

## Why & How to Incorporate Your Small Business

Whether you sell handmade items at flea markets, or sell Gift Baskets on the Internet, you need to shield yourself against liability and protect your assets. You can do this by Incorporating your business!

Most small to mid-size business owners prefer to incorporate as an LLC, which means "Limited Liability Company". Click on the topics below to learn more.

- » [Are Your Assets at Risk?](#)
- » [Business Startup Checklist](#)
- » [Benefits of Forming a LLC](#)
- » [Professional Entities](#)
- » [LLCs Explained](#)
- » [S Corporations Explained](#)
- » [C Corporations Explained](#)
- » [NonProfit Corporations](#)

[Click here to visit BizFilings.com](#) for additional information, read FAQs, and to Incorporate Your Business Today.

## Are Your Assets at Risk?

Every business owner needs a comprehensive asset protection plan because owning and operating a business can be risky. For example, businesses may default on open accounts with vendors, or default on mortgages or other secured loans from banks. Further, many of these debts may be personally guaranteed by the owners. Potentially, owners or employees may commit negligent acts while carrying out company activities.

**Moreover, consumers may bring claims for** injuries suffered due to the sale of defective products, or claims based on unfair and deceptive business practices, which (though unwarranted) could produce a financial settlement. Also, claims by employees, such as wrongful discharge and sexual harassment, are on the rise. These risks could bring about financial disaster for business owners, resulting in the loss of both business and personal assets.

A comprehensive asset protection plan, which can be designed based on the principles explained in this section, can prevent or significantly reduce these risks, and insulate business and personal assets from the claims of creditors. Unfortunately, many small business owners are unaware of these principles, or simply misunderstand them.

**In order to limit exposure to events that could cost** a company its assets or close it down completely, many small business owners form a corporation or limited liability company (LLC), hoping to protect the owners' personal assets outside of their businesses. However, many business owners are unaware that significant exceptions exist to this limited liability. And when an exception applies, personal liability is imposed on the owners, despite the fact that a corporation or LLC exists. Accordingly, owners' homes, cars, personal bank accounts, investment portfolios, etc., are all subject to the claims of business creditors. With knowledge and planning, however, these exceptions can be avoided, and thus limited liability preserved.

Beyond avoiding these exceptions, much more should be done to protect personal and business wealth. For example, most business owners mistakenly believe that assets within a corporation or LLC are automatically shielded from liability. However, most business owners face the greatest risk of liability from business transactions, and not personal dealings. Therefore, the business entity's assets, which can be significant in a successful operation, are exposed to the greatest risk of loss. Yet, a corporation or LLC can be structured, funded and operated so that the business's assets are not exposed to liability.

**Further, personal and business assets can be placed** in protected categories and thus out of the reach of creditors, so that, even in a worst-case scenario (e.g., a judgment in a major lawsuit or a bankruptcy filing), there will be no loss of assets in any event. This can be accomplished through state and federal exemption planning, and through the use of asset protection trusts.

Exemption planning is a very important part of an asset protection plan. In fact, in some

cases, it may shield the majority of your assets. However, once serious financial problems arise, it's often too late to transfer unprotected assets into exempt categories. The planning must be done beforehand, or you run the risk of having your transfers treated as ineffective or even fraudulent by the courts.

Your exempt assets can usually include a residence; pension plans; wages; annuities; and various categories of personal property, including household goods, tools of the trade, and motor vehicles, among other things. Many categories of exempt assets have dollar caps. Moreover, the exemptions and the caps vary widely from state to state.

Provided by Business Filings Incorporated ([BizFilings.com](http://BizFilings.com))

- » [Are Your Assets at Risk?](#)
- » [Business Startup Checklist](#)
- » [Benefits of Forming a LLC](#)
- » [Professional Entities](#)
- » [LLCs Explained](#)
- » [S Corporations Explained](#)
- » [C Corporations Explained](#)
- » [NonProfit Corporations](#)

[Click here to visit BizFilings.com](#) for additional information, read FAQs, and to Incorporate Your Business Today.

