

When do I register my business as an LLC or corporation?

Friendly tip: You already know that there is no legal requirement that an entrepreneur register their business right at the start. BUT there are real-life (a.k.a not legal) reasons why you need to. If your taxes require a CPA (key word require, not just convenience), if you are getting angel or venture financing, or if you have employees (not independent contractors), you need one. If you have a partner, there are so many advantages to having one that it is almost a requirement (and I don't personally let my clients get into business with someone else without registering). If you or your spouse have bad debts or collectors calling, you need one. If these situations don't apply to you, read on.

LLCs and corporations do three things that you should should know about. They:

1. Give your business formal "presence-" Because You, Incorporated has a nice ring, yes?
2. Make your business a separate legal person (no joke) from you (you may have heard this referred to as "limited liability"); and
3. Determine how Uncle Sam wants your receipts organized at tax time.

Spoiler alert: Number two is the one we care about. If you are really interested in the other two, or have been in business for awhile, check out the "Extra Credit" section at the end of this pdf.

The secret here is that when you ask your lawyer whether it is time to register your business, you are really asking this question:

Do I own anything that is not already protected?

The bottom line: Every state provides protection to money and property owned by sole proprietors, so you may not need to duplicate that protection with a business entity. Let me clarify (aka, talk worst case scenarios for a moment).

Worst case scenario: If you are a sole proprietor and a crazy client sues you, You the Individual Snowflake are getting sued. And if crazy client somehow wins the lawsuit? You the Individual has to pay out of your own pocket using your property and tooth fairy money. BUT most states (I will show you what to Google in a moment) don't let a lawsuit winner get their hands on much.

Instead, states protect your property up to a certain value. Get ready! By reading the next two sentences, you'll be miles ahead of most lawyers on this topic. If your state already protects the property you own, you do not need to duplicate that protection right now by registering your business. If your state does not protect the property you own (or it does not protect all of it) you should register your business.

This is why: When you register your business, crazy clients have to sue the business, not you. If crazy client wins the lawsuit, he or she can only collect what the business owns, not what you own, because you and your registered business are separate legal "people." The outcome is that your business registration can protect your personal assets... and that is what the fancy term "limited liability" means.

Don't get bogged down. Let's walk through this for your unique situation and it will all come together.

Let's check how much protection you are already getting from your state in four common categories (and if you don't have one or more of these, great! In a lawsuit, you can't lose what you don't have):

- **Have a house?** *Search Google for “[your state] homestead protection” to see how much protection your house gets. In Nevada, for example, a lawsuit winner can't touch the first \$550,000 of a house's equity (value of the house minus what you owe);*
- **Have retirement accounts?** *Search for “[your state] retirement protection from creditors” to see how much of your retirement accounts are safe;*
- **Have a car?** *Search “[your state] vehicle protection from creditors” to see if your car is safe; and*
- **Have a bank account?** *Search “[your state] bank account protection from creditors” to see how much cash you can protect.*

If you own property in any of these categories or other types that is worth more than the amount your state protects, you are ready to register your business. If not, you can wait. Put that would-have-been registration money to good use marketing your products and services!

As you can see, this is a highly personal question to answer about your business- and a one size fits all approach just won't work (sorry Facebook group LLC evangelists!). But now you know how to determine when you are ready to register your business, and that is a big deal. If you are not ready right now, put a reminder on your calendar every four months or so to go over it again.

One last thing for those of you with a day job. If you are getting a paycheck, as much as one third of your take home pay could be taken (“garnished”) if you lost a lawsuit as a sole proprietor. This is one more thing to check on in your state and factor into your “is it time to register” equation.

Extra Credit

Formal presence: *You can use a name other than your own, which gives your business a formal-sounding presence, by using a “dba” or “doing business as” name.*

Here’s what it looks like: If I used a dba, I might be Valerie Del Grosso doing business as XYZ Legal. No LLC or Corporation necessary, but I can still do business with the public under a name other than my own.

Here is how it works: Do a Google search for “dba [your county]” and see what the requirements are. This is usually a one-page form that costs about \$20 to file, and if you end up hating the name, you can quickly and easily change, unlike an LLC or corporation registration

Taxes(!): *Do a quick search for “median income [your state] [your job title in your business].” For this, you want to pick a specific job, not just owner, CEO, or the like. For example, in my business, I would search “median income Nevada managing attorney.” For you, that may be “median income New York business coach.”*

What to do with that information: With the federal tax changes for 2018, lower taxes might be available if you pay yourself through a “pass through” entity like a limited liability company or S corporation, than as a sole proprietor. The law is so new as of this article date that you’ll have to talk to your favorite tax advisor to do the math for you.