

CorpNet's™ Guide to:



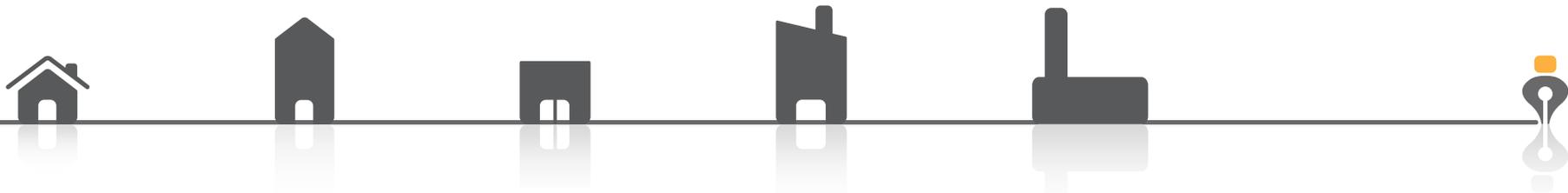
Incorporating Your Business



Congratulations! You have decided to start your own business.

That is a courageous step and one that can lead to rewards that no job can offer. When you are working for yourself, you have the opportunity to reap directly the rewards for your efforts while exercising greater control over how you spend your time. In addition, you will make the decisions that impact your future.

One of the first decisions you will make in running your new business is what legal form your business should take. If you have not thought about this yet, you should. If you do nothing, you will default into being a sole proprietorship. While you will not be alone in that regard, you may be missing out on many of the benefits afforded by creating a separate business entity and exposing yourself to liabilities by failing to do so. Many people avoid taking steps to create a distinct legal entity for their business because they believe it will be costly to do so. Not taking those steps, however, may be the costliest decision of all in the long run. Even in the short run, using an experienced document filing service, such as CorpNet, can keep initial costs to a minimum. Using an online filing service such as CorpNet.com is a great way to get started in setting up your entity, you can save both time and money because we are fast, reliable and affordable, and our services are backed by a 100% satisfaction guarantee.



Toll-Free: 888-449-CNET (2638) | Direct/Int'l: 805-449-CNET (2638) | Email: info@corpnet.com

Common Business Structures

Sole Proprietorships and General Partnerships

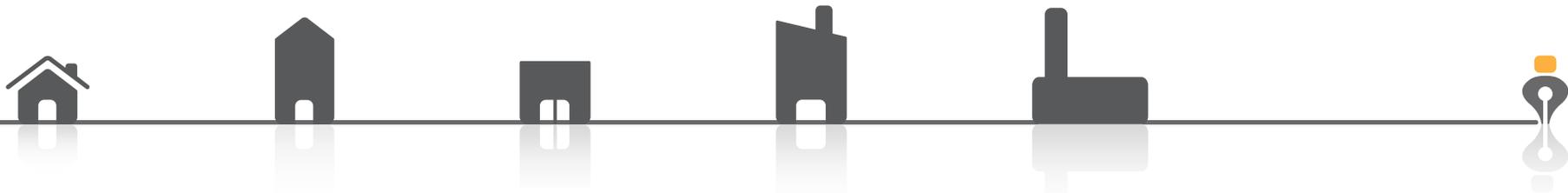
When you operate your business alone without making a filing with a State to incorporate your business, you are acting as a sole proprietorship. Your business income will be reported on Schedule C to your individual tax return. If you have gone into business with another person without incorporating, then you are likely to be deemed a general partnership. No filings are required for operating as a sole proprietor or a general partnership (unless you are operating the business under a name different from you own, in which case you would need to file a Doing Business As (DBA) or Assumed Name application).

Corporations

When you decide to incorporate your business, you make a filing of a Certificate of Incorporation with the Secretary of State in the state in which you decide to incorporate. Once the corporation is established, it becomes its own separate legal entity and is subject to the laws governing corporations in the state of incorporation. Those laws authorize the corporation to conduct business, including hiring employees, borrowing money, buying and selling products and services, and entering into contracts. These transactions are conducted by the corporation, not on behalf of the individuals working for the corporation.

Limited Liability Companies (LLCs)

LLCs are another form of business structure that is neither a corporation nor a partnership, but is a hybrid that has elements of both. It is similar to a corporation in that it limits personal liability for the owners and is a separate legal entity that is formed upon a filing with the Secretary of State. Like a partnership or a corporation, the LLC can have a perpetual existence, beyond the life of the initial owner(s). LLCs are different from corporations, and similar to partnerships, in that they are a pass-through entity for tax purposes, so there is no entity-level tax. Also, the LLC structure requires fewer corporate formalities than a traditional corporate structure.



