

MyUSACorporation



*How to start your Business in the USA
remotely*



For the last several years our company was specializing in helping international clients to register their businesses in the US. As such, we helped thousands of entrepreneurs from Europe to register their US companies and guiding them on how to further develop and expand their business into American and international markets.

This article reflects our experience accumulated over years of assisting European clients, and we update it periodically to present the most relevant information.

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What kind of money are we talking about?

We touch this question first, because many of the prospects looking for US company registration are vaguely aware of the costs involved in launching a US business.

Initial Investment

It is crucial to understand that formal company registration is only a small part of the budget needed for launching your US business. Depending on the state of registration, entity type, and specific business needs, registration costs can run from as little as \$300 to as high as \$1000 and over. On average our European clients spend between \$600 and \$700 on registration formalities.

Then there is a question of banking, and for many entrepreneurs also the question of merchant account (what many confusingly refer to as "payment gateway"). We discuss both [further in this article](#), but if we consider the option of traveling to the US in order to open the bank account, or using a managed service, you should prepare an additional budget of \$2000 minimum, with about half or it to be spent on the fees, and the rest to be kept as balance in the account.

To summarize, for proper company registration only, without opening a US bank account, prepare a budget of **\$600-\$700**. With banking your budget needs to be between **\$2,600** and **\$3,000**. Keep in mind - this is just the initial investment needed to properly set up the company. Your business would need more money for the actual business activity, so make sure to take that into consideration when preparing your startup budget.

Running Costs

Beside initial investment, you would have monthly and annual costs, related specifically to maintaining your company. If you plan to lease a US address expect to pay between \$20 and \$99 each month (we offer our own professional solution called [MyUSAOOffice](#) that offers addresses for as low as \$299/year). Another recurring cost is the cost of Registered Agent service (we provide it for a competitive \$99 a year). Banking would cost you another \$20-\$100 a month in bank fees and management fees if you opt for managed bank account services.

Most states have recurring maintenance fees, taxes and reports. For example, Wyoming has Annual Report of \$52, while Delaware has franchise tax for LLCs (\$300 a year) and both annual report and franchise tax for corporations, calculated based on some formula. Some states have no annual fees, but its rare.

And finally, depending on your company structure and activity, you might be required to file annual tax return (and in some cases - pay taxes), which means you need to hire the services of CPA (certified public accountant) and maybe even a bookkeeper. Filing simple tax returns should not cost more than \$300-\$500, however more complex cases would result in higher

costs. Keep in mind, in some cases you as the owner would need to obtain Individual Tax ID Number (ITIN), adding another \$300-\$400 per partner, but it's a one time cost.

Conclusion

Before launching your business you should plan your budget carefully. Many clients make the mistake of hoping that some of the initial and running costs will be offset by the first clients they are counting on acquiring, but you should never build your business on hope - cold blooded calculations prove to be a more reliable tool in business.

We recommend preparing a setting aside a specific sum that would keep your business running for a year without any income whatsoever. In case of US business setting aside **\$4,000-\$8,000** would go a long way to ensure your business is properly set up and funded for a year, giving you the necessary peace of mind to develop your product and customer base.

What does it take to form a US company?

The actual process of registering a U.S. company is rather simple, and involves filing certain applications with various government authorities and drafting some internal company documents. Our company provides full service in company registration for a very competitive cost, so we make it easier on our clients to get this part of the plan done with.

Before registering your company two decisions need to be made: first you need to choose what state you want your company registered in, and second you need to decide on what type of legal entity this company will be organized as (typically a choice between a corporation and an LLC - limited liability company). We discuss both questions [later in this article](#).

What about banking?

Banking is crucial for running your business. Most of our European clients are looking to form a U.S. company and have a U.S. bank account opened, among other things. After 9/11 U.S. government made it harder for banks to offer remote account opening for non-U.S. individuals, however it is still possible to open such accounts when visiting the bank in person. We have an entire [article dedicated to banking in the U.S.](#), including various alternatives, which we invite you to read.

In brief, if you can visit the U.S. in person, or have a U.S.-based partner or just someone (friend/family) willing to help you by acting as the "Signer" on the account, you might want to explore these options. Those who want to use a managed service can opt for one remotely, however such service comes with both initial and monthly cost, and includes certain restrictions.

Why not start with bank account in Europe?

It might be a good idea to consider opening a bank account in Europe for your U.S.-based business, until such time other options would become available to you. All you would need in that case is to order Apostille for your company's certified copy of articles of incorporation (or organization), a service you can order from us at the same time when you are ordering your company registration.

Once you establish your first U.S. clients who are willing to make overseas payments via wire transfers to your European bank account, you will be in a position to expand further by using those funds to open a U.S. bank account, either by traveling to the U.S. or by hiring a management company to act as the local signer.

What about accepting credit cards?

Another challenge is to arrange a payment processing facility for your business. Technically, there are many ways your clients can pay you for your services or the products you sell that does not involve the use of credit cards - think of such solutions as:

- wire transfers,
- ACH payment services,
- Western Union and similar services,
- PayPal and its equivalents,
- Bitcoin and other virtual currencies,
- e-checks,
- checks (which can be deposited online), and
- money orders & cash.

Depending on what you sell you might want to explore all those and other payment methods while looking for credit card processing solutions.

That being said, credit and debit card processing capabilities are crucial for the growth of your U.S. business. First, let's understand how credit card processing works.

Payment Gateway

A payment gateway is an e-commerce service that authorizes payments for e-businesses and online retailers. Payment gateways are provided by payment processors, such as Authorize.net. You can learn more about payment gateways here, and about payment processors [here](#).

It's not difficult to create an account with a payment processor, however the real challenge is to open a merchant account.

Merchant Account

A merchant account is a type of bank account that allows businesses to accept payments by payment cards, typically debit or credit cards. Those accounts are provided by *merchant account providers*. Funds processed through payment gateways are deposited in merchant accounts, which in turn deposit them in your company checking account, minus fees.

The challenge with opening a merchant account lies in the fact that merchant account providers are exposed to the financial risk as a result of their clients' business activity, and this risk is mitigated by rigorous underwriting process and elimination of certain countries and specific types of businesses considered "high-risk" businesses. You can learn more about merchant accounts [here](#).

U.S. businesses owned by European clients, who don't have Social Security number or any merchant history in the U.S, would fall under "high-risk" category. There are merchant account providers that serve the high-risk niche, and they are called *high-risk merchant account providers*. Typically a U.S. bank account is required, but some of those providers would even offer services to clients with a bank account in Europe or other countries. Also, to offset the risk, those providers charge higher fees and have longer settlement times.

KEEP IN MIND: certain types of business activity, popular among our clients from Europe, fall under "high-risk" profile. Typical examples are remote IT services, staffing, etc.

We suggest clients falling in this category to consider expanding their business services to include less risky categories, such as software development and IT services, and to use every precaution and best customer service practices in order to create solid merchant history with the merchant account provider.

Good merchant history is key to opening a low-risk account in the future, which would result in reduced merchant fees and settlement times.

Online Payment Service Providers

Payment service providers (PSP) offer online services for accepting electronic payments by a variety of payment methods such credit cards, direct debit, and more. By using the services of a PSP you can circumvent the need to open a merchant account and sign up for payment gateway, since you get all those services under one roof.

There are over 900 PSPs in the world, with more than 300 offering services in the U.S. Most of those PSPs don't offer services in Europe, however since you are establishing a U.S. company, preferably with U.S. business address and U.S. bank account, your business might qualify. Click [here](#) to see a list of notable on-line payment service providers.

So how do I establish credit card processing facilities for my U.S. business?

Take it one step at a time. Each step brings you closer to accepting credit cards, but you must invest time and money first to prepare the foundation of your merchant application regardless of what service you will use:

- **STEP 1:** Register your U.S. company;
- **STEP 2:** Lease a U.S. address with mail forwarding;
- **STEP 3:** Open a U.S. bank account (unless you can't, in which case you would be limited to certain high-risk merchant account providers);
- **STEP 4:** Build a professional website for your business, clearly showcasing your business;
- **STEP 5:** Research the list of Online Payment Service Providers, and try applying for an account with each one in turn, until you find one that will accept your application.
- **STEP 6:** If that fails or you are not interested in this kind of service then run a search for "high-risk merchant account providers" and try applying for an account with them. You will be required to provide additional documentation, in which case work on providing whatever is necessary to be accepted as a client.
- **STEP 7:** If all fails, look to partner with a U.S. citizen or permanent resident with good credit history, in order to open a regular (non-high-risk) merchant account with one of the large domestic providers.