This ebook is not intended for sale or unauthorized distribution. For Personal use only.  
© copyright [BasketBizHelp.com](http://BasketBizHelp.com) a division of BasketMagic

# Limited Liability Companies

The limited liability company (LLC) is a distinct business entity that combines the corporate advantage of limited liability protection with "pass-through" taxation, the method of taxation afforded to both general partnerships and S corporations.

Like corporations, LLCs come into existence after making a filing with the appropriate state body, typically the Secretary of State, and paying the necessary state filing fees. The LLC formation documents are typically called articles of organization or a certificate of organization.

In terms of taxation, the LLC's income is not taxed at the entity level as is that of a C corporation. While the LLC does complete a tax return, the income or loss of the LLC as shown on this return is passed through the LLC and is reported on the owners' individual tax returns. The LLC's owners then pay taxes on the LLC's profits at the individual tax level. LLCs can elect with the Internal Revenue Service (IRS) to be taxed like a C corporation, but this is not overly common.

## *Other advantages of LLCs include:*

- Members are typically not held personally responsible for the debts and liabilities of the company.
- Forming an LLC can help establish credibility for a new business with potential customers, employees, vendors, and partners.
- There are generally no restrictions on the number of members allowed.
- LLCs have flexibility in structuring the management of the company.
- LLCs do not require as much annual paperwork or have as many formalities as corporations and S corporations.

## *Some disadvantages of LLCs include:*

- LLCs are more expensive to form than sole proprietorships and general partnerships.
- LLCs face more ongoing requirements, such as state annual report filings, than sole proprietorships and general partnerships.
- Ownership is typically harder to transfer than with a corporation.
- Because the LLC is a newer business structure, there is not as much case law to rely on for determining precedent.

Regarding the ownership of an LLC, the owners are called members. Members are analogous to shareholders in a corporation or partners in a partnership, depending on how the LLC is structured. Members will more closely resemble shareholders if the LLC utilizes a manager or managers because the members will not directly participate in the management of the LLC. If the LLC does not utilize managers, then the members will more closely resemble partners because they will have a direct say in the decision-making of the

company. An LLC must specify at the time of formation whether it will be managed by members or managers.

A member's ownership of an LLC is represented by "membership interest," just like a partner's interest in a partnership or a shareholder's shares of stock in a corporation.

When evaluating whether the LLC is the right business structure for your particular business, it is advisable to first determine the goals of your business, and then to assess the advantages and potential disadvantages of the different business structures in relation to those goals. You may also wish to seek the advice of an attorney or accountant.

Provided by Business Filings Incorporated ([BizFilings.com](http://BizFilings.com))

- » [Are Your Assets at Risk?](#)
- » [Business Startup Checklist](#)
- » [Benefits of Forming a LLC](#)
- » [Professional Entities](#)
- » [LLCs Explained](#)
- » [S Corporations Explained](#)
- » [C Corporations Explained](#)
- » [NonProfit Corporations](#)

[Click here to visit BizFilings.com](#) for additional information, read FAQs, and to Incorporate Your Business Today.

This ebook is not intended for sale or unauthorized distribution. For Personal use only.  
© copyright [BasketBizHelp.com](http://BasketBizHelp.com) a division of BasketMagic

# Business Startup Checklist

You've decided to start a business. This is both an exciting and demanding time. The checklist below is meant to help new business owners by providing a list of the most common start-up steps. Depending on your particular industry, additional steps may be required for your particular business.

