

HOUSE BILL REPORT

SB 5109

As Reported By House Committee On:

Law & Justice

Title: An act relating to the dissolution of limited liability companies caused by the loss of members.

Brief Description: Dissolving limited liability companies.

Sponsors: Senators Roach and Johnson.

Brief History:

Committee Activity:

Law & Justice: 3/21/97 [DP].

HOUSE COMMITTEE ON LAW & JUSTICE

Majority Report: Do pass. Signed by 13 members: Representatives Sheahan, Chairman; McDonald, Vice Chairman; Sterk, Vice Chairman; Costa, Ranking Minority Member; Constantine, Assistant Ranking Minority Member; Carrell; Cody; Kenney; Lambert; Lantz; Radcliff; Sherstad and Skinner.

Staff: Edie Adams (786-7180).

Background: The Limited Liability Company Act provides a form of business organization that combines the tax advantages of a partnership with the limited liability advantages of a corporation. Limited liability companies are noncorporate entities with flexible management structures, allowing members to actively participate in management of the company. Limited liability companies are not taxed at the entity level because of limitations on transferability of interests, limited existence, and the possibility of owner management.

A limited liability company will automatically dissolve upon the happening of a number of events. A limited liability company will automatically dissolve at any time there are fewer than two members, unless a new member is added within 90 days.

Summary of Bill: A limited liability company will not be automatically dissolved when there are fewer than two members.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Testimony For: The provision requiring dissolution of a limited liability company (LLC) if membership falls below two members is intended to protect the ability of the LLC to receive the tax advantages of being taxed as a partnership. Recent Internal Revenue Service rules eliminated the requirement that an entity have at least two members in order to be taxed as a partnership, so this protection is no longer needed.

Testimony Against: None.

Testified: Don Percival, Business Law Section, Washington State Bar Association.