What about taxation?

U.S. taxation is a confusing topic, so let's try to simplify it as much as possible. You should be concerned about the following types of taxes:

- Income tax,
- Sales tax,
- Payroll tax,
- Franchise tax,
- Gross receipt tax,
- Various specialty taxes.

Income and Sales Taxes:

We cover the questions of income and sales taxes in detailed manner in our article [U.S. Taxation for Foreign Entrepreneurs](#). The short version is, sales tax is charged on specific products, and its rate depends on the state where your business is registered or has significant presence. Income tax depends on your company type (LLC or corporation), state(s) of registration, number and domicile of partners, etc.

Make sure to read the full article for a better understanding of how sales and income taxes work. It is recommended to hire CPA to handle the question of taxation.

Payroll Taxes:

Payroll taxes become relevant if your company starts hiring regular employees in the U.S. Keep in mind, contractors are a different kind of employees, who file their own income and self employment taxes. So unless you plan to open a physical office and hire employees who will be working regular hours in that office, you will not need to worry about payroll taxes.

Franchise Tax:

Franchise tax is another way for the state to cash in on the fact that your company is registered there. Only few states have franchise taxes, and in a way they are just another way you maintain your company in good standing, similar to annual reports and such.

Two most notable states that levy franchise tax are Delaware (as of this writing it's \$300 a year for LLC, for corporations it's calculated based on number of shares and par value) and California (as of this writing it's minimum \$800 a year for LLC and corporations). Typically, the state and/or your Registered Agent will remind you when this tax is due.

Gross Receipts Tax:

Gross receipts tax is levied in a few states and on some entity types. For example, Texas has annual gross receipts tax. Your CPA will be able to assist you with the calculation of this tax, if your entity is required to file one.

Various Specialty Taxes:

For most part you wouldn't worry about those, as they are specific to certain activities, and often are related to companies with physical presence in the state. Some taxes you should be aware of are taxes levied on products containing tobacco or alcohol, in which case they require [licensing and compliance](#).

What state should I register my company in?

U.S. companies are registered by states and territories, not by the federal government. That means theoretically you have 50 states, DC and several U.S. territories to choose from.

Each state is different - different laws, registration fees, processing times, and renewal rules and costs. When making the choice of state you need to answer a few questions first.

Are you launching a technology startup with the goal of raising investment from angels/VCs?

If the answer to this question is "yes" then you probably should consider registering a Delaware C-Corporation *specifically*, since this is the most popular tool for companies with this profile.

Will you have a real office/store/warehouse in a specific state?

If the answer to this question is "yes" then you should consider registering your company in this state, even if it's not the friendliest or cheapest of all states.

The reason is simple - having real presence in a given state creates what is called "strong nexus", requiring your company to be registered in that state. That means if you register in one state but have real physical presence in another you would be forced to register a foreign entity in that state, which means the whole thing will cost you double or more.

Incorporation-friendly states

If your business is conducted online and/or run remotely from Europe, without any physical presence in the U.S. (having clients doesn't make your business U.S.-based) then you should consider registering in one of the incorporation-friendly states.

There are 3 states that are traditionally considered to be incorporation-friendly: [Delaware](#), [Wyoming](#) and [Nevada](#). Of the three we typically recommend Wyoming, because Nevada is quite expensive to register and to maintain your company in, while Delaware comes with high franchise tax, steep penalties for late fees and relatively high maintenance fees. Wyoming easily compares to the other two states, while being relatively cheap and easy to work with.

You can learn more about the difference between the three and see why we recommend Wyoming for most business types by checking the [comparison between Delaware, Wyoming and Nevada](#).

If I register in one state, can I do business in another?

Per U.S. constitution, company registered in any U.S. state or territory is immediately recognized by all other states and territories, so for example you can take your Wyoming company formation documents and go to New York to open a bank account. Also, your clients can be anywhere in the U.S. or the world for that matter.

That being said, there are at least two cases in which additional registration might be required:

1. If your business sells tangible goods that are typically taxed (sales tax) and it uses distributors in states other than the state of registration, then it might be creating "soft nexus", meaning you would need to register for sales tax collection in those states.

2. If your business establishes physical presence in another state, such as opening an office, hiring full time employees, opening a store, or leasing a warehouse, among other activities, you might be creating "hard nexus", which would require you to register your company in that state as ["foreign entity"](#).

Consulting an attorney

If you are still not sure where to register your company it's always a good idea to consult a corporate attorney. Though it might be a bit expensive, there are plenty of online resources allowing you to ask for a free consultation, or free answering service that you could use for that purpose.

Should I register LLC or Corporation?

Question of "LLC vs. Corp" is one dealing primarily with taxation and with formation and maintenance costs. We will consider several points on interest and show you how those two entity types compare to each other.

Limited Liability Protection

Both entities provide limited liability protection to the owners, so in that regard there is probably not much meaningful difference between the entities.

Formalities

As far as formalities go, corporations require somewhat more formalities, while LLCs go easier on formalities.

Corporations have three levels of ownership and management - shareholders own the corporation through holding of shares, and they elect directors who manage the affairs and decide on the general business strategy of the corporation. Board of directors in turn appoints officers, who run the day to day operations of the corporation. All that is governed by the corporate bylaws, and the ownership and management of the corporation is defined through series of meetings, for which minutes must be created and maintained in company records.

LLC has two levels of ownership/management - members of the LLC are the owners, and managers manage the LLC. LLCs can be member-managed, which means all managers are also members (but not necessarily all members are also managers), and manager-managed, meaning some or all managers are NOT members of the LLC. LLC typically would need an Operating Agreement to govern its structure and operation, and in which membership and management are defined, among other things. LLCs also need to have meetings of members, which should be recorded via minutes, however this requirement is less strict for LLCs compared to corporations.

Cost of Registration and Maintenance.

For many clients costs of registration and consequent maintenance of an entity plays critical role in choice of state and entity. In that sense most states have similar costs for LLCs and corporations, with a few notable exceptions:

New York LLC: though the cost of NY corporation is relatively low, cost of LLC is unproportionally high, due to bigger state fees and especially due to the publication requirement, which only applies to LLCs and some other entity types, but not corporations.

Illinois LLC: another state where cost of LLC is significantly higher than the cost of corporation, primarily due to state fee differences.

Tax Related Differences

The most crucial difference between LLC and Corporation are tax related. First, it's important to understand that the only type of corporation available for foreigners who are not U.S. citizens or permanent residents is C-Corporation. Perhaps you heard about S-Corporation, but this is irrelevant for non-U.S. persons so we will skip discussing it.

LLC is a pass-through entity, which means the profit and loss passes through the company to the owners, who pay their personal taxes on that profit. C-Corporation is a double taxation entity, which means net corporate profit is taxed first (both on federal level and on state level, if the state has income tax), and then dividends are distributed to shareholders, who in turn pay their income tax on those dividends.

Does that mean corporation is necessarily bad, and LLC is necessarily good? Nope, it only means that corporation permits some wiggle room for creative tax planning, while LLCs are pretty much straight forward entities. Curious fact, one of the reasons we love LLCs so much is the fact an LLC is a flexible entity, that can elect to be taxed as C-Corporation, if the management deems it more beneficial from tax point of view.

We have the [entire section of this article dedicated to taxation](#), as well as an [entire article dedicated to taxation of foreign-owned U.S. companies](#), so we recommend you to study those. Also, it is always a good idea to consult with a CPA (accountant) before making your final decision on what type of entity to register. Remember, LLCs are flexible, so chances are you won't go too wrong by choosing an LLC as your entity type.

Conclusion

We often suggest LLC as the entity of choice, due to it being a less formal entity to maintain, and due to its flexible taxation. Some cases would justify going with corporation, so before making this decision make sure you fully understand what having a corporation in the particular

state of your choice would mean and cost. And of course - consult a CPA and an attorney if you are not confident enough with your choice.

What about licensing?

First of all, it's important to understand that "getting a license" is not the same as "registering a company". Companies such as LLCs or corporations are legal entities, formed by the state, and essentially are separate from their owners. License is a permit allowing a business to conduct certain business activity, while at the same time requiring the business to comply with laws and rules that the license is governed by, and in some cases pay related taxes.