- **Prepare a business plan**, if you have not done so already. Business plans define the Who, What, When, Where, and How of your business and the products and/or services you plan to provide. Business plans clearly outline the goals of the business, explain the operating procedures, detail the competition, include a marketing plan, and explain the company's current and desired funding. If your company plans to seek funding either in the form of a traditional loan or from venture capitalists, a thorough business plan will be required for the application process.
- **Incorporate your business** or form your LLC with the state. Forming a business as a corporation or LLC helps to protect the owners' personal assets from the debts and liabilities of the business. There are also other advantages of forming a corporation or LLC, including certain tax advantages and establishing credibility for your new business with potential customers, vendor, employees, and partners. When forming a business, use a professional such as a lawyer or online service like [BizFilings.com](https://www.bizfilings.com) who have experience creating legal entities.
- **Select an accountant and attorney**. Many small business owners turn to accountants and attorneys for advice when starting out, as well as through the life of the business. Many people seek referrals from friends, family members, or other small business owners in order to find an attorney and/or accountant. You may want to search for professionals who have worked with other small business owners, possibly in your same industry, and are familiar with the unique business situations small business owners often face.
- **Obtain the federal tax identification number** (also called employer identification number or EIN) for your business from the Internal Revenue Service (IRS). The EIN is like a social security number for a business, and is required for corporations and LLCs that will have employees. The IRS uses this number to identify your business for all taxation matters. [BizFilings.com](https://www.bizfilings.com) can assist you with the preparation of IRS Form SS-4 for you to obtain an EIN or can obtain the EIN on behalf of your business.
- **Obtain the state tax identification** number for your business (if applicable). Some states require businesses to also have a state tax identification number. To learn if your state has this requirement, contact your state's taxation department.
- **Open a business bank account**. It is very important for corporations and LLCs to keep the finances of the business separate from those of the owners. To open a business bank account, most banks require information on the company, such as its

formation date and type of business, and names and addresses of its owners. Some banks require corporations to provide a resolution from the board of directors or LLC members/managers authorizing the opening of the business bank account. In New York, a corporate or LLC seal is often required. It is advisable to contact the bank about their business bank account requirements prior to trying to open an account. That way, you will come prepared with all the necessary items.

- **Apply for business loans (if applicable).** Not all small business owners have enough of their own capital to start a business, and many seek outside funding from sources such as banks or through Small Business Administration (SBA) loan programs.
- **Obtain the necessary business licenses** and/or permits. Most businesses need licenses in order to begin operations. Licenses may be required for your city, your municipality, your county and/or your state. It is best to contact both your Secretary of State to check on business license requirements for your particular type of business and industry, and also to contact your local government agency in charge of licensing to learn their requirements and how to obtain the necessary licenses.
- **Obtain business insurance.** Just as you have personal insurance you should obtain insurance for your business. Some industries may have specific insurance requirements. Discuss your particular industry and business needs with your insurance agent, to ensure you obtain the appropriate type and amount of insurance.
- **Investigate other insurance and** government requirements. Businesses face a number government and insurance requirements, particularly if the business has employees. You should investigate your business's obligations for the following:
  - Unemployment insurance
  - Workers' compensation
  - OSHA requirements
  - Federal tax
  - State and local tax
  - Self-employment tax
  - Payroll tax requirements (such as FICA, federal unemployment tax, and state unemployment tax)
  - Sales and use tax

- **Check zoning requirements.** This is particularly important if you are starting a home-based business. You'll want to ensure you are meeting your city's zoning requirements for your area.
- **Lease office space. If you are not going to be operating a home-based business,** you'll probably need to find office space for your new company. Along with leasing an office, don't forget to purchase or lease the furniture and office equipment you will need to get your business up and running.
- **Set up your business accounting.** You may decide that your accountant will handle the accounting for your business, or you may want to handle the accounting yourself with a small business accounting solution such as QuickBooks. Either way, you'll want to ensure that you are prepared to properly account for all business disbursements, payments received, invoices, accounts receivable/accounts payable, etc.
- **Establish a line of credit** for your business. Establishing a line of credit will help lessen the number of times your new business will be required to prepay for the products and services it purchases. It also helps establish a favorable credit history, which is helpful as your business begins establishing vendor and supplier relationships. As a subset of this, obtaining a D&B D.U.N.S. number for your business is also advisable. D&B (formerly Dun & Bradstreet) is the resource most often used to check the creditworthiness of a business.
- **Create business materials.** Having materials such as a logo for your business, business cards, and stationery will help your business develop an identity and potential customers find you.
- **Develop a marketing plan** for your products/services. A primary reason you are starting your own business may be the hope of making money. In order to make sales, people need to be aware of what you're selling and how to find you.

