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New Law Allows Dissolved LLCs to Cut Off Creditors' Claims

By Kurt E. Anderson, Esq.

Clients frequently ask us whether they should go through the trouble of dissolving an inactive company or whether they should just "let it die." A recently enacted New Jersey law sheds some light on this issue for Limited Liability Companies ("LLCs").

New Jersey corporations that fail to file annual reports for two consecutive years are subject to having their charter revoked. After such revocation, these corporations lose all of their legal powers. By comparison, New Jersey LLCs that fail to file annual reports for two consecutive years may be placed on the Secretary of State's inactive list. Unlike corporations, these LLCs run the risk of losing their company name to another LLC. In either case, neither New Jersey corporations whose charters are revoked nor New Jersey LLCs that are placed on the inactive list are entitled to take advantage of the statutory ability to cut off creditors.

New Jersey corporations that undertake an orderly dissolution are, with certain limitations, entitled to cut off the claims of creditors by following a notice procedure prescribed by statute. Once that notice has been given, creditors are generally (with limited exceptions) barred forever from asserting claims against the dissolved corporation. **Under the new law, LLCs that undertake a formal dissolution can now benefit from the same ability to cut off claims of creditors that was previously available only to corporations.** Accordingly, if you have any concerns about lingering liabilities, you should consider pursuing a formal dissolution in order to protect against creditors, rather than merely letting your inactive company die.

If you have an inactive LLC, you should consider formally dissolving it in order to take advantage of the new law and cut off the rights of creditors. If you have already dissolved an LLC, you can now cut off creditors by complying with the new statutory requirement of publishing notice. If you are interested in pursuing these protections, please contact Kurt E. Anderson at (732) 741-3900.