



PADGETT LAW, P.A.
WE HELP YOU KEEP WHAT'S YOURS

CORPORATION

Formation

A corporation is an entity created by state law that is separate and distinct from its owners. A corporation may be formed only through compliance with a state incorporation statute. A corporation can be closely held (i.e., have one or a small number of shareholders) or publicly held (i.e., have a large number of owners and have shares that are sold on a public market).

Operation & Management

A corporation is managed by its directors, who are elected by the shareholders, and officers, who are appointed by the board of directors. These directors and officers do not need to be owners of any shares of the corporation.

A corporation is typically the most expensive form of entity to organize and operate. The preparation and filing of articles of incorporation and bylaws, the payment of filing fees, and compliance with statutory procedures (such as conducting an organizational meeting of incorporators or directors) are required if the corporate form is selected. A corporation is ordinarily subject to a state income or franchise tax in the state of incorporation, and may be subject to income or franchise taxes in other states in which it does business. If a corporation does business in more than one state, it also must obtain a certificate of authority from, and maintain a registered agent in, those states.

Taxation

The corporation is subject to federal income tax separate from its owners, and often is referred to as a C corporation. The profits accumulated after payment of this corporate level tax are subject to further federal income tax when the profits are distributed to the shareholders as dividends. A regular corporation is subject to income tax at the graduated rates from 15% of taxable income up to \$50,000; 25% of taxable income exceeding \$50,000 but not exceeding \$75,000; 39% of taxable income exceeding \$75,000 but not exceeding \$335,000; and, 34% of taxable income exceeding \$335,000 but not exceeding \$10 million. Different rate brackets exist for taxable income in excess of \$10 million.

Dissolution

A corporate shareholder may sell all or a part of his or her shares to a third party. A majority of the shareholders may determine that terminating the corporation (through liquidation and dissolution) is appropriate. This may occur because (1) the business of the corporation has become defunct; (2) the shareholders want to operate the business in another business entity form; (iii) the business assets of the corporation have been sold and the sales proceeds distributed to the shareholders; or (4) for other business reasons.