



Guide to Dissolving and Terminating a PA. LLC

Introduction

Unfortunately, formally dissolving and terminating a business in Pennsylvania involves more than merely shuttering and ceasing operations. Owners may allow the LLC to expire through inaction rather than the legal dissolution and termination process¹, but there are risks involved. Allowing the company to expire because of inaction may save members the costs associated with dissolution, but taxes, fees, and penalties will continue to accrue. Additionally, members may lose protection against personal liability from known and unknown claims against the business.

This guide focuses on the key steps to take to follow the voluntary legal dissolution and termination process. While this guide mentions tax issues, it does not serve as a replacement for an in-depth analysis of your company executed by a tax professional. Additionally, if the LLC has employees who are not members, then it is recommended to seek the advice of an attorney and/or a tax professional.

Key Issues

1. Member approval (Mandatory)

- To dissolve the company, the members of the LLC must approve or provide their consent. If the LLC has an operating agreement, then the business must follow the procedures and guidelines for dissolution.
- If there is no operating agreement, or the operating agreement does not provide a dissolution process for the LLC, then Pennsylvania state law provides default rules. To formally dissolve an LLC in Pennsylvania under those rules, the members must **unanimously** consent to the dissolution.²

¹ 15 Pa. C.S.A. §8871(a).

² 15 Pa. C.S.A. § 8871(a)(2).

2. Dissolution Certificate (Optional)

- After voting to dissolve the business, then the company may, **but is not required** to, file a Certificate of Dissolution.³ There is no state tax clearance requirement to file a Certificate of Dissolution unlike with a Certificate of Termination.
- While filing the Certificate of Dissolution is an optional, additional cost, it formally documents the dissolution, provides notice to the public and may prevent disputes amongst members.

3. Winding Up (Mandatory)

- There is the misconception that dissolution is the final step in the process. Unfortunately, after dissolution and before termination an LLC must go through a series of activities dedicated to ending the business called “winding up.”
- To properly wind up the business, PA law requires an LLC to 1. discharge its debts, obligations, and liabilities; 2. settle its affairs; and 3. collect and distribute its assets.⁴ It may be advisable to have the accountant for the company or a firm analyze the assets and liabilities of the LLC.

▪ Notifying Claimants (Optional)

- The dissolved LLC may give a notice as outlined by PA law to any potential claimants stating that any claims must be in writing, sent to a designated address and within two years of the public notice or else the claim will be barred.⁵ While optional, this protects the LLC and its members against both known and unknown legal obligations after dissolution.

▪ Distribution of Assets (Mandatory)

- The LLC should **first pay creditors** including any members who are creditors. The LLC should also pay all applicable taxes.
- Next assets should be **distributed to members** as outlined by the operating agreement.
- If there is no **operating agreement**, then the remaining assets should be distributed in cash to each owner. The amount should include all unreturned contributions **and** any distributions in proportion to their ownership share.⁶

³ 15 Pa. C.S.A. § 8872(b)(2)(i).

⁴ 15 Pa. C.S.A. § 8872(b)(1).

⁵ 15 Pa. C.S.A. § 102(a).

⁶ 15 Pa. C.S.A. § 8877.

4. Tax Clearance (**Mandatory**)

- A dissolved LLC seeking to terminate **must** submit all tax forms due **and** pay all taxes and charges.
- The LLC **must** then apply for tax clearance certificates from both the PA Department of Revenue and the PA Department of Labor and Industry.⁷

5. Certificate of Termination (**Mandatory**)

- After the LLC discharges all liabilities, the remaining assets are distributed, and the LLC has received tax clearance then the company may file for a Certificate of Termination with the Pennsylvania Department of State.⁸

6. Change Form with the City of Philadelphia (**Mandatory**)

- Once the entity is terminated, complete a Change Form with the City of Philadelphia to cancel any additional tax liability.

Useful Links

- City of Philadelphia Closing a Business:
<https://business.phila.gov/closing-a-business/>
- List of Fees Associated with Dissolution and Termination:
<https://www.dos.pa.gov/BusinessCharities/Business/Resources/Pages/Fees-and-Payments.aspx>
- Department of Revenue Instructions for Tax Clearance:
<https://www.revenue.pa.gov/FormsandPublications/otherforms/Documents/rev-181-i.pdf>
- Department of Revenue Application for Tax Clearance:
<https://www.revenue.pa.gov/FormsandPublications/otherforms/Documents/rev-181.pdf>
- Link to the Certificate of Termination:
[https://www.dos.pa.gov/BusinessCharities/Business/RegistrationForms/Documents/Updated%202017%20Registration%20Forms/Domestic%20Limited%20Liability%20Company/15-8872\(f\)%20Certificate%20of%20Termination,%20domestic%20LLC.pdf](https://www.dos.pa.gov/BusinessCharities/Business/RegistrationForms/Documents/Updated%202017%20Registration%20Forms/Domestic%20Limited%20Liability%20Company/15-8872(f)%20Certificate%20of%20Termination,%20domestic%20LLC.pdf)

⁷ 19 Pa. Code § 13.13(d).

⁸ 15 Pa. C.S.A. § 8872(f).