

Overview of Corporation Basics

A corporation brings to mind Microsoft, General Motors, or other *Fortune* 500 companies. Yet 25 million corporations are owned by individuals and families who operate small businesses.

It is easy to understand how to effectively use a corporation for protection. A corporation is a legal entity authorized to conduct business or own assets as though it were a living person. However, unlike a natural person, a corporation has a perpetual existence. Its shareholders invest in the corporation and share in its profits. Here are some other important features of a corporation:

- **Created by state law.** Each state sets its own requirements to establish and maintain a corporation.
- **Distinct legal entity.** A corporation is a separate legal entity. It is separate in every way from its shareholders. For example, the corporation enjoys the same constitutional rights as a natural person. Assets titled to a corporation are owned by the corporation, not its corporate shareholders.
- **Limited liability of shareholders.** The key benefit of incorporating is that a corporation protects the personal assets of its stockholders, officers and directors from the debts of the incorporated business. Since a corporation is a legal entity distinct from its shareholders, its shareholders have no personal liability for the corporate debts. Shareholders can lose only their investment in the corporation (the amount they paid for their shares or loaned to the corporation) if the corporation is sued or files bankruptcy.
- **Unlimited existence.** Unless the corporate articles state otherwise, the corporation lasts in perpetuity. A stockholder's death does not terminate the corporation.
- **Centralized management.** Directors elected by the shareholders set corporate policy. Daily operations are the responsibility of the corporate officers, who are appointed and supervised by the board (the president may be elected by the shareholders).
- **Flexible structure.** Shareholders own the corporation and elect the board. The board of directors must have at least one director, however, some states require more. One individual can, in most states, be the corporation's sole shareholder, director, president, secretary, and treasurer.