



The Importance of Corporate Record Keeping

Protect **Your** Company So It Can **Protect** You!





Table of Contents

3. Congratulations!
4. What Do All Business Entities Have In Common?
5. Small Closely Held Companies Are At The Greatest Risk
6. It's Not An option... It's The Law
7. 10 Most Common Mistakes Of Small Closely Held Corporate Owners
8. What Actions Needs To Be Documented
8. Taking A Loan-Giving A Loan
9. Will Your Corporation or Limited Liability Company Stand Up to Scrutiny?
9. How Laughlin Associates Can Help
10. The Corporate Veil Protection Programs
11. Choosing The Right Program
11. About Laughlin Associates
12. Testimonials

We wanted to thank you in advance to the readers of this whitepaper who are moved to comment, share, blog or generally discuss the contents herein. We encourage you to reach out and share your thoughts directly with us at info@laughlinusa.com.

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Congratulations!

If you formed a Corporation or a Limited Liability Company (LLC) you made the right decision, you have created the first line of defense for your business and your personal assets. A Corporation an LLC provides the liability protection all business owners need.

The problem is most business owners who incorporate are never told they must act and treat their company as a separate legal entity, they must maintain corporate formalities.

Corporate formalities are the documentation and protocols a company must maintain the liability protection your company provides.

As a corporation owner you are required by law to observe corporate formalities. Some examples of corporate formalities include keeping the corporation in good standing in the state of incorporation, maintaining the stock ledgers properly, keeping your corporate minutes and corporate resolutions up-to-date.

Failure to maintain corporate formalities leaves you exposed to personal liability and possible penalties.

Incorporating offers the power of liability protection but the only way the courts enforce that benefit is if you treat the corporation like a corporation. Unfortunately, people incorporate and continue to treat the company as if it's a sole proprietorship.





What Do All Business Entities Have In Common?

What do corporations and LLCs, have in common? **They are all required to keep corporate formalities.** When you formed the entity, you created a separate legal person, in the eyes of the law. A corporation has its own identity, it has its own name, and it has its own tax identification.

When you do business through a corporation you must maintain separation between you, the owner and the business entity. You may represent the business through introductions or signing contracts, but it is the corporation that the vendors are doing business with.

This legal separation, this recognition, creates a lot of advantages, and the biggest advantage that we gain from this is limited liability.

If the company were to be sued or more likely, when it is sued, only the assets of the company are at risk if proper separation has been established through the maintenance of corporate formalities.

If proper separation has been established through corporate formalities, what is at risk if the corporation or LLC is sued? Just the assets of the corporation or LLC, not the personal assets of the owners.

So how do you establish this separation in the eyes of the law and the IRS? Well it takes more than just putting your name and title on your business cards. You must follow corporate formalities.

Failure to maintain proper “Corporate Formalities” could lead to:

- Your corporate charter being revoked.
- Losing the personal asset protection your corporation provides.
- Paying tax penalties on unauthorized deductions.
- Having your company left in “bad standing” and out of compliance.
- Shareholders becoming personally liable for the corporation’s activities/debts.
- Allowing a creditor, the IRS or unscrupulous attorneys to eliminate the corporate protection of your company and seize your personal assets.
- Piercing the corporate veil.



Small Closely Held Companies Are At The Greatest Risk

Companies that are owned by an individual or a small group of individuals; are at the greatest risk of losing the liability protection a Corporation and a LLC provides.

Keeping corporate formalities may not seem necessary if you are the only chief, cook and bottle washer. But, unfortunately the courts, the IRS and creditors know that many small closely held companies will not meet the legal standards of operating a company, which in turn makes you a prime target for an attack on your personal assets.

If You Want to Be Treated Like a Corporation Then You Must Act Like a Corporation.

Without proper corporate formalities, your business, your home, your personal investments, everything you incorporated to protect; could be wiped out overnight.

In the eyes of the law, it doesn't matter if you are the sole person on the board of directors, the only officer and the only employee; small closely-held corporations are under the same legal obligations as big private companies. In fact, it is even more critical that you show separation between yourself and the company.

You have a good tool to protect your assets, but you must act like a corporation to take advantage of the protection that the law has given you.





It's Not An Option It's The Law

By-laws, federal law and state law all require that certain compliance obligations be met to maintain the liability protection.

If your company were audited or involved in a lawsuit one of the first things that will be subpoenaed is the corporate records, in an audit they will ask for your corporate minutes and stock ledger statement.

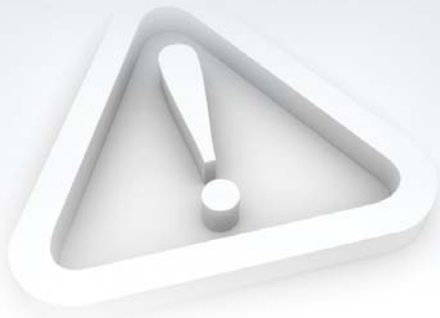
If you can't meet these basic requirements for corporate operations then there is a good chance the liability protection of the entity will be disregarded.

