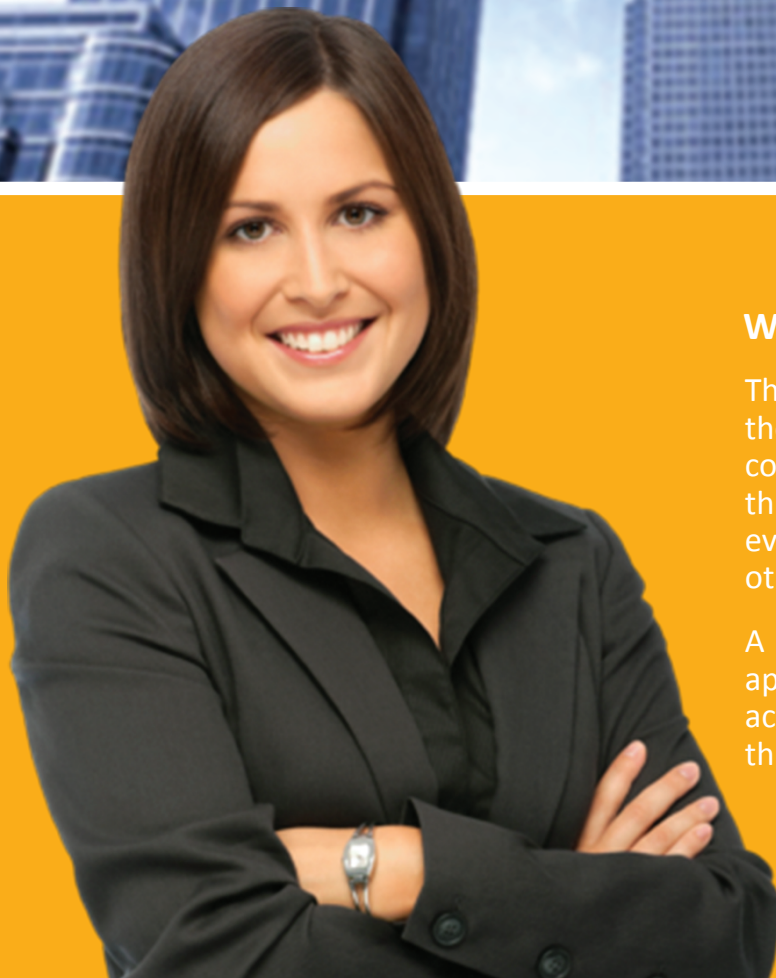


HOW TO SET UP A CORPORATION: FORMING YOUR LLC, S, OR C CORP

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Which Type of Corporation Is Right for You?

There are many different reasons for considering the birth of a sole proprietorship, an 'S' or a 'C' corporation. Many of those reasons will deal with things such as liability for debts, damages, and the ever present need to limit the tax liability you and others will incur.

A brief discussion about some of these will be appropriate and then we will get down into the actual setting up of the type of corporation you are thinking about.

ADVANTAGES & LIMITATIONS	C CORPORATION	SUBCHAPTER S CORPORATION	LIMITED LIABILITY COMPANY
	(What most corporations are be default)	(A special corporation owned by only a few persons)	
Double Taxation	Yes	No (Although it sometimes does on state taxes)	No (Unless the owners chose to set it up differently)
Protects owners from personal liability	Yes	Yes	Yes
Can sell different classes of ownership in the company	Yes	No	Yes
Can sell different classes of ownership in the company	Yes	No	Yes
Has tax exemptions	No	Yes (From self employment tax on profits)	No
Limit on number of owners	No	Yes (No more than 100)	No
Can be owned by other companies or	Yes	No	Yes

SOLE PROPRIETORSHIP

This is the most common form of ownership used by many of the Internet Marketers and most other very [small business](#) people. This is often what is entered into, even for some of the large companies as start ups. They will, usually, quickly change this form into something else; however, it is helpful in the beginning. This form of ownership ties the owner and the business together as one entity. You, as the owner, are responsible for all debts and enjoy all the profits. The tax liability is yours for the entire amount of net profits.

The 'S' CORPORATION

This form of corporation will allow you to pass all of the profits to the

shareholders so that not all earnings of the corporation are a tax liability for you, personally. You are one of the shareholders, possibly the controlling shareholder, and you are taxed on only the amount you receive, as an employee of the corporation. There are restrictions on what companies cannot be 'S' corporations, however, if you have less than 75 shareholders and all of them are US citizens and you are not a bank or other financial institution, this will be a popular choice for you.

The 'C' CORPORATION

This is the standard form of corporation in the United States. The primary advantage, of course, is the shield it provides for liability in the

case of someone slipping on your floor and hurting themselves. One of the disadvantages, based on your point of view, is the double taxation.

