

Sy Accountancy Corporation

Member, American Institute of CPAs

704 Mira Monte Place, Pasadena, California 91101

Tel (626) 744-0200 • Fax (626) 744-0300 • vsy@victorsycpa.com • www.victorsycpa.com

SHOULD YOU FORM A NEVADA CORPORATION?

By Victor Sy, CPA, MBA

The early 90s saw a proliferation of Nevada corporations. Promoters claimed that Nevada corporations protect the shareholders from liabilities and save California taxes. True – Nevada corporations offer liability protection. True – Nevada corporations save California taxes - **but only if you do not conduct business in California.**

The California Franchise Tax Board was alerted of this gimmick and the number of "Nevada" corporations actually doing business in California dwindled. Before you get carried away by seminars and ads into forming your own Nevada Corporation to avoid California taxation, read on:

1. A corporation is considered domiciled in California if its principal office or place of business is located in California.
2. It is also considered domiciled in California if its business is managed or controlled from within California.
3. Any corporation domiciled in California has to register in California.
4. The cost of registering a foreign (Nevada) corporation in California is exactly the same as that of forming a domestic corporation
5. The only difference is that in addition to the cost of registering in California, you also have to spend for incorporating in Nevada.
6. You also have to pay ongoing fees to pay an agent, maintain an address, forward telephone calls, forward mail, as well as all the hustles of making authorities believe that you do business in Nevada.
7. Then come the penalties assessed on unregistered corporations doing business in California: \$2,000 per year.
8. Then come legal issues related to the very reason for a Nevada corporation: lawsuit protection. An unregistered corporation does not have a legal standing and cannot defend itself in this state. A California corporation can.
9. It also cannot file a lawsuit to protect its interests in a California court of law. A California corporation can.
10. It may also have its contracts voided.

So why form a Nevada corporation to do business in California? Whatever it is, California Franchise Tax Board knows what you are up to. They deal with this subject on a routine basis. This is probably your first try at a foreign corporation. My advice to you is, unless you really, really, actually conduct active business operations in Nevada, do not create one to run your business in California. It does not work. It does not save taxes. It merely creates more headaches, more expenses, and compromises your ability to defend yourselves against lawsuits. Sorry. ☹