

# **ATC/SLN MEDIA**

5280 S. Eastern Ave, Ste G7, Las Vegas, NV 89119

(702) 430-9568

[www.atcslnmedia.com](http://www.atcslnmedia.com)

[mikef@atcslnmedia.com](mailto:mikef@atcslnmedia.com)

## **CORPORATION BASICS**

### **WHY INCORPORATE?**

Incorporating can offer your business many advantages. In addition to liability protection, incorporation can also mean attractive tax advantages, prestige and better financing. Corporations can also be used to own real estate, automobiles, yachts, or aircraft for further asset and liability protection.

### **WHAT IS CORPORATION?**

A corporation is a legal "person" formed separately from those who own and operate the corporation. As an "artificial person" the corporation's debts and taxes are separate from its owners (shareholders) or its officers and directors, thereby offering the greatest personal liability protection of all business structures. And because the corporation continues to exist even after the death of a shareholder, it offers tremendous estate planning advantages.

### **TAX SAVINGS**

How much could you have saved by incorporating? Corporations are entitled by law to many tax deductions that are not available to individuals. Corporations have a lower federal tax rate at all levels of income. Compared with individuals, a corporation only pays 15% tax on the first \$50,000 dollars of **PROFIT** (this is the amount of money left over after all expenses are paid).

### **BUSINESS OWNERS RISK IT ALL BY NOT INCORPORATING**

While most sole proprietors know that incorporation can shield their personal assets in the event of frivolous lawsuits, many are lulled into complacency by the "it won't-happen-to-me" attitude. Unfortunately, this thinking has resulted in tremendous losses for far too many unprepared business owners.

In addition, what many sole proprietors fail to realize is that it does not take a catastrophic lawsuit to wipe out everything they own. There are more common business events that can equally affect sole proprietors, leaving their personal assets fully exposed. As a sole proprietor, consider what would happen:

- If one or more of your largest customers ceased paying their bills or filed for bankruptcy,
- If new technologies render your product or service- obsolete.
- If competition, new legislation, or market conditions cut your business in half or more.
- If you suddenly became ill or incapacitated.

Would you be able to satisfy all your debts, without losing all your personal assets in the process?

Always consult an Attorney for specific legal questions and an CPA for specific tax advice.

## **WHY NEVADA?**

### **INTRODUCTION**

Nevada statutes have developed a corporate structure that is unique throughout the United States. Nevada established a corporate structure that allows investors and owners of Nevada corporations to remain completely private. Since these changes in Nevada's statutes came into effect in 1991 the number of new corporations in Nevada has exploded: Since it is corporate privacy that is at the heart of the matter, this issue is examined most fully in the section below.

### **PRIVACY**

Privacy might just be the principal reason that there were over 40,000 incorporations in Nevada in 2002 alone. It looks like more and more business smart people are discovering the tremendous advantages that complete privacy offers. Unlike other states, Nevada doesn't even want to know who owns the stock of a corporation. The information is simply not kept on file by the state.

To ensure privacy, Nevada is the only state that allows its corporations to use bearer stock certificates. Which means that whoever physically holds the stock, owns the stock. It is virtually impossible to prove the "true ownership" of a Nevada corporation.

### **NO STATE TAX**

Pro-business Nevada, unlike most other states, does not tax the income of its corporations or its state's citizens. A Nevada corporation is also not subject to any other hidden taxes such as franchise taxes, capital stock taxes, or inventory taxes. Sales tax applies only to products sold within the state.

### **NO RECIPROCITY WITH THE IRS**

Because Nevada has no state tax, and because budget conscious Nevada does not keep much information on their own residents or their corporations, it has steadfastly refused IRS requests for reciprocity. Other states freely exchange all the information they have on every resident and corporation, **BUT NOT NEVADA!!**

### **ASSET PROTECTION**

In this increasingly litigious society, it is becoming increasingly important to limit your exposure and protect any assets that you may have. Just cause is not a pre-requisite to lawsuits anymore. On the other hand, the PRIVACY afforded by a Nevada Corporation can make it virtually impossible for creditors and litigants to get at your hard-earned assets.

### **ONLY ONE PERSON REQUIRED**

Unlike many other states, in Nevada only one person is required to form the corporation. A single individual can be named as the entire Board of Directors, and all of the officers.

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## **OUT-OF-STATE INCORPORATORS**

Nevada does not require that any of the Directors or Officers be resident in the state. In fact, an out-of-state citizen can set up a Nevada corporation without ever being physically present in the state! In most other states, a Nevada based corporation can have an office and even effect sales through contractors without having to register to do business in the other state, but make sure you check on your state's requirement as to what "doing business" constitutes.

## **LIABILITY PROTECTION OVER OTHER STATES**

Most every state in the United States has adopted corporate statutes that limit the liability of any of its officers, directors, and stockholders. Nevada has gone one step further, very specifically spelling out in its statutes that all corporate officers, directors, and stockholders are free from personal liability from corporate activities except in cases where fraud has been perpetrated. This means that the corporation can be sued, file bankruptcy and be involved in other unfortunate activities and not jeopardize the personal assets of its agents or representatives. If a corporation does get sued, the initiator of the suit must bring action against the corporation in its state of domicile. This is where it becomes important to have set up your corporation in a state such as Nevada that has taken a stand to protect the personal liability of a corporation's participants.

## **ESTATE PLANNING**

Many creative estate planning strategies have been developed for use by Nevada corporations. Nevada corporations are generally more flexible and creative when passing estates to heirs than trusts are, while providing similar benefits such as avoiding probate, and potentially eliminating all estate taxes. There is an old saying that is as true today as it was 100 years ago, "a corporation never dies, it just gets a new president".

## **ADDITIONAL ADVANTAGES**

Nevada has minimal reporting and disclosure requirements. Stockholders, directors, and officers need not live or hold meetings in Nevada, or even by U.S. citizens. Directors need not be stockholders. A Nevada corporation may purchase, hold, sell, or transfer shares of its own stock. Nevada corporations can even buy and hold their own stock as "personal property" effectively by-passing SEC rules governing the sale of stock by a corporation. Further, Nevada corporations may issue stock for capital, services, personal property or real estate, including leases and options. The directors may determine the value of any of these transactions, and their decision is final.



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