Toll-Free: 888-449-CNET (2638) | Direct/Int'l: 805-449-CNET (2638) | Email: info@corpnet.com

Benefits of Incorporating

Limited Liability

If you do not want to be personally responsible for the liabilities of the business, then you should create a separate legal entity such as a corporation or an LLC. A properly operated corporation or LLC limits the liability of its shareholders to the amount they invested in the company. If the company incurs debts or liabilities, the creditors are limited to the assets of the company. In the event the assets are insufficient to cover the debts of the business, creditors may not generally collect additional amounts from the shareholders. By contrast, a sole proprietor is personally liable for all the obligations of the business. This means that sole proprietors risks everything they own to satisfy the debts or judgments of their respective businesses, including their homes, cars and personal savings and investments.

Transferability of Ownership

If you plan to sell your business someday, then you should create a separate legal entity. Since a sole proprietorship does not have a life apart from its owner, it may not be transferred to a third party. In the event of a sale, each asset used in the business would have to be specifically identified and transferred. Buying a business is a lot more desirable if everything needed to operate the business exists in a distinct legal entity. In that case, the sale could be accomplished either by simply transferring all of the stock of the entity or all of the assets held by the entity.

Unlimited Duration

If you want your business to continue beyond your lifetime, then you should incorporate or form an LLC. Sole proprietorships end upon the death of the owner. Corporations and LLCs continue indefinitely unless they are dissolved. Their ownership interests can generally be sold, gifted or bequeathed to others.

Continued next page...



Toll-Free: 888-449-CNET (2638) | Direct/Int'l: 805-449-CNET (2638) | Email: info@corpnet.com

Ability to Raise Capital

If you want to raise money from third parties, then you should incorporate or form an LLC. A corporation or LLC may borrow money and sell equity to raise capital. Investors prefer to contribute capital to corporations because of the limited liability and the relative liquidity of the investment.

Number of Owners

If you want to share ownership with others, then you should incorporate, form an LLC, or at least consider forming a formal partnership. Corporations and LLCs generally allow an unlimited number of shareholders (except S corporations, which have a limit of 100 shareholders). Like a sole proprietorship, a partnership may be formed by default; if two or more people own a business together without selecting another form. While partnerships are beyond the scope of this guide, many of the deficiencies of a sole proprietorship, including unlimited personal liability, may apply to a general partnership so caution in this area is recommended.



Toll-Free: 888-449-CNET (2638) | Direct/Int'l: 805-449-CNET (2638) | Email: info@corpnet.com

Types of Business Entities

For those business owners who decide that the benefits of creating a separate legal entity to operate their business outweigh the costs, the next step is to decide what type of legal entity to create. For most, there are generally three ways choices: form a regular C corporation, form an S corporation, or form a limited liability company (LLC). In addition, there are special corporate entities if you are operating a non-profit group or a professional services business. Which one is right for you will depend on your own situation.

C – Corporation

A C corporation is a standard corporation owned by shareholders who elect a board of directors to oversee the management of the business. Shareholders generally have limited liability, even if they are involved in the day-to-day management. The shares of a corporation are freely transferable unless limited by agreement of the shareholders. The corporation exists indefinitely, unless and until it is dissolved by the shareholders. It is a separately taxable entity, meaning that it must file its own tax return and pay corporate taxes on its profits. There is no limit on the number of shareholders a C corporation may have.

S – Corporation

An S corporation is different from a C corporation in two significant ways. First, although it is formed in the same manner as a C corporation, the corporate entity makes an election to be taxed as a “pass-through entity” under subchapter S of the Internal Revenue Code. This means that an S corporation is not a separately taxable entity; the profits and losses are “passed-through” and reported on the personal income tax returns of the shareholders, much like a partnership. Second, unlike a C corporation, an S corporation has limitations on ownership. An S corporation must not have more than 100 shareholders and each shareholder must be an individual or a trust (not another corporation). Because of these limits, transferability is often restricted by agreement of the shareholders.

Continued next page...