Most U.S. businesses formed by our European clients don't require any licensing whatsoever. However we do offer a license research service to make sure your business either doesn't need any licensing, or needs some specific licensing, in which case we will let you know what it is and how to obtain it.

General Business License

A few states require all businesses formed in that state to obtain general business license (like Nevada, which is one of the reasons we don't recommend this state). This is just another way for the state to cash in on the fact that companies want to or have to be registered there. Also in some states local authorities require businesses domiciled within the borders of the local jurisdiction (e.g. California cities and towns) to obtain local general business license.

Typically this license is obtained at the same time or right after the company is registered, and it is renewed together with company renewal.

Specialty Licenses

Certain activities require specific license. The most common type of licensing we handle on steady basis is tobacco-related licensing. Other examples are alcohol licenses, professional licenses, gambling licenses, firearms licenses, dealerships etc.

Unless your business trades in regulated merchandise, products containing one of the regulated substances, or deals in regulated activity, it will not need any specialty license.

If I have a US company, can I move to the US?

Perhaps, but not right away. Typically, the more successful your business becomes, the better is your chance to obtain legal status in the U.S., even, eventually, obtain permanent resident status ("green card").

U.S. immigration laws are changing constantly, so you should be on top of the most recent updates, which can be done by periodically reviewing news on [USCIS website](#) and similar sites dedicated to immigration to the U.S. In general, certain visas exist today that allow foreign businessmen entry to the U.S. for such purposes as business trips, visas for investors, and visas for company executives.

Following numerous requests by our clients to provide assistance with U.S. business visas we have partnered with VisaPlace.com, a leading U.S. & Canada immigration service to provide free Immigration Assessment for potential visa applicants.

If I have a US company, can I get Social Security Number?

No. Social Security number is given to individuals who satisfy certain immigration requirements, and most non-immigrant visas that justify obtaining Social Security number will restrict it to specific uses and activities. Having a U.S. company could be the first step in obtaining a legal status in the U.S., as explained above, however by itself it gives no right to Social Security number.

That being said, having a U.S. company in some cases requires you as the owner to file a personal tax return with the IRS. For that purpose you will be required to obtain an ITIN (individual tax identification number) from the IRS, which can be done with the help of your CPA (we also provide this service through our CPA). ITIN is a number that resembles SSN (9 digits), however it is only used for payment of taxes (though you might be able to use it for additional purposes, such as opening a bank account).

Ready To Start?

We hope this not-so-short article gave you plenty of information to chew on and would make it easier for you to take the next step in registering your U.S. business. If you have some questions that we haven't covered in this article you are welcome to leave them in a comment below, and we will consider expanding this article to include those questions and answers. Otherwise we will reply to you in private.

Remember, just as we already helped thousands of European clients with their U.S. company registration, we are here to help you as well. You are welcome to call us or [WhatsApp](#) (our number is +1 347-773-4343), [email us](#), or schedule skype consultations with one of our incorporation specialists.

U.S. Company Registration for a Drop-Shipping Business

Drop-shipping is a very popular modern business concept, and U.S.-based drop-shipping businesses became the driving force of the "location-independent entrepreneur" phenomenon.

Much has been written on the mechanics of the drop-shipping business itself, so this article will only cover the aspect of U.S. company registration, taxation, banking, and other related business filings.

Running your drop-shipping business under a U.S. company has many advantages, and given the relative affordability and ease of registration and maintenance of U.S. companies, it is highly recommended to organize your business using a U.S. legal entity such as LLC or corporation.

Let's explore some of the questions related to U.S. company registration specifically for your drop-shipping business.

Choice of State

Since a drop-shipping business owned by you, a non-U.S.-based entrepreneur, has no physical connection to any specific state you have the freedom to select any of the 50 U.S. states and DC as the home state of your U.S. company. It is recommended to form your company in one of the incorporation-friendly states, such as [Delaware](#), [Wyoming](#), or [Nevada](#).

Majority of our clients choose either Delaware or Wyoming, due to more expensive fees in Nevada. You can see the comparison between those 3 states here: [DE vs. NV vs. WY](#).

Because a drop-shipping business essentially deals with tangible goods, the question of sales tax becomes relevant, and as a result many drop-shippers opt for registration in one of the states that have no sales tax. We cover the issue of sales tax as part of our article [U.S. Taxation for Foreign Entrepreneurs: Sales Tax](#), and it is more complex than just picking a no-sales-tax state, however a decision to register in one of the no-sales-tax states is not without a degree of merit.

Delaware, being a no-sales-tax state, is often the state of choice for drop-shipping business registration, however it is important to note that the registration and maintenance of a company in Delaware are relatively costly, making some other no-sales-tax states an attractive alternative. These states are Oregon, Montana, Alaska and New Hampshire.

It is also important to note that [Wyoming](#), despite having a relatively modest sales tax, is still an attractive state for drop-shippers due to the fact that it is the least populated state, which means the chance of needing to worry about collecting and remitting sales tax in Wyoming is negligible.

Choice of Entity

Foreign drop-shippers can choose primarily between two types of entities: [LLC](#) and [C-Corporation](#). LLC is the most common type of entity chosen by our foreign clients due to its simplicity, flexibility and single taxation. C-Corporation mostly chosen by young entrepreneurs looking to obtain Angel or VC financing.

You can see a comparison between LLC and C-Corporation here: [LLC vs. Corporation](#).

It is important to understand that as a foreigner the choice between LLC and Corporation typically comes down to how one wants to be personally taxed. We cover many questions of taxation in our article [U.S. Taxation for Foreign Entrepreneurs](#), and would like to invite you to go over that article, as well as consult a U.S. tax specialist, prior to making a decision on which type of company to register.

There is one tip that is worth giving here - you certainly can't go wrong with registering an LLC, simply because an LLC is such a flexible entity in terms of taxation that if you at some point decide that you would rather have your company taxed as C-Corporation, you can just file a C-Corporation election for your LLC with IRS. You don't get such flexibility with corporation.

Additional Information and Things to Consider

First of all, to register a company in the U.S. you don't need to present any documents - only information. Documents would be necessary in case you want a US address or need to open a bank account, but not for company registration.

You also don't need to be present in the U.S. to register a company. All filings can be done remotely, with us serving as your proxy in the U.S. In almost all cases when we need a signature from our clients this can be done electronically.

Other important things that many foreigners are concerned about - as a foreigner you are not required to have Social Security Number to open your company and obtain EIN (company tax ID). You also don't need to have a U.S. address or phone number, however if you like to have U.S. address and/or phone it's possible to obtain them from specializing vendors (see phone vendors [here](#), and [our U.S. address solution here](#)).

You do need to hire a [Registered Agent](#) that is located in the state of registration, however this is a standard service that we provide in all 50 states and DC, so there is no need to worry about it (just make sure to select this item on the form).

Banking in the US is a more complicated topic. There are some companies on the internet that promise international clients help in opening a bank account remotely, but we warn our clients to be careful with those who claim they can help that way. To learn more about banking in the

U.S., associated problems, and possible solutions please read our article "[Opening a Bank Account in the United States](#)".

Finally, international clients would need help filing their U.S. company taxes. We addressed this issue in our article [U.S. Taxation for Foreign Entrepreneurs](#).

Ready to Order?

We provide full service of forming your company, which includes everything from drafting and filing the Articles with the state for your choice, providing registered agent in any of the 50 state and DC, obtaining EIN for non-U.S. owners, drafting Operating Agreement, obtaining all necessary licenses and tax IDs, certifying your company documents for foreign use, and more.

Ready to start your Business in the USA?

[***Start an LLC***](#) [***Incorporate***](#)

Comparison Between LLC and Corporation

The following table gives side-by-side comparison of 3 most common forms of business organization: [C-Corporation](#), [S-Corporation](#), and [LLC \(Limited Liability Company\)](#):

NOTE: LLC is the most flexible type of business entity thanks to the fact that LLC members can keep the company taxed as partnership (or disregarded entity if single-member LLC, both default forms of taxation), or instead elect it to be taxed as S-Corporation or even C-Corporation, if company owners' taxation goals work best with these types of taxation.

Any corporation is taxed as C-Corporation by default, and can be elected to be taxed as S-Corporation, provided all shareholders are U.S. persons, etc ([read here](#) for a list of requisites for S-Corporation).

In the table below we compare LLC taxed as partnership (or disregarded entity) with corporations taxes as S-Corp and C-Corp respectively.