For additional information on starting a business, we recommend you visit the SBA's website ([http://www.sba.gov/starting\\_business/index.html](http://www.sba.gov/starting_business/index.html)).

For questions regarding requirement for your specific industry or type of business, it is best to seek the advice of an attorney or accountant.

Provided by Business Filings Incorporated ([BizFilings.com](http://BizFilings.com))

- » [Are Your Assets at Risk?](#)
- » [Business Startup Checklist](#)
- » [Benefits of Forming a LLC](#)
- » [Professional Entities](#)

- » [LLCs Explained](#)
- » [S Corporations Explained](#)
- » [C Corporations Explained](#)
- » [NonProfit Corporations](#)



[Click here to visit BizFilings.com](#) for additional information, read FAQs,  
and to Incorporate Your Business Today.

This ebook is not intended for sale or unauthorized distribution. For Personal use only.  
© copyright [BasketBizHelp.com](#) a division of BasketMagic

# S Corporations

A subchapter S corporation is a standard corporation that has elected a special tax status with the Internal Revenue Service (IRS). S corporations carry the same benefits as C corporations, such protecting the shareholders' (or owners') personal assets from the debts and liabilities of the business, unlimited life and tax deductibility of certain business expenses. The primary differences between S corporations and C corporations are the way they are taxed and also the ownership restrictions S corporations face.

When deciding which entity structure is most appropriate for their business, small business owners often view the potential double taxation of profits associated with C corporations as the primary disadvantage to forming a standard corporation. With C corporations, the profits are taxed first at the corporate level, and then taxed again at the individual level if they are distributed to shareholders in the form of dividends. Shareholders must report dividends as personal income and pay taxes on that income.

Double taxation can be eliminated by completing the S corporation election with the IRS. S corporations are taxed as pass-through taxation entities, similar to general partnerships and most limited liability companies. While the profits of an S corporation are reported at the corporate level, taxes are not paid at the corporate level. Instead, the profits are passed-through to the individual tax returns of the shareholders and are taxed at the individual rate. If the S corporation reports a loss, the amount of the loss is also passed-through and reported on tax returns of the shareholders.

**Keep in mind, not all C corporations can make the S corporation election with the IRS, as the IRS has placed restrictions on S corporations. Current restrictions include:**

- Shareholders must number fewer than 75, and all shareholders must consent in writing to the S corporation election.
- Shareholders must be individuals, estates, or certain qualified trusts.
- Shareholders cannot be non-resident aliens.
- S corporations can have only one class of stock (disregarding voting rights).

**To be classified as an S corporation**, a corporation must make a timely filing of Form 2553 with the IRS. IRS instructions indicate that the form must be completed and filed:

**A.** At any time before the 16th day of the 3rd month of the tax year if filed during the tax year the election is to take effect, or

**B.** At any time during the preceding tax year. An election made no later than 2 months and 15 days after the beginning of a tax year that is less than 2 ½ months long is treated as timely made for that tax year.

An election made after the 15th day of the 3rd month but before the end of the tax year is effective for the next year. For example, if a calendar tax year corporation makes the

election in April 2005, it is effective for the corporation's 2005 calendar tax year.

For questions on whether the S corporation structure is best for your particular business, it is best to seek the advice of an attorney or accountant.

Provided by Business Filings Incorporated ([BizFilings.com](http://BizFilings.com))

- » [Are Your Assets at Risk?](#)
- » [Business Startup Checklist](#)
- » [Benefits of Forming a LLC](#)
- » [Professional Entities](#)
- » [LLCs Explained](#)
- » [S Corporations Explained](#)
- » [C Corporations Explained](#)
- » [NonProfit Corporations](#)

[Click here to visit BizFilings.com](#) for additional information, read FAQs, and to Incorporate Your Business Today.

