Business Entity Conversions:

What You and Your Clients Need to Know

CorpNet®

Nellie Akalp, CorpNet CEO:

Nellie Akalp is an entrepreneur, business expert, professional speaker, published author, and mother to four amazing kids. Nellie has dedicated her entrepreneurial career to helping other entrepreneurs and business professionals succeed at business ownership.

As CEO and Co-Founder of CorpNet.com, she has helped more than half a million small businesses and licensed professionals get their businesses and clients off the ground. She has developed a strong following within the small business community and has been honored as a Small Business Influencer Champion and was named women entrepreneur of the year by NAWBO.

Today's Agenda

Goal: Learn steps to change one business entity to another

- Business Entity Refresher Course
- Signs It's Time to Switch
- When Clients Benefit from Switching
- Making the Switch
- Statutory Conversion
- State-Specific Details
- EIN Changes
- Helpful Resources

Business Entity Refresher Course

Benefits of Incorporating

Your clients who operate as sole proprietorships can often get by in the beginning stages of business, but if they have been steadily adding more clients, working with more vendors, or expanding in some other way, it might be time you advise them to upgrade their entity. Here are just some benefits of incorporating or forming an LLC:

- Personal asset protection
- Tax advantages
- Funding potential
- Increased credibility
- Perpetual life for Corporations

Business Formation Options	
Sole Proprietorship	*A Sole Proprietorship is easy to form, but it offers little liability protection, funding options, and opportunities for future growth.*
General Partnership	*A General Partnership is the most basic form of partnership. It is comparable to a sole proprietorship, but it must have at least two owners or partners.*
Limited Partnership	*Similar to a General Partnership, the Limited Partnership offers its "Limited" partners asset protection and a shielding from personal liability.*
C Corporation	*The C Corporation is the most common form of corporate entity. The C Corporation is owned by shareholders. The shareholders elect a board of directors to create and direct the high-level policies of the business.*
S Corporation	*A S Corporation is different from a C Corporation in two significant ways: (1)An S Corporation makes an election to be taxed as a "pass-through entity" and (2)An S Corporation has limitations on ownership.*
Limited Liability Company	*A Limited Liability Company is a popular business structure because it combines the liability protection offered by incorporation while retaining some of the tax advantages of a Partnership or Sole Proprietorship.*
Professional Corporation	*Individuals who provide a professional service can also benefit from forming a Professional Corporation. Where a business provides a professional service, most states have special filing requirements when incorporating.*

	Sole Proprietorship	General Partnership	C Corp	S Corp	Professional Corporation	LLC
Formation	None	None	State Filing Required	State Filing Required	State Filing Required	State Filing Required
Limited Personal Liability	No	No	Yes	Yes	Yes: Except for Own Malpractice	Yes
Transferability of Interest	No	No	Yes	Generally Limited	Generally Limited	Yes: Often Limited
Duration	Until Withdrawal or Owner Death	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited
Pass-through Taxation	Yes	Yes	No	Yes	No	Yes: Upon Election
Ability to Raise Capital	Not as Separate Entity	Yes	Yes	Yes: Shareholder Limits Exist	Yes	Yes
Limitations on Number of Owners	Yes	No	No	Yes	No: All Owners Must be in Same Profession	No

Signs It’s Time to Switch

When to Switch

As a clients' businesses grow and evolve, the business entity type they begin with may not serve them well for the long term from taxation and legal standpoints. Considerations that often drive changes in business structure include:

- Income tax rates, allowed deductions, and self-employment tax obligations
- The degree of personal liability owners are comfortable with
- Plans to add or remove owners (shareholders)
- Management flexibility
- The desire to raise capital for expanding or growing the business
- Ongoing business compliance requirements

When Clients Benefit from Switching

Beneficial Situations to Switch Entities

Business owners have an LLC and want to reduce their self-employment tax burden. To do that they pursue electing to be taxed as an S Corporation or converting to a C Corporation.

