



“The Overhead of Maintaining a Corporation”

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If you structure your business as a corporation, you gain a certain amount of legal protection. If the business goes bad at some point in the future, the creditors of the business will not be able to come after you personally. They will only be able to attack the assets of the corporation unless you have given personal guarantees.

The drawback of such a business structure is the overhead of managing a corporation. Depending on the state in which it is incorporated, there are paperwork requirements. Annual meetings must be held; minutes must be taken; votes, based on the outstanding shares, determine corporate actions; and certain positions—president, vice-president, and secretary for example—must be held. Forms must be filed periodically, and the annual tax return itself can be complicated.

All of this maintenance activity costs money because it translates to management by professionals such as CPAs and attorneys. So you are paying a stiff price for this form of corporate shield. There are alternatives, however, and depending on your situation they may work better for you, in terms of personal asset protection, than a traditional corporation. These are discussed below.

Another possible drawback of a corporation is this: Since the shareholders control the corporation, it is possible that you could structure your business as a corporation and ultimately lose control of it when the shareholders vote to remove you from your position as president or CEO or whatever you are.

Since each share represents a percentage of the voting power, if you own less than 50% of the outstanding company shares, those majority owners could vote to remove you and send you on your way.