This ebook is not intended for sale or unauthorized distribution. For Personal use only.  
© copyright [BasketBizHelp.com](http://BasketBizHelp.com) a division of BasketMagic

# Benefits of Forming a LLC

Forming a limited liability company (LLC) is an important step for small business owners, and taking this step has many possible benefits for the business and its owners (who are also called members or managers). These benefits are, in many cases, unavailable to sole proprietorships and general partnerships.

## ***Advantages of LLC formation include:***

**Limited Liability** - LLCs provide limited liability protection to its owners. Typically, the owners are not personally responsible for the debts and liabilities of the business; thus, creditors cannot pursue owners' personal assets (such as a house or car) to pay business debts. Conversely, in a sole proprietorship or general partnership, owners and the business are legally considered the same and personal assets can be used to pay business debts.

**Pass-through Taxation** - LLCs typically do not pay taxes at the business level. Any business income or loss is "passed-through" to the owners and reported on the owners' personal income tax returns. Any tax due is then paid at the individual level.

**Establishing Credibility** - Forming an LLC may help a new business establish credibility with potential customers, employees, vendors, and partners.

**Fewer Ongoing Requirements** - LLCs face fewer state-imposed annual requirements and ongoing formalities than do corporations.

**Organizational Structure** - LLCs are free to establish any organizational structure agreed upon by the owners.

**Few Ownership Restrictions** - There are few restrictions on who can be an owner of an LLC or how many owners an LLC may have, unlike S corporations.

Provided by Business Filings Incorporated ([BizFilings.com](http://BizFilings.com))

- » [Are Your Assets at Risk?](#)
- » [Business Startup Checklist](#)
- » [Benefits of Forming a LLC](#)
- » [Professional Entities](#)

- » [LLCs Explained](#)
- » [S Corporations Explained](#)
- » [C Corporations Explained](#)
- » [NonProfit Corporations](#)

[Click here to visit BizFilings.com](#) for additional information, read FAQs,  
and to Incorporate Your Business Today.

This ebook is not intended for sale or unauthorized distribution. For Personal use only.  
© copyright [BasketBizHelp.com](#) a division of BasketMagic

## C Corporations

The standard corporation, also called a C corporation, is a very common business structure. Corporations are separate legal entities that are owned by shareholders. Conversely, sole proprietorships and partnerships are not separate legal entities. They are considered to be the same as the owner(s). In order to form a corporation, the appropriate formation documents, usually called the articles of incorporation or a certificate of incorporation, must be filed with the state and the state filing fees be paid.

**The primary advantage of incorporating** a business is the limited liability the corporate entity affords its shareholders. Typically, shareholders are not personally liable for the debts and obligations of the corporation; thus, creditors will not come knocking at the door of a shareholder to pay debts owed by the corporation. In a partnership or sole proprietorship the owner's personal assets may be used to pay debts of the business.

***Other advantages of incorporating a business include:***

- Incorporating may establish credibility for a new business with potential customers, employees, vendors, and partners.
- The ownership of a corporation is easily transferable through the sale of stock.
- Corporations have unlimited life extending beyond the illness or death of owners.
- Certain expenses, such as insurance, travel, and qualified retirement plans are typically tax-deductible.
- Additional capital can be easily raised through the sale of stock (shares) in a corporation.

**The main disadvantage to forming** a C corporation is often considered to be the potential for double taxation. C corporations are considered separately taxable entities by the Internal Revenue Service (IRS), and taxes must be paid on the profits of the corporation. If a corporation then distributes its profits to shareholders in the form of dividends, the dividend income is also taxed as regular income to the shareholders. In this case, the corporation's profits are taxed twice, first as income to the corporation and second as dividend income to the shareholder, creating the "double-tax."