A sole proprietor wants to add employees and is now losing sleep over having personal assets tied to the business. By forming an LLC or incorporating, the company becomes an entity independent of its owner for tax and legal purposes.

An LLC is finding that it will need to raise a significant amount of money to fuel its plans for growth. Converting to a C Corporation and selling stock would provide a path for doing that.

A Corporation has non-U.S. citizens as shareholders. The company wishes to avoid double taxation and instead have pass-through taxation. Electing S Corporation status is not an option because non-resident aliens cannot be shareholders of an S Corp. However, if changed to an LLC, the company can have pass-through taxation and move forward with the same owners because LLCs allow non-U.S. citizens to be members.

An LLC's members are all in high-cost individual tax brackets. After you've done the math for them, it appears they could save money by converting to a C Corporation because paying the corporate income tax rates will reduce their tax burden.

Making the Switch

Changing Legal Entities

The steps to change legal entities varies from structure to structure and from state to state. We will discuss the following scenarios next:

- Sole Prop/Partnership to LLC/Corporation
- C Corporation to S Corporation
- LLC to C Corporation
- C Corporation to LLC

Sole Prop/Partnership to LLC/Corporation

Making the switch from Sole Prop/Partnership to LLC/Corporation creates an ‘official’ business separating personal and business assets.

- Make sure business name is available in home states
- File appropriate formation documents with states - Articles of Organization for LLCs and Articles of Incorporation for corporations
- Obtain Federal Tax ID number or EIN using form SS-4 to the IRS
- Set up new bank accounts, vendor accounts, invoices, etc in new business name

C Corporation to S Corporation

If a client does not like the double taxation of a C Corporation but still wants liability protection, an S Corporation is a great option.

- You/your client must file IRS Form 2553 by March 15th
- If this deadline is missed, the business will be taxed as a C Corporation until the next tax year unless client gets an extension to file an S Corporation by filing IRS Form 7004

LLC to C Corporation

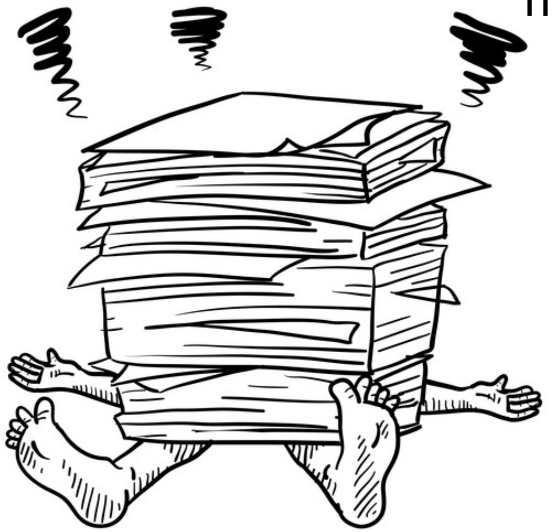
Many clients will want to switch from an LLC to C Corporation so they can sell stock and/or attract investors.

