

## Choosing where to incorporate

Deciding on a state to incorporate in can be somewhat confusing. You may ask yourself should I incorporate in the state in which I already reside? Should I move to another state to incorporate? Choosing a state in which to incorporate can pose a little bit of a problem since no two states are exactly alike when it comes to fees, taxes and other details. Below we will try to provide you with information regarding a number of different considerations to help give you as much of a full picture with which to make your decision.

First you should consider which state most fits your need with regard to an initial formation fee. This is a one time fee that a secretary of state office will ask of you when you decide to file for incorporation. Filing fees can be as low as \$50 in states like Colorado, Oklahoma, and Iowa. Keep in mind that this is a one time fee and will not be a drag on your spending in the future. Therefore if you are willing to pay more initially, you can have a little more flexibility when considering where to incorporate.

After figuring out what you want to do concerning filing fees, it would be a good idea to annual fees. You essentially pay this fee just to keep maintain a corporation status within your state. Most states require this fee to be paid annually and expect a report of around one-page in length to accompany your payment. Annual fees can be as low as single digit sums or as high as triple digit sums.

In addition to the annual filing fee, or sometimes in lieu of this fee, states will also levy a franchise tax against you. This essentially equates to a fee paid in return for the privilege of being able to transact business within that state. This differs from the annual fee in that the annual fee is simply for existing, while the franchise tax addresses your privilege conduct business.

Since you are starting a small business you presumably will not have to deal with complex business litigation. Thus, you shouldn't worry too much about legal and court systems when considering where to incorporate. If this information does interest you, Delaware does have a separate court dedicated to resolving business disputes and judges are allowed render verdicts rather than juries. In this way disputes are on average settled more quickly in Delaware than in most other states.

A final consideration when deciding where to incorporate is state corporate income tax. Some states do not levy corporate income tax and some states on top of that do not have personal income tax. This could be a huge advantage for businesses that operate within those states. However you should keep in mind that in order to access these incentives, your business must be located within that state. It is not enough just to be incorporated in that state as businesses are subject to the state tax laws in which you are located. It can also be more expensive to operate in a separate state from the state you filed in because you'll have to pay filing fees and taxes in multiple states. So a general rule is if your business has a very low number of shareholders keep it simple and incorporate in your home state.