



JULIAN GARCIA LAW
Modern Business Counsel

LLC VS C-CORP WALKTHROUGH

HOW TO CHOOSE WISELY

PREPARED FOR THE FOUNDER RESOURCE VAULT

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LLC vs. C-Corp

Choosing the right entity structure is a critical first step for any startup. For California founders, the choice usually comes down to a Limited Liability Company (LLC) or a C-Corporation (C-Corp). Each carries different legal, tax, and governance impacts—and getting it wrong can create tax headaches, investor roadblocks, or costly conversions down the line.

How Do LLCs and C-Corps Compare?

Factor	LLC	C-Corp
Formation	Articles of Organization filed with Secretary of State	Articles of Incorporation filed with Secretary of State
Management	Member-managed or manager-managed	Shareholders elect a Board; Board governs; Officers run daily ops
Taxation	Pass-through by default; can elect corporate treatment	Double taxation (corporate profits + shareholder dividends)
Investor Preference	Rarely preferred by VCs or institutional investors	Strongly preferred for venture funding and exits
Compliance	Minimal: fewer meetings and record-keeping	Formal: annual meetings, board minutes, corporate upkeep
Employee Equity	Profits interests—more complex to structure	Stock options, RSAs, 409A valuations standard
Growth Fit	Good for lifestyle businesses or holding assets	Best for high-growth startups, VC funding, and M&A

Key Considerations

1. Tax Strategy

LLCs avoid corporate-level tax by passing profits through to members, but this can create higher personal tax if distributions are large. C-Corps pay federal corporate tax



(21%) and dividends are taxed again at the shareholder level—but they may qualify for Qualified Small Business Stock (QSBS) treatment under IRC § 1202, which can eliminate capital gains tax if conditions are met.

2. Liability Protection

Both entities protect owners from personal liability if operated properly. However, C-Corps must maintain stricter corporate formalities. Failure to keep books in order can risk “piercing the corporate veil.”

3. Governance

LLCs offer flexible operating agreements and informal management. This works well for small teams but can cause headaches as the business grows or when investors demand clear governance. C-Corps provide structure for more defined roles and accountability—often a must-have for VCs and institutional investors.

4. Raising Capital

Venture capital firms typically require Delaware C-Corps. LLCs complicate equity grants and investor onboarding. Converting from LLC to C-Corp later can trigger taxes and legal costs—so choose wisely at the outset.

Best Practices

Choose a C-Corp if you:

- Plan to raise venture capital
- Intend to issue stock options or other employee equity
- Expect to IPO, sell, or pursue major M&A
- Can maintain required corporate formalities

Choose an LLC if you:

- Are bootstrapping or building a lifestyle business
 - Prefer pass-through taxation
 - Want simpler governance and fewer formalities
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Bottom Line

Your entity decision will affect taxes, investor readiness, and exit options for years to come. Take time to get it right—and revisit it if your plans change.

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