Meeting the compliance requirements as outlined by state, federal and local laws is the foundation to the asset protection your business entity can provide.

Large companies understand the importance and the dire consequences that can come from not maintaining their corporate formalities. As a small business owner you are at a severe disadvantage when it comes to meeting these requirements.

What should you do as a business owner or manager to ensure corporate formalities are complied with in an appropriate manner?





10 Most Common Mistakes of Small Closely Held Corporate Owners

The following list was compiled as the most common reasons the courts look to disregard the liability protection your entity provides.

1. Domination of the Corporation By One Shareholder
2. Failure to Maintain Corporate Records
3. Failure to Keep Separate Financial Records
4. Separation of Personal and Business Assets
5. Under Capitalization
6. Failure to Keep the Corporation in Good Standing
7. Failure to Sign Documents in the Corporate Fashion
8. Failure to Identify the Business as a Corporation
9. Failure to Operate Related Corporations Autonomously
10. The Disregard of Legal Formalities and the Failure to Maintain Arm's Lengths Relationships Among Related Entities

Domination of the Corporation By One Shareholder

Many small businesses are dominated by one shareholder or member, and it is especially important for such businesses to keep up all other formal aspects of maintaining a separate corporation. This issue alone will not lead to a piercing of the corporation, but domination of the corporation, along with other factors included in this list can create a total picture justifying the piercing of the corporate veil.

Failure to Maintain Corporate Records

Many of the reported cases involve the failure of the corporation to have even one meeting. This seems like an extreme situation, yet we regularly see corporate record books without minutes. Lack of minutes could put you at risk in the event you are sued as a shareholder. Laughlin Associates was designed to eliminate this possibility. The programs offered will complete and maintain your corporate formalities.





10 Most Common Mistakes of Small Closely Held Corporate Owners

Failure to Keep Separate Financial Records

If you cannot show the basic separation of corporate and personal financial transactions then you risk being accused of co-mingling funds. This in-turn leads to piercing of the corporate veil and possible tax penalties.

Separation of Personal and Business Assets

A sole proprietor can grab some cash from the till and use it to buy groceries on the way home because the business and the proprietor are the same. Not so with a corporation. The same holds true with company assets. As a shareholder you don't have the rights to utilize the company assets outside the scope of business.

Under Capitalization

A corporation must be capitalized with enough capital to give it a fair and reasonable chance of success. If not, then it doesn't appear to be real. Unfortunately, there is no benchmark for how much is enough. Obviously, different businesses require differing amounts of capital to give them a reasonable chance of success.

Failure to Keep the Corporation in Good Standing

Imagine that you are on the witness stand in a court case in which piercing your corporate veil is an issue, and you are maintaining what a great and viable corporation you own, when the plaintiff's attorney tells you that your corporation has been revoked by your state for failing to pay its annual fee. What are you going to say? You can avoid this disaster by simply using the services provided by Laughlin Associates. We will remind you and keep you updated on state filings. Not sure if your company is current at the state? Call 1-800-648-0966 today and we will check your status.





10 Most Common Mistakes of Small Closely Held Corporate Owners

Failure to Sign Documents in the Corporate Fashion

As we have discussed earlier this can be a major error. It can be avoided by signing in the manner indicated below:

AJAX CORPORATION

By: _____

President

In this instance the person signing the document is clearly and obviously signing on behalf of the corporation, and not on his or her own behalf. No opponent can expect to assert that they thought the contract was with the individual, or that the individual misrepresented the nature of his or her involvement. It is clearly a corporate signature.

Failure to Identify the Business as a Corporation

It's important that people know you are doing business as a corporation and not as an individual; especially if they are going to be extending credit. If you wait until you are involved in litigation with this party they are likely to devour you in court.

Failure to Operate Related Corporations Autonomously

If you have more than one corporation, be sure to operate them one at a time. Each one should have its own meetings, its own records, its own bank accounts and so on. It's fine if you are a player in all of them, as long as they are operated separately.

The Disregard of Legal Formalities and the Failure to Maintain Arm's Lengths Relationship Among Related Entities.

The mistake some business owners make is to run multiple businesses from one entity. While this is not the sole reason your corporate veil can be pierced it does tend to lead to a lot of commingling of assets, finances and personnel. This does not allow for "arm's length transactions." It would be a wise idea to form another entity to run your other businesses through. Not only does this prevent co-mingling but it also establishes another level of protection from liability.





What Actions Need To Be Documented?

