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Protecting the Corporate Veil

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End of year is often the time we start thinking about cleaning up the corporate books and records, but it often doesn't leave time to do the work needed to make sure everything is done properly.

The following is a checklist of what to look for to make sure you are increasing the chances you will prevail if someone tries to pierce your corporation's veil, and hold shareholders liable for corporate debt. Make sure:

1. Shareholders have elected directors once a year and that the election is reflected in written minutes or consent to action.
2. Directors have elected officers once a year and that the election is reflected in written minutes or consent to action.
3. The corporation (or limited liability company) has a separate bank account and that personal expenses are not paid from it.
4. Actions taken outside the ordinary course of business by the corporation are approved by the directors and that the approval is reduced to written resolutions at least once a year.
5. Actions requiring shareholder approval (such as substantial changes to the purpose or ownership of the corporation or its assets) are approved by the shareholders and the approval is reduced to writing at least once a year.

Failure to reduce authorizations to writing immediately can be remedied later by preparing minutes, however, once the people who would have had to sign the authorizations are gone, it's too late. Check your records now to make sure they are up to date. Also, make sure you are filing your Statement of Information with the Secretary of State once a year for corporations and every two years for limited liability companies. No other documents need to be filed with the Secretary of State every year (contrary to what some mailings you may be getting may be saying). Failure to file the form and/or failure to pay annual franchise taxes can result in penalties and ultimately in suspension of the entity which can cost thousands of dollars to fix. Corporate attorneys typically handle these filings for their clients for under \$100. If you have a corporate attorney and list them as your agent for service of process on the form, they should receive the notice when it is time to re-file and can handle it for you. If you don't have a corporate attorney and need help with this, call us and we will be happy to help: 818-907-4071.

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