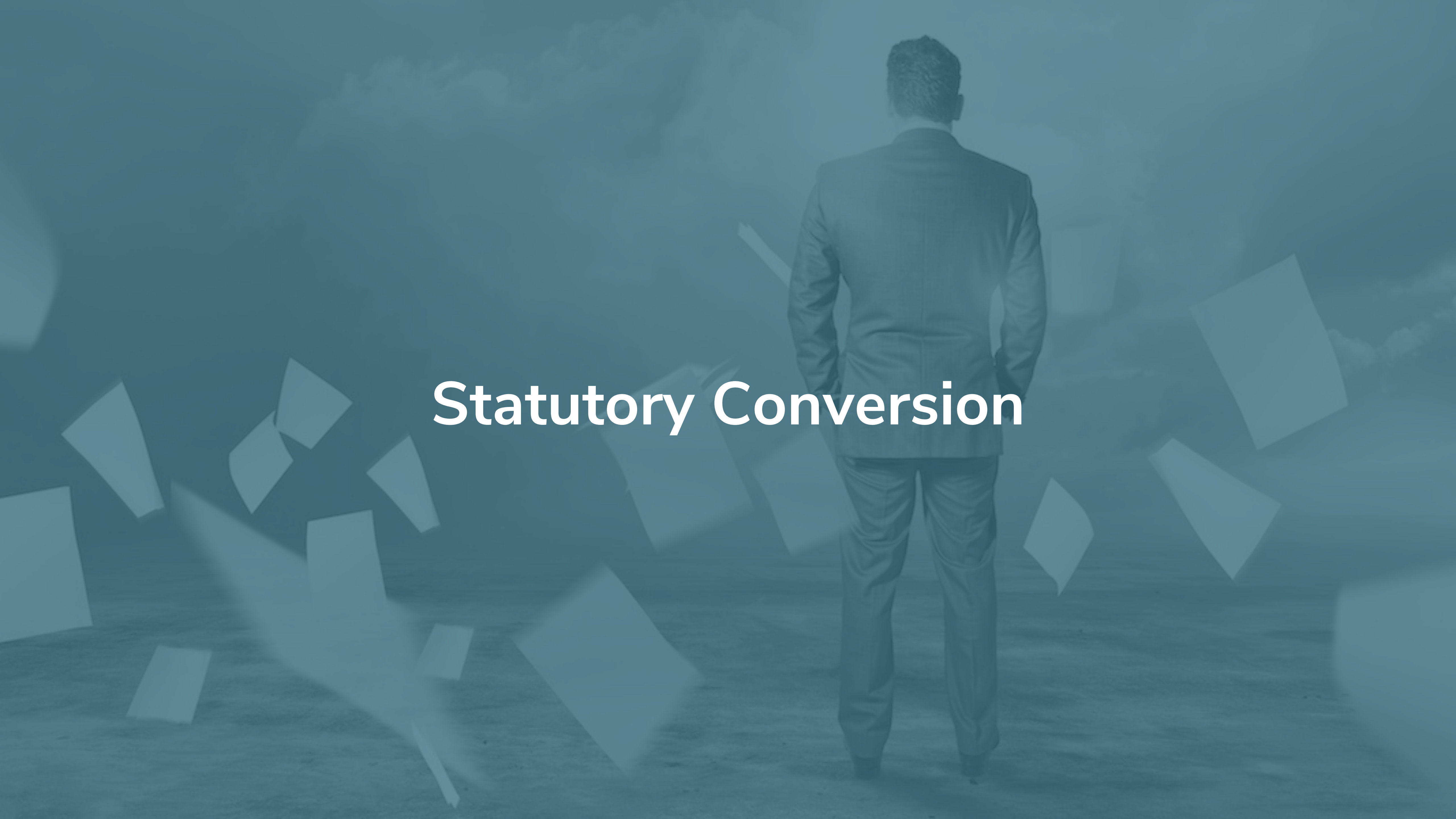
- All Members of the LLC must agree to change the business structure
- Follow corporate laws in the state that the LLC is registered in
  - In states that allow “statutory” conversion, a document is filed with the state filing office to change from one entity to another.
  - In other states, your client can create a new C Corp and make the original LLC a subsidiary or a DBA of the newly formed C Corp
  - The most complicated method involves the dissolution of the original entity and the formation of a new one

C Corporation to an LLC

Changing from a C Corporation to an LLC could make your client happier in the long run (less paperwork and a more flexible organization structure), but the transition is not an easy one.

