

DC Bar Practice 360: Business Entity Selection and Formation for Law Firms

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6 May 2016

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Nothing in this presentation is intended as legal advice. The information contained herein is general information. Please consult a lawyer and/or tax professional for application to your specific facts and circumstances. Heather Batzel is licensed in DC, MD and PA only.



3 Goals for Today

1. Outline available entity **options** for law firms
2. Discuss **considerations** relevant to choosing one over another
3. Equip you with **to-do items** for forming your law firm and beyond

Options: Restrictions for Law Firms

- No limitation of liability for own professional acts
- Generally, ownership/financing restricted
- Variation on Corp and LLC prescribed
 - PC and PLLC
- Naming
 - DC corporate name requirements at **§ 29–103.02**
 - DC Bar RPCs



Options:

Select Entity Types for Law Firms

- **Sole Proprietorship (Sole Prop)**
- **General Partnership (GP)**
- **Limited Liability Partnership (LLP)**
- **Professional Corporation (PC)**
- **Professional Limited Liability Company (PLLC)**

Considerations: Liability

- Unlimited versus limited* liability
- Automatically exist versus created by registration

Unlimited Liability	Limited Liability
Sole Proprietorship	Limited Liability Partnership
General Partnership	Professional Corporation (C or S)
	Professional Limited Liability Company

*Professional liability exception

Considerations: Taxation

- Levels of taxation
 - Single taxation as “pass-through entity” versus two levels of taxation

Single Level of Taxation	Double Levels of Taxation
Sole Proprietorship	
General Partnership	
Limited Liability Partnership*	
Limited Liability Company*	
Professional S Corporation *	Professional C Corporation

*DC exceptions!**

** *Exceptions to exceptions!*

Considerations:

Taxation continued

- Nuances and Complications
 - DC Unincorporated Business Franchise Tax of 9.975%
 - DC non-recognition of S Corp status
 - Interjurisdictional aspects
 - Tax returns see
 - Partnership tax
 - Deductions

Considerations:

Operational/Structural Applicability

- **Management structure**
- **Ownership limitations**
- **Ease of operation**

Considerations:

Other

- Costs
- Branding
- Preference

To Do Items:

Generally speaking

- Rules of Professional Conduct guide everything we do as lawyers
 - Familiarize yourself with them
 - Monitor them and opinions
 - Be mindful of different rules in different jurisdictions
- Order presented is not the only way
 - Your facts and circumstances may warrant a different course, or order, of action

To Do Item 1:

Entity Formation

- Corporate registration for LLP, PLLC, PC
 - <http://dcra.dc.gov/service/corporate-registration>
- Naming requirements
- Foreign registrations/qualifications to do business in other jurisdiction(s)
- Registered Agent(s)
- Governing documents

To Do Item 2:

Initial tax matters

- DC
 - Office of Tax and Revenue Registration
 - FR500 Combined Tax Form
- Federal
 - Apply for Employer Identification Number
 - <https://sa.www4.irs.gov/modiein/individual/index.jsp>
 - Consider applicability of S-Corp election
 - <https://www.irs.gov/pub/irs-pdf/f8832.pdf>
- **Seek appropriate advice from tax professional(s)!**

To Do Item 3:

Permits and Licenses

- Bar license(s)
- Basic Business License not required for law firms
- Certificate of Occupancy and/or Home Occupancy Permit

To Do Item 4:

Insurance Considerations

- **Professional Liability Insurance**
- **General Business Liability Insurance**
- **Workers Comp**
- **Others: Life, Disability, Business Continuity**

To Do Item 5:

Bank Accounts

- Operating Account
 - Take certificate of formation/incorporation and your IRS EIN letter
- Trust Account
 - IOLTA
- Remember to keep firm operating funds separate from personal funds, if a registered entity, and **in any case** to keep client funds held in trust separate from operating funds

To Do Item 6: Compliance

- Calendar regulatory requirements such as:
 - DC's Biennial Report due April 1 every other year beginning with first year
 - Applicable tax return (annual deadline depends on entity) and quarterly estimated tax payments
 - Issuing 1099s by Jan 31 (and then filing with IRS)
- Determine how and when to hold meetings and keep records
- Make a plan for accounting and financial books and records

To Do Item 7:

Operations

- **Software for billing, accounting and/or law practice management**
- **Workspace arrangements/Lease**
- **Employees, independent contractors, virtual assistance**
- **Legal research resources**
- **CPA/book-keeper**

To Do Item 8: Utilize Resources

If you haven't already, check out the vast array of Practice Management Advisory Services resources!

Additional Online Resources

- <https://www.lexisnexis.com/hottopics/dccode>
- <http://dccode.org/simple/Title-29/>
- <http://dcra.dc.gov/book/just-starting-your-business>
- <http://otr.cfo.dc.gov/service/business-tax-service-center>
- <http://www.irs.gov/Businesses/Small-Businesses-&-Self-Employed/Small-Business-and-Self-Employed-Tax-Center-1>
- <https://www.irs.gov/uac/Choosing-a-Business-Structure>

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