

Should Freelancers Establish Themselves as an LLC?

Everything You Need to Create Your Startup and Raising Capital for non US founders

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/EINPresswire.com/ -- Are you considering forming an LLC for your side hustle or freelance business? Research from Upwork says 59 million Americans have done some freelancing this year during the pandemic. Including the rest of the world there are more than 200 million freelancers currently working like online gig workers from their ease of their homes.

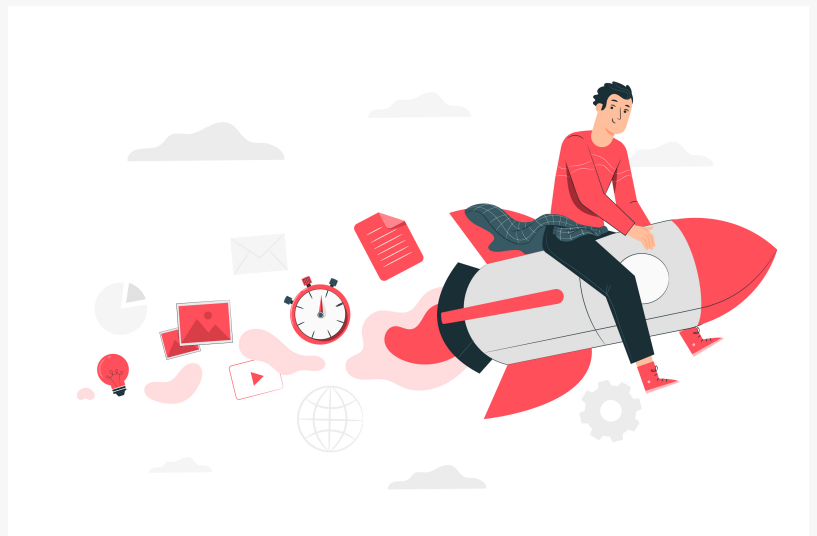
Businesswala contacted Venkatesh who founder at DNAMonk.com recently. We wanted to find out why freelancers should consider forming an LLC.

Venkatesh started with an explanation of the term and why a small business should consider incorporating:

"The abbreviation "LLC" stands for limited liability company. LLCs allow business owners to keep their personal assets separate from those of the company," he says. "This limits their own liability when it comes to company debts and responsibilities."



DNAMonk.com - Register US business



Startup



"Establishing a US entity allow access to the best startup ecosystem in the world, DNAMonk makes it easier for startups to launch within a week and setup their businesses" says Venkatesh, Founder"

*Venkatesh
Venkatasubramanian*

Should Freelancers Consider Forming an LLC?

He goes on to explain the other reasons why forming an LLC is a good move to protect yourself and your business income. First off, you get an employee ID number which is basically a tax ID. It's this number that separates your business identity from your personal identity legally.

"That means your business can get its own bank account and build business credit under the business's name," Ray says.

Having a business bank account and business credit card

helps in several ways.

Business Income

With these business tools you can keep track of your business income and keep accurate records of what you can deduct. You can also pay for any business expenses with a business credit card.

Venkatesh explains why this matters.

"This can help you save money on equipment, subscriptions or a new laptop," he says. "Furniture for your home office or any other necessary purchases for your business can be included."

An LLC can also help you build up your business credit. The first step is starting with your business credit card and working your way up to a business line of credit or small business loan.

Advantage During Tax Season

Another big advantage to incorporating comes during tax season. Small businesses can save money and time.

"If you have a business bank account, it's easier to report your business income. And claim all of the tax deductions that you qualify for," he says.

There are other benefits to an LLC like what Venkatesh calls a "corporate shield."

Having an LLC lets you sign contracts under your company name. That's important in case a costly mistake happens like an injury or accident with the resulting lawsuit. This corporate shield protects personal assets if and when that happens.

Professional and Official

Besides, you look more professional and official to prospects and clients.

“Signing a contract under your business’s name and presenting a business card that has your LLC’s name on it,” Venkatesh says. “These can be image-boosters and inspirations.”

He also talked about the potential consequences of not setting up an LLC for people who work on their own.

“If you do not form an LLC, it is still possible to do freelance work and earn money as a sole proprietor,” he says. “However, being a sole proprietor might not be the best fit for your overall business needs and financial goals.”

Business Bank Account

Here’s an example. As a sole proprietor you can’t get a business bank account. All your business income needs to go into a personal bank account so you don’t build any business credit.

“You cannot separate your business and personal finances in case of a lawsuit, because you have no corporate shield.”

There are some cons to setting up an LLC. In fact, some businesses can’t even set one up. Those include financial trust companies, insurance agencies and banks.

Some of the other possible drawbacks include the need to keep business finances separate from personal finances. There is at least one tax drawback too.

Taxes at a Corporate Level

Venkatesh explains:

“Oftentimes the taxes reported as personal income of LLC members will be higher than the corporate tax level. You will also still pay for federal inclusions such as Medicare and Social Security as well.”

Venkatesh offers up another piece of advice.

“It doesn’t matter what kind of freelance work you’re doing, whether it’s designing websites or mowing lawns,” he says. “Having an LLC can help make you look more “official” and professional in the eyes of your clients.”

He ends by describing the wide swath of people who file.

“At DNAmunk.com we see all sizes and verticals of businesses forming an LLC from real estate

agents to financial advisors. Solopreneurs such as personal trainers or even marijuana businesses file too.”

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