However, not all income a shareholder receives from a C corporation is subject to the double tax. For example, if the shareholder is also an employee of the corporation, that shareholder will most likely receive a salary payment from the corporation. As long as the salary paid to the shareholder is considered by the IRS to be reasonable (or similar to the market salary rates for that position), it is treated as a business expense and is deductible to the corporation. This helps reduce the amount of taxable income the corporation has.

**In order to eliminate the possibility** of double taxation, C corporations can elect to be taxed as an S corporation with the IRS. With S corporations, the profits and losses of the corporation are reported on the individual tax returns of the shareholders, and any necessary tax is paid at the individual level. This taxation method is called "pass-through" taxation, since the profit or loss of the corporation is passed through to the shareholders.

***Other aspects of C corporations that can be considered disadvantages include:***

- Corporations are more expensive to form than sole proprietorships and partnerships.
- There are more corporate formalities, such as annual paperwork, and more state and federal rules and regulations, than with sole proprietorships and general partnerships.

When evaluating whether the corporate structure is right for your particular business, it is advisable to first determine the goals of your business, and then to assess the advantages and potential disadvantages of the different business structures in relation to those goals. You may also wish to seek the advice of an attorney or accountant.

Provided by Business Filings Incorporated ([BizFilings.com](http://BizFilings.com))

- » [Are Your Assets at Risk?](#)
- » [Business Startup Checklist](#)
- » [Benefits of Forming a LLC](#)
- » [Professional Entities](#)
- » [LLCs Explained](#)
- » [S Corporations Explained](#)
- » [C Corporations Explained](#)
- » [NonProfit Corporations](#)

[Click here to visit BizFilings.com](#) for additional information, read FAQs, and to Incorporate Your Business Today.

This ebook is not intended for sale or unauthorized distribution. For Personal use only.  
© copyright [BasketBizHelp.com](http://BasketBizHelp.com) a division of BasketMagic



# Professional Entities: Corporation and Professional Limited Liability Company Basics

Professional corporations (PCs) and professional limited liability companies (PLLCs) are corporations and limited liability companies organized for the purpose of providing professional services. What services constitute professional services are defined by state law. Typically professions that require a license, such as doctors, lawyers, accountants, architects, or engineers are required to form a PC or PLLC.

**The formation of a professional entity** is very similar to the formation of a standard corporation or LLC. The appropriate formation document, the articles of incorporation for a corporation or the articles of organization for an LLC, must be filed with the state and the necessary state filing fees be paid. However, with professional entities, an additional approval may be required by the proper state licensing body before the document can be filed with the Secretary of State. Further, the formation documents typically must contain the signature of a licensed professional in the same field of service as the incorporator. That person's license number may also be required. For example, a PC being formed to provide chiropractic services may require the signature of a licensed chiropractor as incorporator. Because of these additional requirements, the filing time for professional entities may be longer than the filing time for standard business entities.

The corporate or LLC name ending is also different with professional entities. Standard business corporations can typically end their name with Corporation, Incorporated, Company, Limited, or an abbreviation thereof. With a professional entity, the ending typically must be Professional Corporation or the abbreviation P.C. Some states have different names for professional corporations, such as service corporation or professional association. Professional limited liability companies typically use the name ending Professional Limited Liability Company or PLLC.

**Some states also require that** the type of profession be listed in the name. For example, a PC organized to provide medical services might need to include a word such as medical, health or something similar in order to designate the type of service being provided.

Generally, there are few significant differences in the operation of a professional corporation or limited liability company from a standard corporation or LLC. These entities are taxed like their general business counterparts, and PCs typically are allowed to make the S corporation election with the Internal Revenue Service (IRS). PCs and PLLCs also face the same ongoing formalities as those of the standard business entities.

**One exception is that some states restrict** who may be an owner or a director (manager for LLC) of a PC or PLLC. Typically, only licensed practitioners of the specific service that the corporation provides may own stock in the corporation and serve on the board of



directors or be a member of the PLLC. For example, only licensed doctors provide medical services may own the stock of a PC that provides medical services.

