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## THE IMPORTANCE OF CORPORATE MINUTES

By Victor Sy, CPA, MBA

A corporation was sued on a business-related dispute. The corporation lost. The jury awarded an amount way over insurance policy limits. The plaintiffs successfully challenged the existence of the corporation and went after the personal assets of the shareholders. We all know that the very essence of incorporating is to shield our personal assets from lawsuits. Why then did this corporation structure fail to protect the shareholders? Among other things, the officers failed to document directors' meetings and shareholders' meetings for the three years that the corporation had been in existence.

Corporate laws require that meetings be held and documented every year. Failure to do so could cause you to lose benefits of asset protection. The corporate veil behind which you seek protection could be pierced allowing plaintiffs to come after your personal assets. If you, yourself, do not acknowledge the existence of your corporation, others will not either! You would then end up supplying plaintiffs with ammunition to attack your personal assets. The company's debts, potential failure, default, or leases could end up in your lap personally.

Examples of **problems** that could arise from lack of annual meetings and related documentation are: (1) Plaintiffs could sue you in addition to your corporation and proceed to attach a lien or seize your personal residence, rental properties, personal automobiles, retirement plans and other personal properties, and (2) IRS could recharacterize your loans as taxable wages, bonuses and loans, as non-deductible dividends.

A very good way to limit your own liability is to keep records showing that your actions have been duly authorized and approved as actions of the corporation. Minutes are the best way to document that your own actions are done on behalf of the corporation, not your own personally.

Examples of corporate resolutions that have to be documented are election of officers, salaries to officers, bonuses to officers, loans to shareholders, opening or closing of bank accounts, borrowings from designated banks, Christmas bonuses, group life insurance, medical/dental plans, purchase or lease of auto and other equipment.

Here is a [checklist of corporate resolutions](#) that have to be documented:

1. Election of officers
2. Election of board members
3. Officer salary
4. Officer bonus
5. Employment agreements
6. Unreasonable compensation
7. Loans to and from shareholders/officers
8. Employee salary/bonus/loans
9. Pension contributions
10. Medical and dental plans
11. Office lease
12. Equipment lease
13. Credit line
14. Bank loan

15. Opening checking and savings accounts
16. New accountant
17. New attorney
18. Bankruptcy
19. Dissolution
20. Election of S status

Some closely held corporations view this required annual meetings as a nuisance. If you have not held corporate meetings, this is good time for you to bring this checklist to your corporate lawyer as a guide in preparing your annual meetings of shareholders and directors. It is not expensive to create your minutes. If the cost of preparation is an issue, do it yourself but give it to your lawyer for review and correction. A little time and effort could save you from losing a lawsuit from plaintiffs or from an audit by the IRS, FTB, EDD, and other governmental agencies.

**Beware of mail solicitations to prepare your corporate minutes.** We received bulletins from the IRS and FTB warning us of private companies pretending to be government agencies requiring innocent businesses to send about \$150 to prepare their corporate minutes. The companies are **fake** agencies. They are **not** part of the government. They just pretend to be. Some of our own clients have been hoodwinked by these scams. **Read the fine print and you'll see a disclaimer that the company is not affiliated with the Secretary of State or any government agency.**