When the 'C' corporation makes money, it pays corporate taxes on that money. Whatever is left over, after retained earnings are either saved or spent on capitol investments or other expenses, is distributed to the share or stock holders. As an employee of the corporation, you receive a 'salary' which is then taxed at the normal personal tax rate you currently enjoy (?).

Consulting your attorney or having a conversation with your accountant or tax expert would be appropriate to identify the best form of corporation

to take. It is necessary to point out that many companies start with one form and move to another to safeguard their interests and make for the best liability / tax treatment. A brief discussion of some of the tax benefits will be held at the end of this exercise.

HOW TO SET UP A CORPORATION FOR AND BY YOURSELF

The basic steps to take in setting up a corporation will be:

1. Choosing a corporate name and address,
2. Select a State in which to incorporate,
3. File 'Fictitious name' registration,
4. Determine company Directors,
5. File 'Articles of Incorporation',
6. Create Corporate 'By-Laws'
7. Hold first Shareholder meeting,
8. Process and file all incorporation paperwork with registered agent
9. Obtain the Certificate of Incorporation, and
10. Obtain appropriate licenses and permits.

There will be intermediate steps we will be going through as we proceed with this process.

1. Choosing a Corporate Name and Address

A corporate name must end with the suffix of 'Inc., Incorporated, Limited, Corporation' or the like. Whatever name you have come up with must be verified with the state you will be incorporating in to ensure it is available for use and not being used or

contested by some other entity. It also can not have any word that could imply it is part of a governmental entity, such as 'Federal, government, US' or anything that could confuse people about association with official entities.

A quick check with the Corporation Board in the state of incorporation may cost a few dollars for the search; however, it will save a lot of time and embarrassment. The address must be a physical location where the offices will be located and where any person to person business will be conducted. This address can change later; however, to get the ball rolling, a solid address is necessary.

2. Select a State in Which to Incorporate

Identify which State you will be incorporating in. The best of all answers is the State in which you reside. This will make it a lot easier and a few less questions that you will have to answer.

3. File 'Fictitious Name' Registration

If you are naming your corporation after your own name, this will not be necessary. But what is fun about that? You will be selling products or services as the ABC Company or something, so your State needs to know that that means you. As you proceed along with this process you will be telling them that you are actually going to be ABC Company, Inc..

4. Determine Company Directors

Deciding on the Directors for your corporation is, sometimes, as easy as naming the owners as directors. Most States do not require that the owner or owners must be directors. These are usually selected as a means of ensuring you have enough expertise to handle all of the major decisions that need to be

made. They will be involved in deciding all financial matters. They will also have the say in issuing stock and when that can be done. The policy decisions that must be made will usually come from this august body. Be sure to identify the regulations, in your State of incorporation as to the minimum, usually one, and the maximum number of directors. These will be listed in the business plan and in the Articles of Incorporation you prepare for various reasons.

Choose these individuals carefully. It is recommended that the first one chosen is then enlisted for assistance in choosing the others. It would help, although not required, that some have a background in law and others have demonstrated abilities in advertising, Website construction, e-commerce management and all other areas of need to complement you and can help provide direction as their namesake would indicate.

5. File 'Articles of Incorporation'

The filing of this paperwork can be done in a few minutes by filling out a form in the state capitol, usually at the corporate board or Secretary of State's office. This is sometimes called a 'charter' or a 'certificate of incorporation.' As a single owner, you would fill this out and sign your name as the owner and 'incorporator'. If there is more than one owner, they may all sign or one can be designated to sign for the whole body.



This simple form will require information such as the name of company, its physical address and the name of the Directors. There will also be a designation of a 'registered agent' for the corporation. This will be you or one of the other owners. It might also be one of the Directors. This person will be the point person for contacting the Corporation for any and all legal matters and must be empowered by it to address those matters. This is simply notice that official incorporation papers will be coming, later.

6. Create Corporate 'By-Laws'

The By Laws are the rules that the board of directors will use in the day to day operation of the corporation. It addresses issues such as when the shareholders meetings are held and what voting rights are allowed for classes of board members. In addition to these, it puts into plain language:

1. The issuance of stock and how each class will be treated in relation to all meetings held,
2. How to deal with proxy votes
3. Specifies how Special meetings are to be called and who should attend,
4. How dividends, if any, are to be considered,
5. What constitutes a Quorum for purposes of conducting meetings.
6. Conduct, meetings, quorums and business activities of the Board of Directors will also be put into this document,
7. Compensation to the Board of Directors as well as the election of all officers will be spelled out,
8. Other issues spelled out as needed.

There are several websites that will allow you to download a formatted By-Laws form. All of the normal 'boiler plate' is already present which will stand in any State within the United States. There will be blanks for names, addresses and the various dates that will need to be filled in. You

can also get an attorney to do this for you; however, the various forms are appropriate for most applications.

