



book reviews

edited by Robert J. Wells

New LLC Book Delivers

reviewed by Robert W. Wood

Federal & State Taxation of Limited Liability Companies by David Cartano. Published by Panel Publishers, 1999. Price: \$125. To order, call 1-800-234-1616.

Federal & State Taxation of Limited Liability Companies, by David Cartano (published by Panel Publishers, 1999), is a new book that weighs in with nearly 750 pages on the now ever-present limited liability company. As there are many LLC books in print (virtually all legal publishers have at least one), it was with a critical eye that I reviewed this large volume. I like it, and I know practitioners will find it immensely valuable as an addition to their library, even if they already have one or more limited liability company books. In fact, as the editor of a limited liability company book myself, I have to say (despite my jealousy) that Cartano's book stands out in the field as user-friendly, and at the same time a scholarly approach to the subject.

Cartano begins with a summary of limited liability company laws that is appropriately brief and to the point. He then spends approximately 20 pages going over in just the right level of detail the traditional choice of entity considerations that favor LLCs over other entities. He compares LLCs, S corporations, partnerships, and C corporations, and devotes some attention to the specific mechanics and peccadillos of each.

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With the new classification of entities under the check-the-box procedures, the book does not waste much time on LLC classification for tax purposes. It launches right in to the formation of LLCs, contributions to existing LLCs, taxation of LLC income, etc. Then by about page 100 of the book (still barely into the tome), Cartano starts with the nitty-gritty topics of

allocations, basis, and allocation of debt, and then embarks on the gargantuan topic of distributions.

It is on the topic of distributions that I think the book really shines. It methodically treats property distributions, distributions of securities, disproportionate distributions, section 754 elections and their impact on distributions, distributions to retiring or deceased members, the tax treatment by the individual member on receipt of distributions, and so on.

Reorganizations and Liquidations

There is also a rather large segment of the book on the increasingly important topic of LLC transactions. Chapter 11 of the book is devoted to reorganizations, methodically reviewing the mechanics and tax treatment of conversions of partnerships to LLCs (both general and limited partnerships), conversions of C corporations to LLCs, mergers of S corporations into LLCs, mergers of C corporations into LLCs, the drop-down of assets into subsidiary LLCs, etc. Liquidations and terminations of LLCs are given shorter shrift, being more straightforward and mechanical topics.

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There is also strong coverage of the ongoing transfer of membership interests, including the special treatment of items such as unrealized receivables and inventory, allocation of income and loss between the transferor and transferee of a membership interest, section 754 elections, etc. Another strong point of the book is its chapter on accounting methods and accounting procedures for LLCs. This is more than a bookkeeper's summary, and is quite thorough and self-contained.

Separate chapters are devoted to other miscellaneous LLC topics, including self-employment taxes (an area that despite continuing regulatory developments seems widely misunderstood), foreign limited liability companies, foreign-owned domestic LLCs, and investment LLCs. Even the topic of use of LLCs in estate planning is not left out, with Cartano providing a nice but not overly detailed summary of the typical uses to which LLCs are subject in the estate planning context.

Chapter 22 of the book considers federal and state filing requirements for LLCs. Chapter 23 then takes quite a few pages dealing with state tax laws governing

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LLCs. Unlike many other LLC books on the market, the focus here is not on the mechanical filing requirements within the 50 states, but rather on the state tax classification and the conditions under which it is available. The state-by-state coverage is only a few pages per state (3-10 pages each). However, Cartano is able to get in a great deal of information that will be helpful to practitioners and businesspeople, particularly those that are operating in more than one state.

I should say a word about the physical product, too. Rather than a traditional casebound volume that typically won't stay open, this book comes in a leatherette cover reminiscent of a bible. The book stays open nicely on my desk, and is easy to transport. In this electronic age, I find such features worth noting.

All in all, I find David Cartano's book, *Federal & State Taxation of Limited Liability Companies*, a useful reference book. It is available from Panel Publishers (1-800-234-1616) for \$125.

Robert W. Wood practices law with Robert W. Wood, P.C., in San Francisco. Mr. Wood is the author or co-author of 25 books on taxation, including *Limited Liability Companies: Formation, Operation and Conversion* (Aspen 1993, with 1998 supplement).