	LLC	S-Corporation	C-Corporation
Type of Ownership:	Membership Interests. May be different classes of membership. Owners called "Members".	Stock, but only one class. Can have voting and non-voting. Owners called "Shareholders".	Stock. There may be different classes. Owners called "Shareholders".
Eligible Owners:	No restrictions.	100 shareholder limit. No non-individual and no non-resident alien shareholders.	No restrictions.
Management:	Managed by members or designated manager(s).	Directors and officers.	Directors and officers.
Transfer of Ownership:	There may be restrictions under certain state laws.	Shares can be transferred only to eligible S corporation shareholders	Shares freely transferred.
Tax Rate:	There is no tax to the LLC on LLC income. All profits or losses pass through and are taxed to the members.	There is no tax except in two limited circumstances: (1) recognized built-in gains and (2) excess passive income.	Gradual tax rates from 15% up to 39% apply to taxable income. Personal Service Corporations are taxed at 35% of all income.
Tax Upon Sale:	Single tax at member level upon sale of appreciated assets. Generally, no tax on distribution of appreciated assets.	Single tax at member level. Potential built-in gains tax if corporation had appreciated property at time of S corporation election.	Potential double taxation. Corporation is taxed on sale of assets, shareholders taxed on dividends or capital gains tax.
Fringe Benefits:	Members are ineligible for certain ones.	Shareholders with 2% and less are ineligible for certain ones.	Shareholders-Employees are eligible for most.
Pass Through of Losses:	Losses passed through to members, subject to certain restrictions.	Losses passed through to shareholders, subject to certain restrictions.	Losses not passed through.
Fiscal Year:	Must use tax year of members having a majority interest in the LLC, or the tax year of all principal members if there is no majority member.	Must use calendar year, subject to certain exceptions.	May use any fiscal year. Personal Service Corporations must use a calendar year, subject to certain exceptions.

Liability of Owner:	There is limited liability for owner(s) and manager(s).	There is limited liability for shareholders, officers, and directors.	There is limited liability for shareholders, officers, and directors.
Duration:	Dissolves at the time specified in the Operating Agreement or upon the loss of a member unless other members agree to continue.	Indefinitely.	Indefinitely.

Quick Comparison: LLC vs. C-Corporation

The entities are taxed differently.

By default an LLC is a pass-through tax entity, meaning that the income is not taxed at the company level (however, a Multi-Member LLC is still required to complete a separate tax return). The income or loss as shown on this return is 'passed through' the business entity to the individual members, and is reported on their individual tax returns.

C-Corporation is a separately taxable entity, and pays tax on the income prior to any dividend distributions to shareholders. If and when corporate earnings are distributed to shareholders in the form of dividends, the corporation does not receive the reasonable business expense deduction, and dividend income is taxed as regular income to the shareholders.

The entities differ in their structure.

LLCs are less rigid in their structure than corporations, so you have more flexibility in adapting the LLC to your unique business. The Operating Agreement of an LLC can be structured in a limitless number of ways.

Formality:

A corporation is a formal entity with officers and directors (at least one of each) required. An LLC, on the other hand, can be 'member managed' and run in a less formal way. For small, start-up businesses, less formality means you can focus on making money rather than administrative work.

Quick Comparison: LLC vs. S-Corporation

Difference in income allocation:

While S-Corporation special tax status eliminates double taxation, it lacks the flexibility of an LLC in allocating income to the owners. An LLC may offer several classes of membership interests, while an S-Corporation may only have one class of stock.

Ownership restrictions:

Any number of individuals or entities may own interest in an LLC. Also, LLCs are allowed to have subsidiaries without restriction. Ownership interest in an S-Corporation is limited to no more than 100 shareholders. On top of that S-Corporations cannot be owned by C-Corporations, other S-Corporations, many trusts, LLCs, partnerships, or non-resident aliens.

Self-Employment Taxes:

One advantage of S-Corporation is the way self employment taxes are calculated. S-Corporation owners employed by the company must receive salary, and their self employment tax is calculated based on that salary (this is true with the exception of S-Corporations based in New York City). Owners of LLC, on the other hand, pay self employment taxes based on all member distributions they receive.

Quick Comparison: C-Corporation vs. S-Corporation

All corporations start as C-Corporations and are required to pay income tax on taxable income. An C-Corporation becomes a S-Corporation by completing and filing federal form 2553 with the IRS.

Taxation:

An S-Corporation's net income or loss is 'passed-through' to the shareholders and are included in their personal tax returns. Because income is NOT taxed at the corporate level, there is no double taxation as with C corporations.

Difference in income allocation:

Subchapter S-Corporations, as they are also called, are restricted to having no more than 100 shareholders, and cannot be owned by C-Corporations, other S-Corporations, many trusts, LLCs, partnerships, or non-resident aliens.



Incorporating in Delaware vs. Nevada vs. Wyoming
















Comparison Between Incorporation-Friendly States

It is commonly recognized today that [Delaware](#), [Wyoming](#) and [Nevada](#) can all be called "incorporation friendly" states due to their corporative laws, relatively low fees, and limited or nonexistent state-level taxation. However, how would a person choose between the three?

NOTE: *it is important to understand that in many cases the right choice of the state has to do with physical location of the business, and not with arbitrary choice of "more attractive" state. Before making any choice we recommend you to first read our article dealing with [Choosing Where To Incorporate](#).*

Here we present an itemized comparison between those states, and below a summary and conclusions:

	Delaware	Wyoming	Nevada
No state corporate income tax:		✓	✓
No tax on corporate shares:	✓	✓	✓
No franchise tax:		✓	✓
Minimal annual fees:		✓	
One-person corporation is allowed:	✓	✓	✓
Stockholders are not revealed to the State:	✓	✓	✓
No annual report is required until the anniversary of the incorporation date:		✓	
No Initial List of Officers/Members is filed with the state:	✓	✓	
No general Business License required:	✓	✓	
Unlimited stock is allowed, of any par value:	✓	✓	

Nominee shareholders are allowed:			
Share certificates are not required:			
Minimal initial filing fees:			
No minimum capital requirements:			
Meetings may be held anywhere:			
Officers, directors, employees and agents are statutorily indemnified:			
Continuance procedure (allows adoption of a corporation formed in another state):			
Doesn't collect corporate income tax information to share with the IRS:			

Summary & Conclusions:

In general, Delaware, through its developed legal system and laws protecting shareholder rights, is geared toward the large complex public corporations, whereas Nevada and Wyoming are more attractive to the small privately held corporations and LLCs. Delaware law tends to protect the rights of boards of directors and shareholders, while Nevada and Wyoming tend to favor management.

Does the above comparison mean Delaware is not the best place to incorporate?

Not necessarily. The choice to incorporate in Delaware depends on the long term goals of your company.

Delaware has an excellent body of corporate case law spanning 110 years regarding such matters as management/shareholder issues and mergers & acquisitions, and that's precisely why the Fortune 500 are drawn to this state. Delaware laws tend to be "pro-management" when it comes to minority shareholder disputes. Huge public companies have literally hundreds of such disputes pending in the courts on any given day.

So if you are aiming to grow your company to become a Fortune 500 company (or at least planning it to attract VC investors and possibly go for IPO one day), Delaware's case law offers many insights into what you can and cannot do, and what the likely consequences may be.

Unfortunately, Delaware also has corporate income tax, personal income tax, a state franchise tax, reporting requirements and regulations compelling disclosure of substantial amounts of information resulting in far less privacy for you. That makes Nevada and Wyoming much more attractive for small privately owned businesses.

Nevada or Wyoming? Things to consider when choosing between the two states:

1. Information sharing with IRS:

Nevada is famed as the only state that does not share information with the IRS. Although that fact by itself is true, there are few things that you should know about it:

First of all, Wyoming does share information with the IRS, but only the information given by companies with real assets inside the state. So if you don't have any real estate in Wyoming you are as protected in that regard as in Nevada.

Second, Nevada makes IRS mad. That means if you are in Nevada the IRS is targeting you because you are in a non friendly state.

2. Piercing of corporate veil:

The corporate veil separates the assets and liabilities of the company from the assets and liabilities of its owners, thus protecting owners from business risk. Nevada offers the best corporate veil protection available.

