

FREQUENTLY ASKED QUESTIONS



How long will it take to become incorporated?

We process most orders by the next business day; however, how long the state will take to process the paperwork once they receive it varies widely depending on the state (and the season). Some states take 3 days; others take 4 weeks or longer.

What is a corporation?

A corporation is a separate legal entity that is owned by people or other business entities, known as owners or share holders. Corporations may offer many benefits to owners and share holders, such as limited liability, tax benefits, prestige, and ease of transfer of ownership. There are several types of corporations, including Close, C and S.

How many people are required to form a Corporation?

Only 1 person, over the age of 18, is needed to form a Corporation in any of the 50 states and DC

Will I be personally liable for the corporation's obligations?

In a corporation, the risk to the owner or shareholder is limited to the initial investment. If done properly, forming and maintaining a corporation will protect the personal property of the owner or shareholder. However, it is important that the corporation be created and treated as an entity separate from its owners.

How is a Corporation taxed?

A regular corporation is taxed by the Federal Government on profits, and again when those profits are given to the shareholders as "dividends". This is known as double taxation (the same money is taxed twice). Corporations file a separate tax return called form 1120. Some states also tax a corporation's profits or apply a "franchise tax" to the company for the privilege of doing business in the state.

"S-Corporations" avoid double taxation by adding any profits to the shareholders' personal tax returns. For example, if your company made \$1000 in profit last year, instead of paying Federal tax on that money, you would simply add it to your personal 1040 tax return (assuming you were the only shareholder, otherwise, the \$1000 would be split up among the other shareholders). "S-Corporations" file form 1120S but do not pay Federal tax. Some states also tax an S-Corporation's profits or apply a "franchise tax" to the company for the privilege of doing business in the state, but most follow the Federal treatment and allow the income to be reported on the shareholders' personal tax returns.

What is a Close Corporation?

Also known as a closely held corporation, a close corporation usually limits the number of shareholders or owners to no more than 30. Additionally, the transfer of ownership or shares of stock are restricted, and most of the shareholders are actively involved in the management of the business. Shares of a close corporation are therefore not normally traded on a stock exchange. Not all states recognize close corporations.

What is a C Corporation?

This is the most common corporate structure and is also known as a general corporation. A "C" corporation may have an unlimited number of shareholders. It is normally chosen by those businesses that are planning to have more than 30 shareholders or planning a large, public stock offering. These general corporations usually pay taxes at two levels. First, the corporation is required to pay taxes based on the corporation's profits. Additionally, the owner or shareholder is taxed when the corporation distributes profits, known as dividends, to the individual. This is commonly known as "double taxation."

What is an S Corporation?

An S Corporation is a general corporation (C corporation) that has elected a special tax designation by the IRS. "S-Corporation" means "Small Business Corporation". After a corporation has been formed, it may elect "S-Corporation" status by submitting a form to the IRS (some states require their own version). The designation allows the owners or shareholders to be taxed only at the individual level, rather than at the corporate and individual levels. All income for the business is only taxed at the individual shareholder or owner level. Thus, the income is "passed-through" to the shareholders for purposes of computing tax returns (you take the money that you earned and simply add it to your 1040 personal tax return). This designation is often ideal for small businesses and entrepreneurs since it prevents double taxation while providing limited liability and an enduring structure. Most new small business corporations (90% or more) elect "S-Corporation" Status. "S-Corporations" can also revert back to regular Corporations fairly easily.

What should I consider when naming the corporation?

A Corporation primarily identifies itself by its name. It is very important that you chose a name that is not currently being used by another entity. States often reject an application if the name is already in use or very similar to an already used name. Almost every state requires that the following be included in the name: Corporation, Incorporated, Co., Inc., or Corp.

How is a Corporation organized and managed?

A Corporation is owned by shareholders, who elect directors, who appoint officers (CEO, Secretary, etc.) to run the day-to-day activities of the company. In many cases, especially in small businesses, one person is all of the above. However, the company still maintains the flexibility to add shareholders, directors or officers at any point in the future and the day-to-day operations are always run by the officers.