7. Hold First Shareholder Meeting

The first meeting of the Shareholders will need to be held fairly soon. In this first meeting, several things will have to be decided in order to move forward:



1. The appointment of Directors. This can be as informal as you simply making them aware that they are what you have asked them to be. There can also be an election if there are more members present than Board members needed.
2. Adopt the By-Laws. This will have been put together, already, or it can be discussed and formed within this meeting and then formally accepted by means of vote or by acclamation.
3. Decide on the fiscal year,
4. Appoint or elect officers of the board,
5. Identify the type of stock being issued, whether common or preferred and how many will be offered, and at what price,
6. Authorize the issuance of the stocks previously established and creating the certificate, itself, and a corporate seal for them.

7. If the new corporation will be an 'S' corporation, a unanimous election of the 'S' corporation status must also be made.

In accordance with the laws, in every State, minutes should always be taken for each meeting and the tallies of any legally binding votes will also be made. (For this reason, the secretary is almost always voted on first.)

As you are issuing the stocks, it is important to maintain detailed records

of the person purchasing the stock, how many and what price as well as how the shareholder will be paying for them. In some States, a statement must be made to the State corporation board as to these transactions.

It is important to note that you should not operate in the Corporation's name until these stocks have been issued, even if they are only issued to you. This activity is the means whereby the corporation is, indeed, a corporation and you must have that to enjoy the benefits that a corporation gives you. Large amounts of stock being sold or any public offerings of stocks must be registered with the Securities and Exchange Commission in your State of incorporation.

8. Process and file all incorporation paperwork with registered agent

An Articles of Incorporation must be prepared to announce all that you

have developed to the State corporation board. It may seem like you are simply reporting all of the many details you have hammered out, however, it is important for the registering all of that with the State so they know about you and the new corporation you have started. In this form, you will set out the following:

1. Your new corporation name, address and the 'incorporator's' name and contact information, along with the form of the corporation taken, such as 'S' or 'C'.
2. The type of business in which you are involved as well as a specific description of this business. A statement such as: 'The ABC Company, Inc. will be selling Internet Marketing lessons, products and services to a World Wide market'.
3. State whether the corporation will be or stay private or whether it will go public and approximately when that may occur.
4. Indicate the number and classification of stock certificates that have been sold and the par value of those,
5. A statement of the form of your corporation will need to be made,
6. The management structure will be listed and how taxes are to be paid,
7. The By-Laws that have been established and accepted by your shareholders will be attached as well as a listing of the major stockholders,
8. Also list any of the many regulations that may exist that could restrict your activities in major areas.

Upon the completion and submission of this form, the State will issue the Certificate of Incorporation.

9. Obtain the Certificate of Incorporation

This will be mailed to you and it can be hung up, in a nice frame.

10. Obtain appropriate licenses and permits

Now that you have a new business entity, all of the licenses must either be renewed under that new name or new applications made. This would include a business license in the City, County and or State you will be operating in. This will also be a permit for the building you will be occupying, if appropriate. You will also need an employer's identification number from the IRS and a reseller's number if appropriate.

Notes of Conclusion

There are definite benefits to incorporating your business and some of these will help business men and women make this decision. It is not entered into lightly, as there are legal restrictions and some element of control of the business being lost. This is made up for by some of the better tax treatments and do not forget the, possible, reputation enhancement that comes with 'Inc.' being associated with your new enterprise.

Some Benefits of Incorporation

The ability to raise capital easily, or at least easier. The ability to gain investors in a way as to limit their liability is a matter of offering stock. Many investors will appreciate this way to multiply their money without having to work for it.

The choice of a tax year that is closely associated with the cycle of

your industry is beneficial in many areas. This can be selected, as a 'C' corporation, but not an 'S' corp.

The ability of stock owners to be able to sell their stocks, without permission, makes for a flexible and ever changing ownership base.

The corporation can outlive its owners. The ownership, through stocks and controlling shares, can be passed down to allow family ownership to continue.

The protection of liability is one of the top reasons. This allows the corporation to be liable for things that go wrong or losses to be absorbed by it as a separate entity.

Favorable tax treatment. This is probably the best reasons people find to incorporate. In the 'C' corporation type, you, along with all other owners, are employees of the corporation. You get a check every month just like everyone else. The corporation can be very profitable, with most of the earnings going back into capital expenditures and you will only pay personal income taxes on that check you get.

Without the corporation, you would be on the hook for all of the taxes for all of the profits you make and still have to make those capital expenditures.

With the Sub-chapter 'S' Corporation, all of the profits are passed through the corporation to each of the owners, if that selection has been made by all members of the shareholders. This will allow them to only pay taxes on the income they receive in their paychecks.

Furthermore, in an 'S' corporation, if there are losses, they can be passed back to the shareholders, so they can be reported as losses and reduce their tax liability.

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