

WHAT DOES IT MEAN TO RESPECT CORPORATE FORMALITIES IN ARIZONA?

“Understanding all of the dos and don’ts of maintaining corporate formalities can be complicated and it is imperative that you follow all of the rules so you can enjoy the protections associated with being incorporated.”





Many business owners form a corporation in order to ensure that they are able to protect their financial interests. Incorporating creates a separate legal identity for your business so you do not become personally responsible for judgments against your corporation or for debts that your corporation incurs. Incorporating can also have tax benefits, as it may be possible to take some of your compensation in distributions rather than as salary. This means you do not have to pay Social Security or Medicare taxes on that income.

When you incorporate your business, it is important to realize that you must actually treat the company as a separate legal entity in order to continue to enjoy the benefits and protections of incorporation. The steps involved in

treating your corporation *as* a corporation are referred to as “corporate formalities.” An experienced business law attorney can assist you both with the process of incorporating and with ensuring that you are able to fulfill the requirements of having a corporation.

RESPECTING CORPORATE FORMALITIES



“Respecting corporate formalities” refers to the steps that owners and managers of corporations should take as part of operating as a business with a separate identity. If you do not respect corporate formalities, a variety of different adverse things could occur. The Internal Revenue Service (IRS) could challenge the tax treatment of your business. This could result in losing corporate-specific tax deductions, among other favorable tax benefits. As a result, you could be required to pay back taxes and penalties if the IRS determines that you were not actually

operating as a corporation.

If you fail to respect corporate formalities, a court could also *pierce the corporate veil*. This would mean that if your business is sued by a creditor or by

someone trying to collect a judgment, the court could decide that you are personally liable despite the existence of the corporation.

The financial consequences of a failure to respect corporate formalities are very serious, so you want to ensure you do absolutely everything that is necessary to ensure that the corporation actually fulfills its obligations.

HOW TO RESPECT CORPORATE FORMALITIES

Respecting corporate formalities involves doing everything that is expected of a corporation. Many large companies do these things automatically as part of operations. For smaller businesses with just a few owners (or just one owner), it can take more of a conscious effort to learn about all of the different corporate formalities to maintain. An attorney can assist in understanding your annual and ongoing obligations.

Some of the different things that your business needs to do to maintain corporate formalities include maintaining separate corporate bank accounts; holding scheduled and special meetings of both shareholders and the Board of Directors; keeping detailed records; living up to a fiduciary duty to the company; keeping corporate matters confidential; signing all contracts as a corporate officer; and paying all corporate taxes.

The corporate bylaws that are created when you start your business should specify the date of an annual shareholders' meeting. You will need to hold a

meeting on this date every year. You will also hold an annual meeting of the board of directors after the shareholders' meeting each year. These meetings should be held even if you are the only shareholder of the business and even if you are the only member of the board of



directors. You will need to elect the officers, which could be the same election every year as you are chosen for every company position.

You should also hold a special meeting any time the business does something major, such as changing the salary of an officer; opening a new financial account or signing a new lease.

In addition to taking all of these steps to maintain corporate formalities, there are also some things that you should not do. You should never mix your corporate and personal funds, nor should you use any other corporate asset for personal use. Do not use corporate accounts to secure a personal loan and do not do any insider deals on leases or loans. The company needs to be treated just as it would if the organization was owned by strangers. For example, if you would not take money from a company account if you worked for someone else, you should also not take money from a company account when you have your own incorporated business.

Understanding all of the dos and don'ts of maintaining corporate formalities can be complicated and it is imperative that you follow all of the rules so you can enjoy the protections associated with being incorporated. Contact an experienced business law attorney for help ensuring that your organization is operating correctly.

About the Author

Lotzar Law Firm, PC was founded in 2005, and serves clients throughout the U.S. We pride ourselves on the level of service we provide our clients and are determined to see each project through to positive results.

In addition to bringing a legal expertise to the table, we offer clients sound ideas and invaluable advice that enhances their business. One of our greatest attributes is our ability to approach projects from a business-owner perspective. Rather than narrowing in on the setbacks of a challenge and informing clients of what stands in the way, we prefer to seek innovative ways to transcend issues and create a better path for clients. With an unparalleled savvy in developing modern methods of financing, we can present you with viable and efficient options.

Our diversified portfolio of clients is comprised of entrepreneurs, real estate developers, contractors and property managers. We also do business with numerous nonprofit clients including Chicanos Por La Causa, Inc.; Tiempo, Inc.; and The Industrial Development Authority of the City of Tucson, Arizona.

We work in a team-based environment, supported by a skilled and caring staff, eager to answer your questions and provide you with consistent access to your team. Whether your needs are small or large in scope, we look forward to working with you.

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