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Breaking Down How to Dissolve an LLC

DISCLAIMER: This outline is a general guide. Be sure to contact an attorney if you have questions or specific issues that need to be addressed.

When starting a business, you don't think about the day you might need to close it, but unfortunately sometimes that day comes. So this resource is about the common steps needed to close a Limited Liability Company (a common form of business) in Pennsylvania.

- 1. Vote and Put it in Writing.** If you are looking to dissolve (the legal word for closing) your Limited Liability Company (LLC), you need to first put the decision in writing. You have to look to your company's operating agreement as to how the members can decide to close the business. It may require a unanimous vote, a 75% vote or other process. So start by looking at your operating agreement. If you don't have an operating agreement you should get the unanimous consent of the owners. Once you know how to vote, you should put it in writing that the owners have decided to close the entity and the date you want the closure to be effective and then sign and date the document. These are typically called resolutions and should be kept with your company documents. After you vote to dissolve you can begin the "winding down" process.
- 2. Provide Notice to Known Creditors.** PA law requires that a dissolving LLC provide notice that it plans to close to anyone that has known claims against the company. The notice must contain:
 - a. information you want from the claimant related to the claim
 - b. that a claim must be made to the company in writing and provide a mailing address to which the claim is to be sent;
 - c. state the deadline for receipt of a claim, which may not be less than 120 days after the date the notice is received by the claimant; and
 - d. state that the claim will be barred if not received by the deadline.
- 3. Winding Up.** In addition to claimants, the company needs to account for other outstanding debts, assets, funds, etc. Again, you should start by looking at the operating agreement to see if

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it lays out the procedures for winding up (all Trellis Template operating agreements do ;)) if your operating agreement does, PA laws detail the process to follow.

- a. First you must pay or make reasonable provision to pay creditors, taxes, costs, etc. including LLC members or managers who are creditors (remember this is only for debts to members and managers if they loaned money to the company. not any other payments).
- b. You must pay or make reasonable provision to pay all claims and obligations of the LLC, so basically you have to pay all your debts, contracts, etc. before you can do anything else with any remaining money.
- c. Then, you should make any required payouts to current and former LLC members (for example, if you have a payment plan to buyout a former member, this must be paid in full).
- d. Finally, if any assets or funds remain after doing the above (if the company owns any assets they should be sold to pay the above), and you should (a) return to members any initial monetary contributions they made to the LLC; and then (b) pay out any remaining funds to the members based on their share of the profits and other compensation.

- 4. Tax Considerations and Clearances.** In addition to accounting for the aspects detailed above, the company will need to ensure all its outstanding taxes are paid through the date of closing the company. Once that is done, the owners of the company should have their accountant file for tax clearances from the PA Department of Revenue and PA Department of Labor, which state that all outstanding taxes have been paid. These clearances are also needed before the company can file to terminate its business registration with the state.
- 5. Filing Certificate of Termination and Closing EIN.** Once everything above has been completed the company should file, or have an attorney file, a Certificate of Termination with the PA Department of State. This is a form that details the name of the company, that the above steps were taken, that no court proceedings are pending, and the tax clearances are attached and submitted with the form. The members of the company should also have their accountant close the company's EIN with the IRS and note on the applicable tax filings for the company and members that the tax return after the closing is the final return.
- 6. Anything Else Specific to Business.** Remember that every business is unique and dissolving a business is something that is important to do correctly. You don't want to have to worry about the business after the business is closed! Reach out to your attorney and accountant to help with this process. This is one where having them in your corner can make things go a lot smoother and make sure you properly follow all the requirements.