- The IRS considers this switch a monetary transaction, meaning a client would “sell” assets of the C Corporation ad is taxed on any assets that have appreciated value
- Depending on tax status or number of members of the LLC different filings would be used: statutory conversion or statutory merger





Statutory Conversion

Steps in a Statutory Conversion

The process of doing a statutory conversion varies by state. Here are general steps you/your client would need to take:

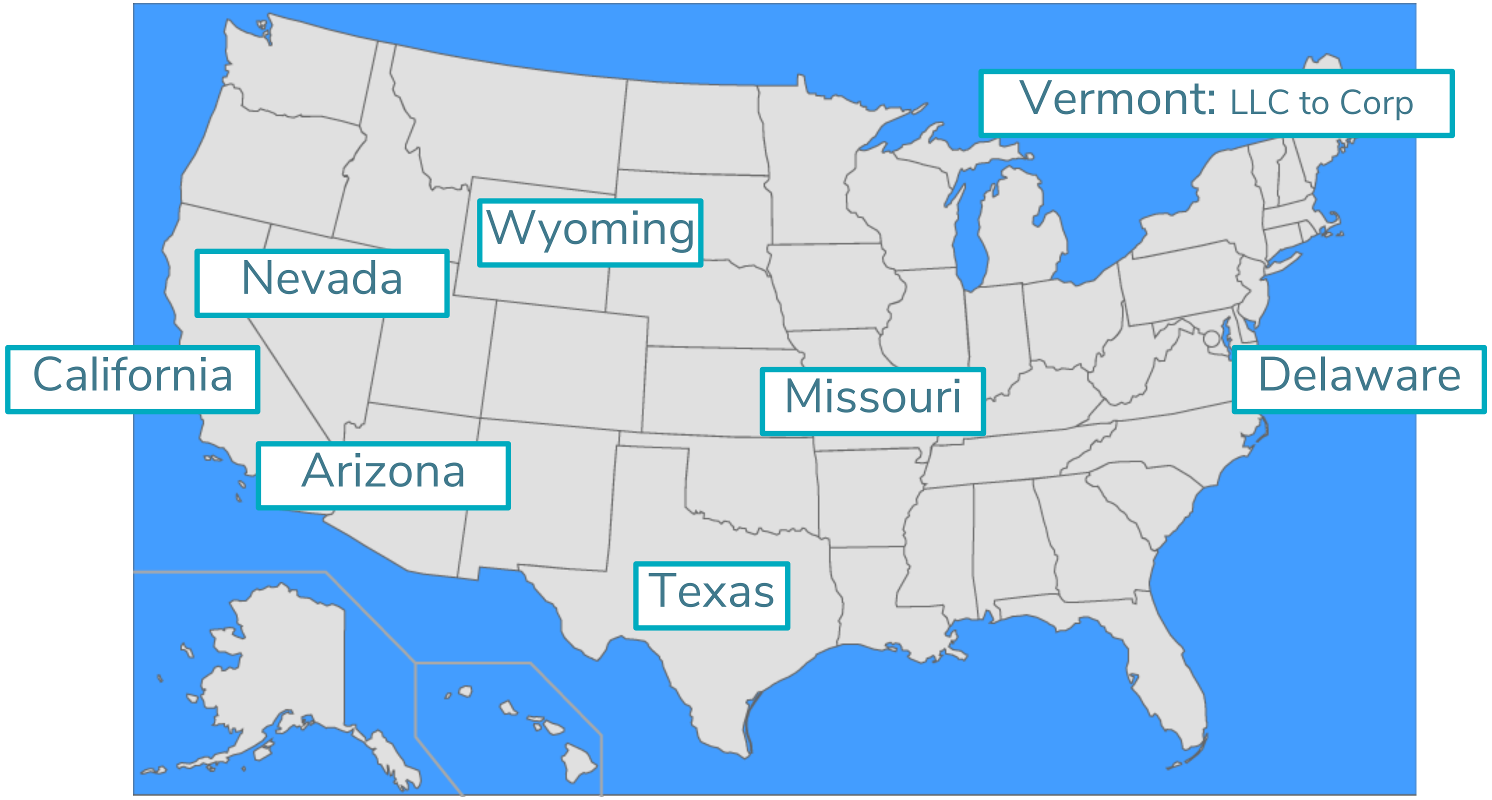
- Write a plan of conversion
- Get approvals from the governing stakeholders (partners, members, shareholders, etc)
- Complete the formation documents (Articles of Organization, Articles of Incorporation) for the entity type the business will change to
- Complete a Certificate of Conversion for the post-conversion entity
- File the new entity formation document and certificate of conversion, along with any required filing fees, with the state
- Depending on the state and entity type, there may be other requirements