Wyoming also has well established criteria concerning the piercing of the corporate veil. Where fraud is not present, a Wyoming corporation that does not co-mingle funds and maintains some form of corporate formalities, including holding meetings of shareholders and directors, will not be pierced.

Many professionals consider Wyoming to be inferior to Nevada in that regard, with others claiming the differences are negligible.

3. State taxes:

There are no state income taxes on individuals or companies both in Nevada and Wyoming.

However, Nevada is now considered "the worst state to do business in" by the non-partisan Tax Foundation that has pointed to the new changes to Nevada taxation. Recently, annual list and business license fees which were already the 3rd highest in the nation were increased to \$350 for LLCs and a whopping \$650 a year for profit corporations. Nevada also has a new "Commerce Tax" on your GROSS REVENUE if your combined gross revenue of all of your Nevada business entities is over \$4 million per

year! In other words, the state will combine the income of multiple corporations of any common owner and apply the Commerce Tax if the combined revenue reaches the \$4 million threshold.

Wyoming is not considering any business income tax and does not need to, since Wyoming has a multiple year budget surplus.

4. **Continuance (moving your company to another state):**

Wyoming is one of only two states that provides for true continuance in its corporate laws. Many states provide for domestication, but that is not the same thing.

If a foreign corporation decides to domesticate in another state it either creates a new corporate entity in that state or it adds additional domiciles. However, in Wyoming, continuance is a process by which Wyoming creates the legal fiction that the corporation has always maintained its domicile in Wyoming.

Your existing corporation can retain its original incorporation date after becoming a Wyoming corporation. Anyone examining the Wyoming public record will see a corporation dating back as far as your current corporation does. You can promptly become a Wyoming Corporation without losing the many benefits of the longevity and continuity of operation.



U.S. Taxation for Foreign Entrepreneurs

What Is Covered Here

Let's start from a little disclaimer: U.S. taxation of nonresidents can be a fairly complex issue and involves many specific fact points that determine if the non-residents are subject to US taxation or not. This article attempts to capture the most typical scenarios and analyze them in the context of current (2014-2016) U.S. taxation rules.

It is impossible to know your specific tax obligations without a lot more information about your U.S. related business, so please use the information presented here for reference only. If you need more specific tax advice refer to the information at the end of this article.

Ok, now that we have cleared this very important point, let's move on and analyze a few of the most common cases. If you don't find your case among those listed here no worries - just ask your questions here and we will try to help.

- **General Taxation Questions**
 - What are the main types of business taxes in the U.S.?
 - Are there any other taxes I should be concerned about?
 - How does U.S. income tax work?
- **Sales Tax Questions**
 - How does the sales tax work?
 - How do I know if I need to apply sales tax on the stuff I sell?
 - Should I register in a state that has no sales tax, to avoid having to deal with it?
 - If I am registered in one state, but my vendors are drop shipping the stuff I sell in other states - which state do I need to collect sales tax in?
 - I know that I need to collect sales tax. How do I register?
 - After I register, how do I do reporting and remit sales tax?
 - My business is registered in one state, but my dropshipper is in another. They want me to show sales tax registration in their state - how do I do it?
 - I want to buy products in the U.S. and sell them in my country - do I need to register for sales tax?
 - How do I report sales tax in all the states I am registered in?
 - Do I need to register as foreign entity in states where I am registered to collect sales tax?
- **U.S. Business 100% Owned by Non-U.S. Person(s)**
 - I am a single owner of a U.S. LLC, non-U.S. person living abroad. My company provides remote services. Do I need to file tax return and pay income tax?
 - What if I import and sell goods in the U.S. - does it change the previous answer?
 - What if the LLC has more than one owner? What happens then?
 - Ok, I got the point about LLC. But what if it's corporation instead?
 - What is the best way to reduce the taxable income of my LLC or Corporation?
 - Ok, let's talk about wages. Can I pay myself a salary as a corporate officer, this way avoiding double taxation?
 - What if we spend all or most of the income of the U.S. company on services provided by our other company, registered in our country?
 - What if we retain all the corporate profits in the U.S., pay the corporate income tax, and not distribute it to shareholders? Can we just reinvest this money into the business?
 - So given all the owners are non-U.S. persons, from income tax point of view is it more beneficial to register LLC or Corporation?
 - How and when do I file tax return?
 - Do I need an ITIN to file taxes? If yes, how can I get it?
 - What about state income tax?
 - Should I register my company in the state that has no income tax?

- [I heard as non-resident alien I need to pay 30% income tax on my U.S. income. Is it true?](#)
- [What is form W-8BEN, and when do I need to file it?](#)
- [What about tax treaty between U.S. and my country? How does it influence my income tax obligations?](#)
- **[U.S. Business Owned by U.S. and Non-U.S. Partners](#)**
 - [Is there any disadvantage of having a U.S. partner in the company owned by non-resident aliens?](#)
 - [Since we have a U.S. partner in our corporation, can we elect it to be S Corporation?](#)
 - [I am US citizen and I want to open a business with a 50% partner who is a non-resident alien living abroad. What type of taxes will my partner pay if we form a C Corporation?](#)
 - [Double taxation doesn't sound like a good idea. What if we choose LLC \(taxed as partnership\) instead?](#)
- **[U.S. Business Owned by a Foreign Business](#)**
 - [Can a non-U.S. company own a U.S. company?](#)
 - [Is it better to own the U.S. company with my non-U.S. company from tax point of view?](#)
 - [I own a company in my country, and I want to register an LLC to be owned by this company. Can I then distribute U.S. profits of this LLC to my company, and pay the taxes in my country?](#)
 - [What if I own the U.S. company with my non-U.S. company, and the non-U.S. company will sell the U.S. company products for resale for the same price the U.S. company will sell them in the U.S.? I want to avoid having to pay taxes in the U.S.](#)
- **[U.S. Business Owned by U.S. Person\(s\) Living Abroad](#)**
 - [I am US citizen and a sole owner of an LLC. I live abroad, and my business is online only, without any physical connection. What kind of tax would I have to pay?](#)
 - [I am U.S. citizen living abroad. Is there a way for me to run a business from abroad and avoid being taxed in the U.S.?](#)

General Taxation Questions

Q. What are the main types of business taxes in the U.S.?

The main two types of taxes a foreign U.S. business owner should be concerned about are income tax and sales tax. Those are two completely different, unrelated taxes.

Q. Are there any other taxes I should be concerned about?

Some types of products have additional tax (and licensing) requirements, for example liquor and tobacco products, as well as other products. If you are not sure if your product or service has licensing or taxation requirements contact us and we will assist you with the research.

Q. How does U.S. income tax work?

This is a simple question, however it's U.S. income tax we are talking about. Technically, each taxpayer must pay tax on the income created in the U.S., and in some cases (such as the case of U.S. citizens or permanent residents) on income created abroad. The income tax is paid to the federal government (IRS), and in many cases to the state of residence, and in some cases even to the local jurisdiction (e.g. New York City).

However, we created this article precisely for the reason we cannot just simply answer this otherwise great question - the real answer is "it depends, because it's complicated". Keep reading the next items to see if U.S. income tax applies to you, and how.

OK - now that we know the difference between sales tax and income tax let's handle the sales tax portion of U.S. taxation, before diving into the depths of income taxation.

If you want to skip the Sales Tax section [click here](#).

Sales Tax Questions

Q. How does the sales tax work?

Sales tax is a tax paid by the **end user (consumer)** of a tangible product (and in some cases service) sold by a retailer. This tax is paid on a state level (there is currently no national sales tax or VAT).

For example, if you own electronics store in NYC, and a customer comes in and buys an item in your store, you would apply 8.875% (as of 2013) tax on top of the price paid by the customer. Then you are responsible to file a sales tax report to NY state and remit (pay) all the tax money collected from the customers.

Q. How do I know if I need to apply sales tax on the stuff I sell?

Excellent question. Before reaching a conclusion you must answer three questions first:

Are you selling to end users, or are you a wholesaler? Only retailers selling to end users are required to collect and remit sales tax.

Does your business have nexus in any state that has sales tax? Nexus is physical connection, and we discuss it later in this article. Some states (Alaska, Delaware, Montana, New Hampshire and Oregon) have no sales tax to begin with.

Is your product/service taxable to begin with? Keep in mind, most tangible goods are taxable, while most services are not, but each jurisdiction has its own rules, so it's not that simple.

Q. Should I register in a state that has no sales tax, to avoid having to deal with it?

Sorry, but it's not that easy.