When the company acquires an asset, like a car or office furniture, in the name of the company, and buys it with company money, that is a major decision that should be documented.

You don't have to document when you go to the office supply store and buy pencils or when you buy a cup of coffee or even when you get a tank of gas. But major decisions, decisions that the company is making for the acquisition of an asset or particularly when we give money to ourselves as an owner, that is a major decision that needs to be in writing.

Taking a Loan Giving a Loan

When you loan money to the company, there must be a resolution that authorizes the company to borrow this money. It should have a repayment schedule. It may even require an interest rate depending upon the fact pattern.

In the event of an IRS audit the auditor is going to examine the money coming out to you as an owner and you are going to say that the return of the money is a repayment of a loan, but there is no documentation to support that, without documentation to support it, the auditor will say "I don't see a repayment schedule, I don't see a promissory note, I don't see the corporation having any sort of loan transaction. Therefore, all this money coming back to you, clearly, it must be something else. It must be wages that you've taken out of your company, and you did not report it". Missing documents mean tax penalties for the owner.





Will Your Corporation or Limited Liability Company Stand Up to Scrutiny?

Have you fallen behind in maintaining your corporate records? Are your assets protected? If you're lost in the maze of corporate rules and regulations and you don't know where your company stands you can't afford to wait another minute. Your business and your personal assets could be at risk.

The problem is as business owners you don't have the time, knowledge or resources to maintain your corporate records. Failure to meet even one piece of the compliance requirements can spell financial ruin as the owner.

You need the help to keep your company in good standing and take the burden of corporate formalities off your plate.

How Laughlin Associates Can Help

We don't expect you to stop running your business, dust off your corporate record book and catch-up on your corporate records. First of all, it's not just about getting it done; it's about getting it done right. Secondly, your time should be spent running your business not spending time on more paperwork.

You can retain your attorney or CPA but that would cost you at least \$1,500 a year for even the simplest corporation or limited liability company. You can count on doubling that cost if you have fallen behind in your record keeping.





The Corporate Veil Protection Programs Include:

- Initial review of your corporate status with their compliance coach. A quick and easy online questionnaire outlines which documents your company needs now.
- Unlimited custom corporate documents including minutes, resolutions and amendments.
- Unlimited access to a personal corporate coach by phone or e-mail anytime to receive quick, knowledgeable answers to your questions.
- 12 month custom calendar of recommended documents.
- Ongoing monitoring service and auditing of your corporate records and continual contact and review of your corporate status.
- Subscription to "The Corporate Veil" monthly e-newsletter. Receive updates of current compliance requirements, business tips and strategies.
- Digital Record Book.
- Assistance with state filings.
- Record Reconstruction - Fallen behind on your corporate paperwork records? Not to worry, we will work to get you caught up no matter how old your entity is.
- Ongoing Business Strategy Webinars. Learn from the convenience and comfort of their own office.
 - Asset Protection
 - Tax Savings
 - Estate Planning
 - Strategy Sessions



How The Program Works

When you become a member of the Corporate Veil Protection Service you will be contacted by your assigned Corporate Coach within 24 hours. This will be your main contact person through-out the program.

The first step will be to audit your records to determine where you stand with your compliance recordkeeping. Our first goal is to get your records up-to-date if you've fallen behind.

After your records are brought current you will be contacted every month by your personalized Corporate Coach, who will monitor and make sure the actions of the company are being documented properly. You can also request documents to be produced by e-mail or on-line through your password protected digital record book.

Once a document is complete we will send you a hard copy to be signed and inserted into your corporate record book. You will have the ability to review all your corporate records on-line in your own password protected digital record book.

About Laughlin Associates

Laughlin Associates is your one-stop corporate compliance center. Since 1972 we have assisted over 77,000 companies with getting and keeping their companies corporate formalities in order. With Laughlin Associates' Paperwork Program, you can rest assured your corporate records will be up-to-date, in order and squeaky clean.

As a client of Laughlin Associates' Paperwork Program, you'll have the peace of mind knowing your corporate records are in order.





Read What Our Clients Have to Say

"Thanks so much! Everything was received, very clear, concise and amazingly quick and efficient! Thank you!"

-Laura Brady, Phoenix, AZ

"You have a great company, and your people are not only competent, but friendly. I have used you for years, and will continue to do so."

-Matt Gonzalez, San Diego, CA

"Laughlin Associates has exceeded both my and my client's expectations. The truth is they save me a tremendous amount of time."

-Michael Coulson, CPA

"I will definitely recommend your company and you specifically, to anyone who needs the kind of services you offer."

-Dan Larkin, Phoenix, AZ

"I would like to thank you for your excellent service! Your recent involvement and care with our account is much appreciated. We will take advantage of the opportunity you have given us to get ourselves together once and for all!"

-Gina Crawford, Seattle, WA