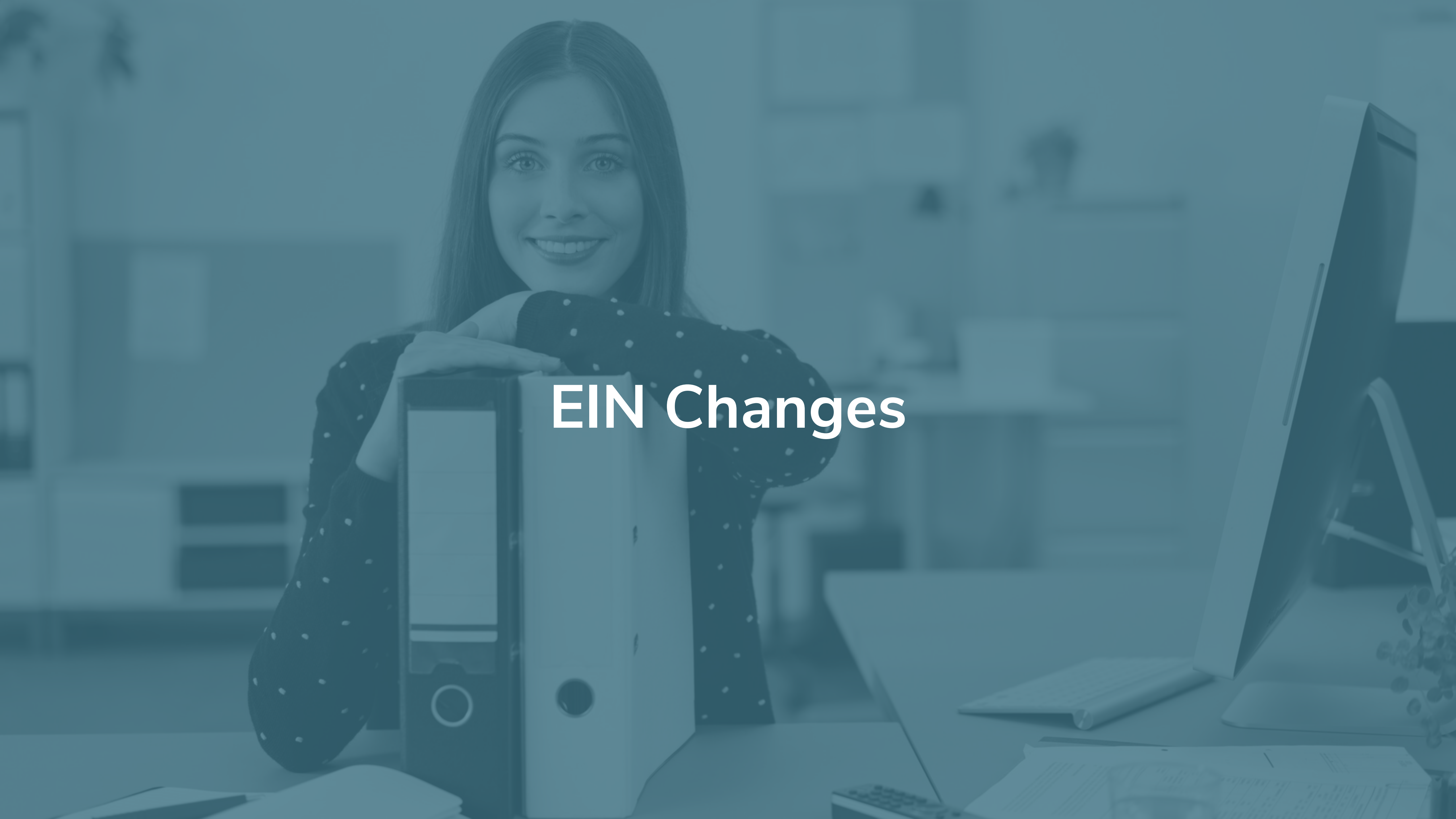
Some states that don’t allow statutory conversions offer “statutory mergers.” In states that have neither option available, the original business entity must be dissolved and a new one formed.