For example, let's assume you register in Delaware (that has no sales tax) and you are selling some tangible items by shipping them from China to buyers in the U.S. Since in this case your business only has nexus in Delaware (as state of registration), you will not have to worry about sales tax at all. However, if you are using a U.S. dropshipper that ships the product from warehouses in California, Kentucky and New Jersey, technically you are required to collect sales tax from buyers of your product in all three mentioned states.

If you register your company in Wyoming instead of Delaware, you add Wyoming as another state to collect sales tax in. Sounds inconvenient, but only if you assume that a serious number of consumers of your product are roaming the vast stretches of the least populated U.S. state. We are deeply in love with Wyoming, but your chances of selling anything in that state are mostly close to zero, so you might not even need to worry about registering for sales tax there until you make a few Wyoming sales first.

How do you register for sales tax in all these states? Read further.

Q. If I am registered in one state, but my vendors are drop shipping the stuff I sell in other states - which state do I need to collect sales tax in?

As you learned from the previous question, your company nexus spreads to all states where your dropshipper has nexus. So unless your dropshipper processes the payment side of your sales, or unless you make no sales in any of these respective states, you need to obtain permits in each of these states (as well as in your state of registration, if it has sales tax).

Q. I know that I need to collect sales tax. How do I register?

We can help you with the registration in any state. Depending on the state this permit will be called "sales tax ID", "sales permit", "reseller permit", "vendor ID", or just "tax ID". We have this item both [on its own](#) and as part of our [LLC/Corporation](#) registration applications.

Q. After I register, how do I do reporting and remit sales tax?

You will find a good CPA (accountant) who will handle your sales tax filing as well as your income tax filing. You can try doing it on your own, but we don't recommend it.

Q. My business is registered in one state, but my dropshipper is in another. They want me to show sales tax registration in their state - how do I do it?

Almost all states have procedures to obtain sales tax permit without having to register the company as "[foreign entity](#)". It is usually called "out-of-state vendor ID" or something of the kind. We help with these permits as well.

Keep in mind though, if your dropshipper is also the one processing the payment then they will be collecting sales tax and reporting it to the state themselves, so you don't really need to obtain your own permit in case like this.

Q. I want to buy products in the U.S. and sell them in my country - do I need to register for sales tax?

Obviously you don't need to collect sales tax in the U.S. on these sales, but you might need to collect some sort of VAT tax in the country were you sell, so check the rules there.

However, the real question is this - can you buy from U.S. vendors without having to pay sales tax on these purchases (in wholesale)? The answer is yes, provided you obtain sales tax ID. That's why it's also called "reseller permit" - you want to resell the products you buy at wholesale, to the end users, without being considered end user yourself. Check with a CPA if the state in which you obtain the permit requires you to file zero tax reports.

Q. How do I report sales tax in all the states I am registered in?

Just as you do in one state - have your CPA file reports in each state you are registered in for sales tax, and cut checks for each state (or pay online, whatever the procedure is).

Q. Do I need to register as foreign entity in states where I am registered to collect sales tax?

Not necessarily. We distinguish the two cases as "soft nexus" and "hard nexus" (this is not official designation, we just like to call it this way).

"Soft nexus" has to do with connection strong enough to require you to register for sales tax (for example, if your have a dropshipper who ships from a specific state), which is usually done with state's taxation department (or it's equivalent), but not strong enough for registration with Secretary of State (or whatever authority registering companies in the given state).

"Hard nexus" is when you have physical connection to a state, for example if you have an office, warehouse, employees, or if you are managing the business from this state and are physically located there.

So register for sales tax only in states where you have “soft nexus”, and register foreign entity and sales tax in states where you have "hard nexus"

Ok, the question of sales tax should be more or less clear by now. Let's proceed to more complex topic of income tax.

U.S. Business 100% Owned by Non-U.S. Person(s)

Q. I am a single owner of a U.S. LLC, non-U.S. person living abroad. My company provides remote services. Do I need to file tax return and pay income tax?

A single member LLC that elected to be a disregarded entity (a default election) would only pay tax based on the tax status of the owner. Since the owner is not physically present in the US and is providing services remotely there would be no income effectively connected to the US. That means the LLC would owe no US tax, except for the annual registration fee in the state of LLC registration, and there would be no US federal tax obligation (in other words there is no requirement to file income tax either).

Keep in mind though - you might not technically be producing income in the U.S., but you still could be (and chances are) liable to income tax on this income in your country.

Q. What if I import and sell goods in the U.S. - does it change the previous answer?

If your business is selling tangible goods in the US, you are required to report the income from this business to the IRS. Non-US residents report their US sourced income on [form 1040NR](#).

Don't try to figure this form out - it is our recommendation to hire a CPA to handle all your U.S. tax issues. You will also need to obtain ITIN, something your CPA will be in the best position to assist you with.

Q. What if the LLC has more than one owner? What happens then?

LLC that has more than one owner (partnership), or if it is elected to be taxed as S or C Corporation (any number of owners), must file federal tax return, even if it has zero income.

Q. Ok, I got the point about LLC. But what if it's corporation instead?

A corporation is a separate tax entity from its owners. That means the corporation files its own tax return and pays its own tax liability. That also means that one cannot freely transfer money between the owners (shareholders) and the corporation. The corporation can reimburse the

owners for expenses they pay on behalf of the business, and the corporation can pay owners for services they provide to the corporation, both of which are tax deductions for the business.

The only other option for the shareholders to take funds from the business is if the corporation pays them dividends. Dividends are not a tax deduction and are generally taxable income to shareholders as the individuals. As a shareholder, your personal income is subject to the income tax rules in your country of residence.

Q. What is the best way to reduce the taxable income of my LLC or Corporation?

Most businesses have both revenues and expenses. The IRS keeps a list of eligible business expenses, and it is safe to say that expenses that can be obviously related to maintaining and running the business (e.g. hosting, advertising, salaries of employees, etc.) are considered deductible expenses. Other expenses might be partially deductible, and it is best to have your CPA handle the question which of your expenses are deductible and to what degree.

To minimize your tax obligation you would want to report as many eligible expenses as possible, however you should be able to prove these expenses were real, so keeping receipts and/or bank and credit card statements is a must.

Q. Ok, let's talk about wages. Can I pay myself a salary as a corporate officer, this way avoiding double taxation?

If you are non-resident alien you probably don't have work permit, which means you cannot receive a salary as a resident alien or U.S. citizen would. Sorry.

You could however provide services, such as management services, to the U.S. company, and receive payment in form of consulting fees. You will then be required to report this income in accordance with your country tax rules.

Q. What if we spend all or most of the income of the U.S. company on services provided by our other company, registered in our country?

You could do that, provided you can prove services were indeed provided and properly documented. You also want to make sure these services are provided outside of the U.S., in order not to be considered U.S. sourced, and as such subject to 30% withholding requirement (more about it below).

Q. What if we retain all the corporate profits in the U.S., pay the corporate income tax, and not distribute it to shareholders? Can we just reinvest this money into the business?

Yes, you can.

Q. So given all the owners are non-U.S. persons, from income tax point of view is it more beneficial to register LLC or Corporation?

Tricky question that depends on lots of factors. Both entities have their pros and cons, so before reaching a conclusion you should analyze your specific situation, make some forecasts on how your business will evolve, and also - consult a CPA, it will help you a lot.

Keep in mind, there is not always a “right” and “wrong” answer - often times either entity that you would form for your business would work just fine.

Q. How and when do I file tax return?

By hiring a knowledgeable U.S. CPA (accountant). The deadline in most cases is or around April 15 (each year can be a bit different). You can file extension by that date, and the new due date is September 15 for companies and October 15 for individuals.

Keep in mind, corporations have to file quarterly reports, while LLCs taxed as partnerships file once a year. This could result in slightly higher cost of accounting services for corporations.

Q. Do I need an ITIN to file taxes? If yes, how can I get it?

Whether you need to obtain an ITIN will depend on if you have US tax reporting obligations due to your US business interests. It is possible that you will need an ITIN if you have membership interest (ownership) in an LLC, but most probably you won't need one as a shareholder of a corporation.

KEEP IN MIND: Individuals must have a filing requirement and file a valid federal income tax return to receive an ITIN, unless they meet an exception.

For more information on ITIN please visit [this IRS page](#).

