dissolve an LLC. A solution that utilized separate LLCs was effective, but hardly efficient.

**A**n amendment to the Illinois Limited Liability Company Act that permits the creation of a Series LLC took effect last August. Under this law, owners now have the ability to create separate "series" of assets and liabilities within the LLC.

For practical purposes, the LLC acts as an internal holding company and each "series" functions as a subsidiary LLC without the same formation and administration expenses.

- Assets of one series are protected from the losses and liabilities of the other series.

- Each series may have its own separate business purposes or investment objectives.

- Each series operates as its own profit/loss center.

- Each series may have different management.

- Voting may be different for each series.

Whether a business expands or becomes more targeted, the Series LLC can be amended to individual business needs. Additional series can be added by amending the operating agreement. Alternatively, a series can be dissolved without affecting the other series of the LLC.

erty from one series to another within the LLC). The law permits the LLC, and any of its series, to consolidate their operations as a single taxpayer in certain circumstances. Business owners should consult their tax advisor with specific questions.

**O**ther states are beginning to see the advantages of Series LLCs. However, Series LLC laws have not been enacted nationwide. Thus, it is unclear as to whether states that do not have a series LLC law will

recognize the assets located in that particular state as being segregated into the different series. Therefore, business owners who have assets in multiple states may require more intricate planning.

When the Limited Liability Company Act was created, owners

had many concerns about how the LLC would be treated, what tax consequences existed and other legitimate business concerns. However, the Series LLC is only an amendment to the act. As a result, attorneys can rely on well-settled precedent in most cases when assisting clients with their company's decision-making process.

Series LLCs are the next foundation for providing cost-effective, limited liability to your business, and offering a more efficient way to organize your operations.

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For Dan, the Series LLC worked like a charm, providing significant savings during startup and on an annual basis.

Had Dan formed five "traditional" LLCs, the Illinois Secretary of State filing fees would have totaled \$2,500, while the Series LLC was only \$1,000 (\$750 fee, plus \$50 per series).

He will save on an annual basis, as well. The annual filing fee for five "traditional" LLCs is \$1,250, while the Series LLC is only \$500 (\$250 fee, plus \$50 per series).

Additionally, the legal and accounting fees associated with a Series LLC can enhance cost-savings. For example, when there is a need for multiple LLCs, a Series LLC entails much less legal work than creating several individual LLCs. That, of course, reduces the amount paid in legal fees.

There may be tax-free transfers within the LLC (i.e., transferring prop-