<p>How do I add a shareholder, director or officer?</p> <p>These are internal company decisions that can be accomplished using company meeting minutes according to your company bylaws. This usually doesn't have to be reported to the state until your "annual report" is due but you may wish to contact your state to clarify.</p>
<p>Is an attorney required to form a corporation?</p> <p>An attorney is not required for you to form a corporation. Please note, however, that forming a business entity can be a very complex process and using the professional services of an attorney or accountant can be advantageous. It is very important that errors are omitted and that certain processes be followed to prevent the loss of the corporate status or limited liability privileges.</p>
<p>What if I decide to close my Corporation, what's involved?</p> <p>A Corporation can be dissolved almost as easily as it is created. If you form your Corporation and then decide to close it for whatever reason in the future, you simply will have to file "Articles of Dissolution" with the state and take the money out of the company and return it to the shareholders. You will then notify the IRS and any other appropriate Government agencies that the Corporation is no longer in business. This can obviously be more complex but that's the basic process.</p>
<p>What is a Registered Agent?</p> <p>A registered agent is used to provide a place for the service of process, notice or other official communications. It is usually required that a corporation has a registered agent and that the registered agent resides in the state.</p>
<p>What is a Corporate Kit and do I need one?</p> <p>All Corporations are required to maintain a "corporate minute book" that holds things like the formation paperwork, licenses, resolutions and meeting minutes. It is one of the first things requested when your company is audited or being sold. A company may make their own but most simply buy one when the company is formed.</p>
<p>What is a Corporate Seal?</p> <p>A Corporate Seal is a small handheld device that allows you to imprint an official-looking emblem with your company name and the year it was founded on paper, important documents, stock certificates etc.</p>
<p>Can I incorporate in one state, while having my business based in another state?</p> <p>Absolutely!</p>
<p>What are the differences between officers, directors and shareholders?</p> <p>A corporation consists of all three: officers, directors and shareholders. Shareholders are the owners of the corporation and elect the directors. Directors guide and are involved in the fundamental decisions of the corporation on behalf of the shareholders. Officers are selected by the directors and run the day-to-day operations of the corporation. These do not need to be separate people. Any person can fill all three positions. In small businesses, one person can be the only shareholder, the only director, and the only officer.</p>
<p>What is an Employer Identification Number (EIN)?</p> <p>The EIN, often referred to as the Federal Tax Identification Number, is a number that is assigned to a business by the IRS. It is often required of businesses for certain functions, such as opening bank accounts, hiring employees, etc.</p>
<p>What is a Limited Liability Company?</p> <p>A Limited Liability Company, or LLC, is not a corporation, although it offers many of the same advantages. An LLC is best described as a combination of a corporation and a partnership. LLCs offer the limited liability of a corporation, while allowing more flexibility in managing the business and organization. An LLC also avoids the issue of double taxation.</p>
<p>How is the formation of an LLC different than a corporation?</p> <p>With a LLC, Articles of Organization are filed with the state rather than Articles of Incorporation. Also, instead of bylaws, LLCs generally utilize an operating or management agreement to set forth the details on how the organization is to be managed.</p>
<p>Do LLCs have directors, officers and shareholders?</p> <p>LLCs are structured differently from corporations and have no directors, officers or shareholders. Instead, LLCs have members and managers. A member is similar to a shareholder in a corporation in that the member owns an interest in the LLC. Managers are the people or entities that manage the operation of the organization. Managers are not always required in an LLC. If the LLC does not use managers, the members act as partners in managing the organization and making decisions.</p>
<p>Is an attorney required to form a LLC?</p> <p>An attorney is not required for you to form a LLC. Please note, however, that forming a business entity can be a very complex process and using the professional services of an attorney or accountant can be advantageous. It is very important that errors are omitted and that certain processes be followed to maintain the benefits of the business structure.</p>