Q. What about state income tax?

This tax is only applicable to C Corporations, not LLCs. It applies to income earned by the corporation in the state, unlike federal income that applies to all U.S. sourced income.

Even though LLCs don't pay income tax, it is a good idea to check with your CPA if there are any filing requirements for the LLC in the state of registration.

Q. Should I register my company in the state that has no income tax?

Again, it doesn't matter if you choose LLC. For corporations it matters, but only to the extent that you believe you will have lot's of income in the state of registration. For example, if you have a Delaware Corporation and your business has no income coming from sources in

Delaware then you will have no corporate tax to pay to the state of Delaware, only the federal corporate tax.

Q. I heard as non-resident alien I need to pay 30% income tax on my U.S. income. Is it true?

It is true in certain cases. It is called NRA (non-resident alien) withholding, meaning your payee keeps 30% of the sum they are paying you, and remits this sum to the IRS.

According to IRS rules “in order for a payment to be subject to NRA withholding, it must be a payment of FDAP income. FDAP is an acronym for Fixed or Determinable, Annual or Periodic. Some of the more common expenses paid by US withholding agents which would result in FDAP income to their vendors and other service providers are interest, royalties, compensation for personal services, rents, pensions or annuities and gains from the sale or exchange of the patents, copyrights and similar intangibles...” (see more details [here](#)).

Here is a key - for FDAP income paid to a foreign person to be subject to NRA reporting and withholding, the payment must be U.S. sourced. So how do you know if your FDAP income is in fact U.S. sourced? Here are some examples:

1. **Interest:** If the debtor is a U.S. resident, the interest is generally U.S. sourced.
2. **Royalties:** If the subject property is used in the U.S., the royalty payment is U.S. sourced. Payments made in connection with the sale of certain intangible assets, including copyrights and patents, are generally sourced similar to royalties when the payments are contingent on the productivity, use or disposition of the intangible.
3. **Rents:** If the rental property is located in the U.S., the rental payment is U.S. sourced.
4. **Personal Services:** If the services are performed in the U.S., the payment for those services is generally U.S. sourced.

Q. What is form W-8BEN, and when do I need to file it?

Form W-8BEN is a Certificate of Foreign Status of Beneficial Owner for United States Tax Withholding. You need to fill this form out and give to the withholding agent or payer if you are a foreign person and you are the beneficial owner of an amount subject to withholding. In other words, if you have U.S. sourced FDAP income your payer will be responsible to withhold the 30% tax based on the information listed on the W-8BEN.

Keep in mind, you need to submit Form W-8BEN when requested by the withholding agent or payer whether or not you are claiming a reduced rate of, or exemption from, withholding.

Q. What about tax treaty between U.S. and my country? How does it influence my income tax obligations?

If you as foreign vendor are a resident in a country that has a tax treaty with the United States, the 30% rate may be reduced. Each treaty has specific provisions which determine the reduced

withholding rate. These provisions reduce the withholding rate based on the type of income and the status of the recipient.

To know if your country has tax treaty with the U.S. please visit [this page](#). You can study the text of the treaty to understand how it influences your withholding situation, although I would recommend using the help of a CPA for that as well.

U.S. Business Owned by U.S. and Non-U.S. Partners

Q. Is there any disadvantage of having a U.S. partner in the company owned by non-resident aliens?

Not that we know of. The rules of taxation apply first on the entity, and only then on each individual partner, based on each partner's individual tax situation.

Q. Since we have a U.S. partner in our corporation, can we elect it to be S Corporation?

No. S Corporations cannot have non-U.S. owners.

Q. I am US citizen and I want to open a business with a 50% partner who is a non-resident alien living abroad. What type of taxes will my partner pay if we form a C Corporation?

There are pros and cons to both structures for a non-resident. A C-Corp would mean your partner is not necessarily required to file a US tax return. He can be paid dividends from the C-Corp, but as with any C-Corp there is no tax deduction for dividends paid out so the earnings are likely to be double taxed, once by the corporation and then by the owners - in the US for you and in your partner's country for him - as dividend income.

Q. Double taxation doesn't sound like a good idea. What if we choose LLC (taxed as partnership) instead?

An LLC taxed as partnership would eliminate the double taxation, but definitely subjects the non-US partner to U.S. taxation for his share of earnings and profits from the business. The partner would then have to file a 1040NR and report his share of profits and pay US tax on those profits. The partnership would also need to withhold tax at 30% for the foreign partner. Depending on his earnings the withheld tax would be credited and potentially refunded against what he may owe when he files his individual non-resident tax return.

U.S. Business Owned by a Foreign Business

Q. Can a non-U.S. company own a U.S. company?

Yes, it can, provided the U.S. company is not S Corporation (or LLC taxed as S Corporation).

Q. Is it better to own the U.S. company with my non-U.S. company from tax point of view?

Not necessarily. Ownership does not control if tax is due on US operations of the business. You will need to consider US taxation of non-resident aliens, and if the profits earned in the US are what is known as income effectively connected to operation of a US business, to understand how taxation would work in your specific case.

Q. I own a company in my country, and I want to register an LLC to be owned by this company. Can I then distribute U.S. profits of this LLC to my company, and pay the taxes in my country?

It is not uncommon for an online business to avoid US taxation, but there are a number of specific factors that are unique to every business which you will have to consider. As you can see from a previous answer, ownership is not the only factor in defining if tax is due, so cases like this should be discussed with a US based tax professional

Q. What if I own the U.S. company with my non-U.S. company, and the non-U.S. company will sell the U.S. company products for resale for the same price the U.S. company will sell them in the U.S.? I want to avoid having to pay taxes in the U.S.

You would not be able to sell at zero profit, due to what are known as transfer pricing rules, which establish how related entities located in two different taxing jurisdiction must establish the price they charge each other for items that are transferred between themselves.

U.S. Business Owned by U.S. Person(s) Living Abroad

Q. I am US citizen and a sole owner of an LLC. I live abroad, and my business is online only, without any physical connection. What kind of tax would I have to pay?

Online businesses are taxed just like any other business for income tax purposes and as a US citizen you are subject to tax on worldwide income. If you are living abroad, you may qualify for an earned income exclusion for wages you earn overseas, but profits from your US business would still be subject to state and federal income taxes in the US.

An individual can qualify for a foreign earned income exclusion, but the amount of exclusion is \$97,600 for 2013 and earnings over that amount in any one year are taxable.

Q. I am U.S. citizen living abroad. Is there a way for me to run a business from abroad and avoid being taxed in the U.S.?

There is the potential to avoid or at least delay, US taxation through setting up a non-US subsidiary, but that is typically only temporary as any earnings would be taxable in the US if or when those earnings are brought back into the US.

Depending on the long term goals of the taxpayer he might at least defer paying US tax, but if he intends to bring that money back into the US at some point it will probably be taxed as foreign profits. There are some methods to further defer or avoid US taxation of repatriated profits, but it is a complex area of the tax code that is very specific to the taxpayer's situation and way beyond what we would attempt to explain here.

Conclusion

Well, as we mentioned earlier, U.S. taxation is anything but trivial. We hope this article was educational enough to give you some idea on how U.S. taxation works, and what to do next.

Keep in mind two important points:

1. no matter what your situation is, it is always a good idea to consult a knowledgeable U.S. tax expert who will be able to analyze your specific situation, and give you qualified advice. Knowledge gained from this article will already save you some time, so you can focus on understanding the deeper issues related to your situation. Those \$50 or \$100 spent on a 30 minutes tax consultation might be the best money spent on our business.
2. chances are there is no "right" or "wrong" solution - a few solutions that you would consider to your particular situation might all be "more or less right".

If you think you have a tax question that deserves to be answered and published in this article by all means [email it to us](#), and we will do our best to answer and publish it. For other, more specific questions we recommend our 30 minute tax skype or phone consultation that you can order directly [here](#).



U.S. Bank Accounts For Foreign Entrepreneurs

Opening a Bank Account in the United States

Many international businesses need to open a U.S. business bank accounts to make doing business with U.S. customers more convenient and to avoid the hassle of foreign currency and exchange rates. In general, it is strongly recommended that a business entity maintains a separate bank account. This would help keep entity in compliance with IRS record-keeping requirements and will provide for a better way to manage company's cash flow.

After 9/11 and with the passing of the Patriot Act it became really hard for foreigners to open U.S. bank accounts. Today all US banks are required to document verification that the person opening the account is the person on the I.D. they're receiving. The easiest solutions practically

all banks chose to go with is simply having one of the employees in their branches make sure that the person opening the account in the branch is the same person in the photo I.D.

