

Overview of Maintaining Corporate Protection

Operating a business through a corporation does not suggest that corporate creditors won't attempt to sue you personally to collect a corporate debt or to hold you personally responsible for some corporate mishap. Corporate creditors try to pierce the corporate veil to claim their owners' personal assets. Usually the claim is that the owners are alter-egos of their corporation. They can succeed if the owner fails to follow basic corporate formalities.

It is not difficult to correctly operate a corporation – or any other legal entity. The one goal is to manage your entity independently from your personal finances or your corporate creditors might succeed in claiming that you and your corporation are one and the same. You then lose corporate protection. How can you avoid this?

- **Don't commingle assets:** Operate your corporation as a separate entity. Separate your personal finances in every respect. For example, document assets transferred between yourself and your corporation on both your personal and corporate records. Also document financial transactions between affiliated corporations or other entities.

- **Disclose your corporate status and sign as a corporate agent:** When you operate as a corporation, your legal documents should say so. Disclose your corporate name and title on all contracts and documents. Sign all documents as an officer or agent of the corporation.

- **Operate corporations autonomously:** If you own multiple entities have the officers or directors of the related corporations occupy different positions, conduct separate corporate meetings and maintain separate corporate books.

- **Keep good corporate records:** Business creditors pierce corporate protection when their records don't properly document key corporate actions. Record major director and shareholder votes. Inexpensive software can help you instantly prepare good corporate records without a lawyer.

- **Never voluntarily dissolve your corporation:** This will cause you to lose your corporate protection. Pay corporate taxes and franchise fees. Keep your corporation in good standing. Do not voluntarily dissolve your corporation if it has outstanding debts as these corporate debts will then automatically become personal obligations to you as its corporate stockholder. Observe corporate formalities. Does your corporation have a business address? Telephone number? Do cancelled corporate checks show that your corporation pays its own expenses? Does your corporation have the necessary business licenses? Checking and bank accounts? Each compliance point establishes your corporation as a legitimate and separate entity. Creditors trying to pierce the corporate veil on the claim that the corporation is only a stockholder's alter ego have a difficult burden as courts only reluctantly dismiss a corporation's liability protection unless its owners flagrantly ignore these and other corporate formalities. A business creditor's lawsuit against the corporate owner is usually only an effort by the creditor to force the business owner to defend the lawsuit or settle.