State-Specific Details

State Specific Details on Making the Switch

As mentioned, each state has its own rules on how to make an entity change. Check with your exact state for details. The following states currently allow Statutory Conversion filings:




EIN Changes

When does an EIN need to change?

If your client is in a state that allows a conversion, the original EIN does not need to change.

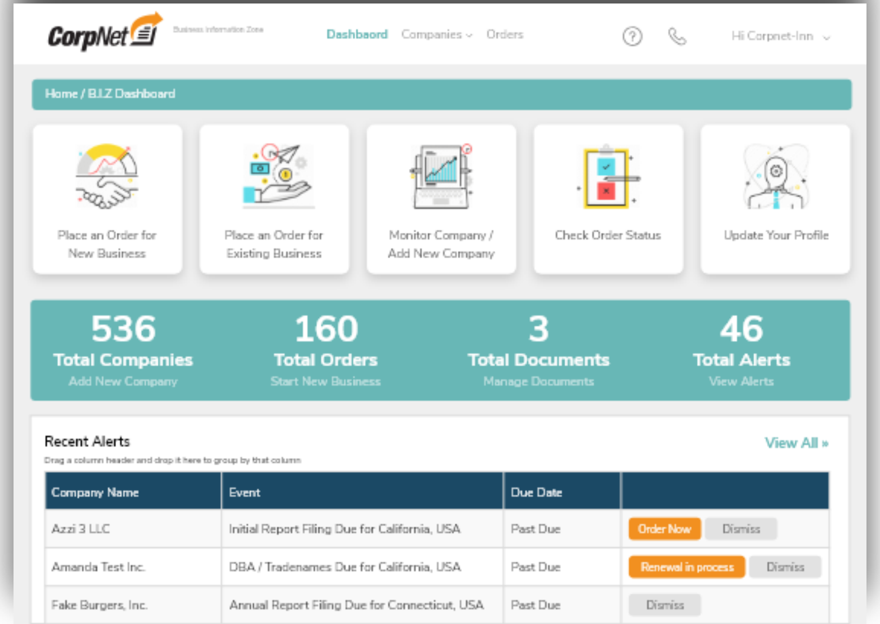
Your client must update the IRS with an EIN change letter to notify them of the entity change.

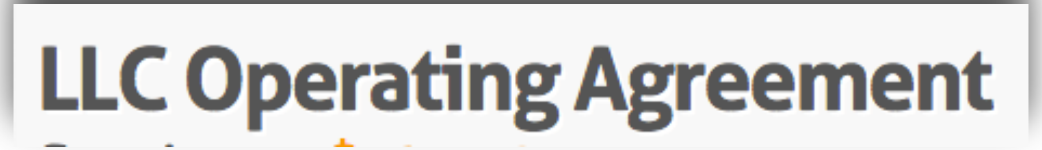
If your client is in a state that does **not** offer a conversion you have to get a new EIN.

This is because the original entity will need to be dissolved and a new one created.

Helpful Resources

Our Tools Are Your Resources





CorpNet.com Partner Program

Private Label: Resell CorpNet Services

- Offer business formation and compliance.
- CorpNet is a silent, white labeled partner.
- CorpNet never contacts your client.
- All documents, alerts, and information are sent directly to you without labels.
- You will have a Dedicated Account Manager who knows your specific requirements and is available to you for whatever you need.

Referral Program: Refer Your Clients

- Refer your clients to CorpNet and they will receive white glove treatment.
- A dedicated account manager will work with your clients to ensure a personalized experience and a "hand-off" back to you when the process is complete.
- Earn commissions up to 25% or pass the savings to your client.

Participating in both our Reseller and Referral partner programs is ok!

CorpNet.com/partners/


Questions

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