Another item to keep in mind is that not all states allow the formation of a PLLC. This is becoming more widely recognized, but has not yet been fully adopted.

Provided by Business Filings Incorporated ([BizFilings.com](http://BizFilings.com))

- » [Are Your Assets at Risk?](#)
- » [Business Startup Checklist](#)
- » [Benefits of Forming a LLC](#)
- » [Professional Entities](#)
- » [LLCs Explained](#)
- » [S Corporations Explained](#)
- » [C Corporations Explained](#)
- » [NonProfit Corporations](#)

[Click here to visit BizFilings.com](#) for additional information, read FAQs, and to Incorporate Your Business Today.

This ebook is not intended for sale or unauthorized distribution. For Personal use only.  
© copyright [BasketBizHelp.com](http://BasketBizHelp.com) a division of BasketMagic

# NonProfit Corporations

A nonprofit corporation is a corporation that is formed for purposes other than generating profit. Nonprofit corporations are formed pursuant to different state law than standard for-profit corporations. There are many types of nonprofits, such as churches or church associations, charities, schools, medical providers, legal aid societies, volunteer services organizations, professional associations, research institutes, museums, and in some cases sports associations.

**The most common type of nonprofit is** the 501(c)(3) nonprofit, which are organized under Section 501(c)(3) of the Internal Revenue Code. These nonprofits are created for some religious, charitable, educational, literary, or scientific purpose allowed by this section of the code. As mentioned above, nonprofits can be organized for other purposes. For example, Chambers of Commerce are 501(c)(6) nonprofits and cooperative hospital service organizations are 501(e) nonprofits.

The first step in creating a nonprofit corporation is filing the nonprofit articles of incorporation with the appropriate state agency, often the Secretary of State, and paying the required state filing fees. The articles of incorporation for a nonprofit must typically include detailed information regarding the business purpose so the state can ensure the proposed activities of the corporation will comply with the state's nonprofit statutes.

**Nonprofits do not automatically become** tax exempt upon formation with the state. In order to become a tax-exempt nonprofit corporation, the corporation must file for both federal and state tax-exempt status. To apply for federal tax-exempt status, Form 1023 must be completed and submitted to the IRS. This is a very detailed process that can take months to complete, and often four to six months to obtain approval from the IRS. Additionally, the IRS charges a fee when Form 1023 is filed. The fee is based on the nonprofit corporation's gross receipts in the first five years of existence. To apply for tax-exempt status at the state level, contact your state's department of taxation for information on its process.

As with standard corporations, nonprofits must also comply with ongoing requirements imposed by the states, and ongoing formalities required of the corporate structure. Many states require nonprofits to complete annual reports or semi-annual reports and to pay a report filing fee. These reports allow the states to keep updated information on the nonprofit. Nonprofits are also required to hold and properly document annual meetings of directors and members. **Similar to for-profit corporations, nonprofits offer limited liability** to the directors and members, meaning that the personal assets of these parties typically cannot be used to satisfy the debts and liabilities of the nonprofit. However, like for-profit corporations, nonprofits must follow the necessary formalities to demonstrate that they are acting like a corporation and should continue to receive the benefits the nonprofit corporation presents.

For questions on whether the nonprofit corporation structure is best for your organization, it is best to seek the advice of an attorney or accountant.

Provided by Business Filings Incorporated ([BizFilings.com](http://BizFilings.com))

- » [Are Your Assets at Risk?](#)
- » [Business Startup Checklist](#)
- » [Benefits of Forming a LLC](#)
- » [Professional Entities](#)
- » [LLCs Explained](#)
- » [S Corporations Explained](#)
- » [C Corporations Explained](#)
- » [NonProfit Corporations](#)

[Click here to visit BizFilings.com](#) for additional information, read FAQs, and to Incorporate Your Business Today.

This ebook is not intended for sale or unauthorized distribution. For Personal use only.  
© copyright [BasketBizHelp.com](http://BasketBizHelp.com) a division of BasketMagic