C-CORP

S-CORP



Toll-Free: 888-449-CNET (2638) | Direct/Int'l: 805-449-CNET (2638) | Email: info@corpnet.com

Limited Liability Companies (LLCs)

An LLC combines the advantages of incorporating (including limited personal liability, unlimited duration, etc.) with the ability to elect pass through tax treatment and avoid an entity-level tax. In that way, it is similar to an S corporation. Unlike an S corporation, however, there is no limit on the number or type of shareholders. An LLC also typically requires fewer corporate formalities, such as regular meetings of a board of directors and an annual meeting of shareholders, than either an S or C corporation. They do, however, require proper filing of Articles of Organization with the Secretary of State to be formed and the members of the LLC are required to enter into an Operating Agreement that governs how the LLC will be operated.

Non-Profit Corporations

For those groups that are formed for charitable, educational, religious, literary or scientific purposes, and not to generate profits for its shareholders, a special legal entity may be formed under Section 501(c)(3) of the Internal Revenue Code that is exempt from taxation. These tax-exempt corporations are prohibited from paying dividends. Upon dissolution, corporate assets must generally be distributed to another non-profit group. There are significant filing requirements at both the State and Federal level to establish and maintain tax-exempt status and the non-profit will be prohibited from engaging in certain activities, including participating in political campaigns and substantial engagement in lobbying activities.

Professional Corporations

For those businesses that are providing professional services, most states have special requirements when incorporating. Professional services typically include medical, legal, accounting, architectural and other licensed professional services, and can be more or less expansive depending on your state. Laws governing professional services corporations are often quite complex and usually require the assistance of an attorney. Once you have decided that this is the proper form, a document filing service will be able to assist you in making the required corporate filing.

LLC

Non-Profit

Professional Corps



Toll-Free: 888-449-CNET (2638) | Direct/Int'l: 805-449-CNET (2638) | Email: info@corpnet.com

A Note about Taxation

Many small business owners decide not to incorporate because they are concerned about so-called “double taxation.” This refers to the fact that C Corporations are themselves tax-paying entities. If a C Corporation earns a profit, that profit is taxed. If those profits are then distributed to its shareholders, the shareholders pay income taxes on those dividends. There are two ways to avoid this.

First, if your company breaks even each year, there will be no corporate-level tax. Many small business owners break even by paying themselves a bonus at the end of the year equal to what the company’s profits would otherwise have been. That bonus is taxable as ordinary income but is not double-taxed.

Second, if you form an S Corporation, or if you form an LLC and make an election, you can avoid the possibility of double-taxation altogether by having the company’s profits and losses flow directly to your personal income tax return.

In addition, certain tax benefits may only be available to corporations, including the ability to deduct medical expenses not reimbursed by insurance. You may also be able to reduce the amount of self-employment taxes owed by allocating income between salary and profit. All of this is best discussed with your tax accountant who is familiar with the specifics of your business.



Comparing Business Structures

The following chart provides a high-level comparison of the most popular business forms across important attributes to consider when forming your business:

	Sole Proprietor	General Partnership	C-Corp	S-Corp	LLC
Formation	No Filing Required	No Filing Required	State Filing Required	State Filing Required	State Filing Required
Limited Personal Liability	NO	NO	YES	YES	YES
Transferability of Interest	NO	NO	YES	Generally Limited	YES, Often Limited
Duration	Until withdrawal or death of owner	Unlimited	Unlimited	Unlimited	Unlimited
Pass-Through Taxation	YES	YES	NO	YES	YES, Unless election made otherwise
Ability to Raise Capital	Not as a separate entity	YES	YES	Yes, but shareholder limits	YES
Limits on number of owners	YES	NO	NO	YES	NO



State of Formation

Once you decide to form a legal entity, you need to choose a state in which to make your filing. Most people choose either Delaware, Nevada or their home state.

Delaware is often chosen, especially by larger companies, because it has the most developed and flexible corporate statutes in the country and is considered pro-business.

Nevada has also become popular because of its lack of state corporate income tax, franchise tax and personal income tax. It also has relatively low fees.

Nevertheless, if you have a small business and are going to be conducting a substantial amount of your business in your home state, it will likely be beneficial to incorporate in that state. If you incorporate out-of-state, but do much of your business in your home state, you will have to make a filing to “qualify to do business” in the state if there is a substantial ongoing business or physical presence in the state. You will then be subject to the same fees, taxes and regulations as if you had incorporated there in the first place, and you will have paid filing fees (and, perhaps franchise taxes) to more than one state.



Toll-Free: 888-449-CNET (2638) | Direct/Int'l: 805-449-CNET (2638) | Email: info@corpnet.com

Next Steps

If you have decided to establish a legal entity for your business, you may wish to use a document filing service to help you complete the process.

A reliable document filing service can typically save you time and money when compared to doing it yourself. Document filing service providers are generally well-versed in the specific requirements of various states and can help you navigate the process more efficiently.

Using an attorney to make the filing is another option, but that can be significantly more expensive. CorpNet is a document filing service that can attend to these details so that you can focus your time and energy on establishing and growing a successful business. CorpNet has a significant and extensive amount of experience in this area and we are known for our speed, reliability, personal service and attention to detail.

Important Disclaimer

CorpNet™ is a document filing service and CANNOT provide you with legal, tax, or financial advice. CorpNet™ is not a law firm. We are not your attorney nor are we your accountant, nor are we a substitute for an attorney or an accountant, or any other professional service provider. We are simply a document filing company that provides assistance to you in representing yourself. No attorney – client relationship is formed between you and CorpNet™ or any of CorpNet's™ shareholders, subsidiaries, affiliates, directors, officers, employees, independent contractors, representatives, or agents, regardless of whether any of those individuals are attorneys. The Information provided on the Web Site is general information only regarding entity formation and related topics and should not be relied upon by you as legal advice. Although we review your documents for completeness, spelling, grammar and internal consistency, we do not review your documents for legal sufficiency nor do we provide any substantive legal review or make legal recommendations. When you use our Services, you are acting as your own attorney. Setting up a business can be complex and failing to obtain advice from licensed professionals can be costly. We strongly recommend that you seek the advice of an attorney, an accountant and any other service provider as needed to review your individual facts and circumstances to make sure you are making the best choices for your business.



Toll-Free: 888-449-CNET (2638) | Direct/Int'l: 805-449-CNET (2638) | Email: info@corpnet.com

About **CorpNet**[™]

The CorpNet[™] website is new, but the people behind the pages are in no way new to the document filing industry...

Philip and Nellie Akalp, an attorney husband and wife team, based out in Southern California, have founded several document filing companies in the past and with their hand chosen team now bring to you, CorpNet[™], their signature company based on the simple philosophy of truth in business and their joint desire to assist small business owners and entrepreneurs in America get their business off the ground in a fast, reliable, and affordable manner.

CorpNet[™], through its website, provides document filing services required for a variety of business needs such as forming your own Corporation or Limited Liability Company (LLC), filing a DBA/Fictitious Business Name, Foreign Qualification Filings, Registered Agent Representations, Corporate Compliance services and supplies in all 50 states.

Using CorpNet[™] can save you both time and money with service that is fast, reliable, and affordable. CorpNet has successfully handled document filings in every state in the U.S. as well as internationally. CorpNet's experienced U.S. based customer support team is here to give you the personal assistance you need in processing your document filing request quickly and efficiently, before, during, and after your entity is formed every step of the way.

Thank you for choosing CorpNet[™] as your document filing service. CorpNet[™] is committed to your 100% satisfaction! If you are ever less than 100% satisfied with our services, please contact our customer service team and we will make things right...or your money back*! We make everything easy for you so that you can focus on what you do best – running your business...

From all of us at CorpNet[™], may you be as passionate about your business as we are about our service!

The CorpNet[™] Team

* The CorpNet[™] Guarantee is limited to its service fees and does not include refunds for state and/ or government fees paid to any state/governmental agencies and/or to any third parties for your filing – and is subject to the limitations on liability and other restrictions contained within our Sitewide Terms of Use & Disclaimer, including a requirement that any refund requests must be made within 60 days of the service purchase date.

Our Services

- Corporations
 - C-Corps, S-Corps, PC's & Non-Profits
 - Limited Liability Companies (LLC's)
 - DBA /Fictitious Business Names
 - Document Retrieval Services
 - Foreign Qualification Filings
 - Initial/Annual Report Filings
 - Amendments & Name Changes
 - Certificates of Good Standing
 - Dissolutions & Withdrawals
 - Corporate Kits & Supplies
 - IRS Forms & Filings
 - Name Checks & Reservations
 - Registered Agent Services (All 50 States)
- ...and much more, visit our site today!



Toll-Free: 888-449-CNET (2638)
Direct/Int'l: 805-449-CNET (2638)
Email: info@corpnet.com or sales@corpnet.com

26500 West Agoura Road Suite 102-365
Calabasas, CA 91302

www.corpnet.com



Toll-Free: 888-449-CNET (2638) | Direct/Int'l: 805-449-CNET (2638) | Email: info@corpnet.com