Ways to Open a Business Bank Account in the US, and Alternatives

So what are the possible ways to open a bank account in the US for a non-US person, not residing in the US? Let me present you with several possible solutions to this dilemma, including some alternatives to opening an account in the US:

If You Have a Personal Bank Account in the U.S...

If you visited the U.S. in the past and have opened a personal bank account your best bet would be to try to contact your bank (preferably the same branch) and see if they would open an account for your business remotely.

Try a Few Online Bank Options

Periodically it's possible to find an opportunity to open an account remotely with an online bank. For example, you can try such banks as Silicon Valley Bank or EverBank. Also, eTrade seems to have the option of opening a bank account, even though they are technically a brokerage. It's a long shot, but worth trying before anything else.

Keep in mind: online banks typically require an SSN (Social Security Number), but would open an account if you have ITIN (individual Tax Identification Number) as a replacement (ITIN has the same number of digits as SSN).

Use a Reloadable Prepaid Debit Card Account Instead of Traditional Bank Account

In most cases what you need is not a bank account per se, but the functions provided by a traditional bank account. For that you can use a reloadable prepaid debit card from companies such as NetSpend, [Payoneer](#), etc. What you get is an internationally recognized debit card and an account number with routing and ABA numbers.

With such an account you can set up free Direct Deposit of your paycheck, have your card reloaded at various locations (for example NetSpend list on their website more than 100,000 NetSpend Reload Network Locations throughout the U.S. to add cash or checks), and transfer money using PayPal®, a checking or savings account, or another card account (NetSpend or [Payoneer](#)). You should even consider opening accounts with several of those companies, to diversify your financial option.

Travel

A trip to the US would present you with the best opportunity to open a bank account. If you plan a trip anyway, or have the financial ability (as well as spare time) to make a trip to the US

then it would probably be the best solution. Keep in mind that you need to bring a number of documents, both personal and business related, and it's always a good idea to contact the bank directly prior to arrival to ensure you have all the documents in your possession at the time of visiting the branch. Below I list all the documents required (or those that might be required) by a typical US bank (however keep in mind that even within the same bank different branches might have slightly different requirements).

Verify Your Identity in U.S. Embassy

Some banks would accept I.D. verification through US embassy. A person in a foreign country looking to open a U.S. bank account could go to a U.S. embassy in their country, and someone there at the embassy could sign the I.D. verification form. Obviously, this is really only practical for someone who lives close to a U.S. embassy, however if the only alternative is to travel to the US then it could be a better solution. Of course, this is only meaningful if you verify first with the bank in the US that they would accept it.

Partner with Someone in the US

If traveling to the US or using the embassy solution is not an option, one way to do it is by partnering with someone in the US. Many people have friends and family in the US that could assist them in opening a bank account. It is very important to understand that a person you partner with, who will also be the one listed as company representative at the bank, should be trustworthy, so choose carefully. Keep in mind that this person will have access to all company funds going through this account, and as long as you are not listed as a co-signer on the account, would have exclusive authority to perform such operations as closing or blocking it.

Hire a US Manager/Executive Officer

If you want to keep the ownership to yourself an alternative would be to hire a manager or executive officer for your company, who would represent it at the bank. LLCs for example can be formed as "manager-managed", which in some states would require you to list the manager on company's Articles of Organization. Similar to previous solution that person would have exclusive authority in questions of managing the bank account, so choose carefully.

This solution is different from the previous one in that fact that here you will compensate the manager with a salary (or one time payment), while in the previous solution you compensate them with shares or member interest. To grant this person an authority to represent your company you might need to issue them a Certificate of Incumbency ([see below](#)).

Alternative #1: Bank Account In Your Country

Some businesses registered in the US might not even need a US bank account. If your company would provide services to business clients in the US it might be an option to have the funds wired to a US dollar bank account of your US company that you would open instead in your

country. If you plan to have a merchant account (for example to accept credit card payments online), not being a US person your only solution might be to open a merchant account with a bank or financial institution in your country, in which case you would need to have a bank account in your country anyway.

Keep in mind, in order to open a bank account for a US company in your country the company documents need to be certified through a process called "Apostille/Embassy Certification" ([see below](#)).

Alternative #2: Bank Account in Another Country

You might as well opt for opening a bank account in an offshore jurisdiction. Many jurisdictions are known for their beneficial environment for business activity and make it easy to open bank accounts remotely, so you might want to consider researching this option further.

Alternative #3: PayPal and Similar Services

Depending on your business needs you might want to opt for using financial services such as PayPal. If you are having hard time opening bank account and merchant account for your business, using PayPal or similar services (such as Google Wallet, Amazon Payments, etc.) to collect payments from your client might be your only (but nevertheless viable) option.

Alternative #4: 2Checkout, Stripe & Skrill (ex-MoneyBookers)

If the only reason why you need a U.S. bank account is to be able to collect payments from your U.S. clients you should consider using 2Checkout, Stripe, or Skrill for credit card processing. 2Checkout, Stripe and Skrill allow merchants based in a number of countries covering wide range of industries to collect online payments from buyers across the globe.

Alternative #5: High-Risk Merchant Accounts

If your country or industry is not covered by 2Checkout or Skrill there is an option of high-risk merchant accounts. The terms of use for those accounts usually include higher than regular fees (between 7% and 15%), and also longer payout delays (2-3 weeks, compared to 2-3 days for regular accounts). Some other terms might apply. When you establish some history with the high risk merchant account provider (such as 6-9 months of flawless processing) you could qualify for better terms. Also, your processing history with one provider could be used in the future to apply for a merchant account with another provider, with better terms.

Required Documents

When opening a bank account in the US a company representative appearing in person in the bank would need to bring specific company and personal documents. Below you can see the list of all possible documents a representative would be required to have in his/her possession:

Articles of Incorporation/Organization

To open a business account in the U.S., a company must be registered in one of the US states or D.C., and a representative would submit proof of this entity formation to the bank. The type of documentation required depends on the type of entity formed: a [corporation](#) must submit Articles of Incorporation, and an [LLC](#) must submit Articles of Organization. Some banks would accept filing receipt instead, but majority require a [certified copy of Articles](#).

EIN Confirmation Letter

EIN (also known as [federal employer identification number](#)) Confirmation Letter (form SS4) is required by all banks to open a business account. The basic reason is that the bank (and yourself) have tax reporting requirements to the Internal Revenue Service (IRS) based on your account information, and the EIN is required as the reporting identification number.

Photo Identification

Typically a bank would require 2 pieces of identification for the company representative opening the account, at least one of these must have a picture. A passport would work just fine, but make sure its not expired.

Proof of Address (Applicant)

Banks require the company representative opening the account to submit a personal proof of address. Examples of eligible documents are utility bills, or foreign bank account statements (preferred). Keep in mind - the document MUST be in English. If it's in language other than English it must be officially translated and notarized. Keep in mind, some banks have multilingual bankers, authorized to accept documents in the language they are certified for, but you shouldn't count on that.

US Business Address

Most U.S. banks will not open a business account without a [U.S. physical address](#). Sometimes the bank will accept the street address of a Registered Agent, otherwise known as a Registered Office. Banks are usually accommodating on this requirement, especially if your type of business is one in which having a physical branch is impractical, for example a company that does business mainly over the Internet.

Some banks also require that the U.S. physical location be within a certain distance (e.g. 10 miles) of the bank branch at which you open the business account. For example, you cannot open a business account in New York if your U.S. physical address is in California.

Minimum Deposit

Minimum deposits vary from bank to bank, with most brick-and-mortar banks requiring as little as \$100 (some banks might even have \$0 deposit requirements). Check with your bank what would be their minimum deposit requirement for foreign clients.

Letter from a CPA or Company Attorney

This document might be required in some banks, if the bank is located in a state other than the state of registration. For example, if you register a Wyoming LLC and want to open an account in a New York bank, the bank would want to see a statement, written by a company accountant or an attorney, stating that this company does not do business in their respective state (in our example, New York). This should not be a complicated letter, something along the lines of, e.g., "I am such and such, confirming that company ABC, formed under the laws of Wyoming, does not and has no immediate plans to conduct business in the state of New York...". The letter must be dated and signed.

Certificates of Good Standing

Many banks require that companies submit [Certificates of Good Standing](#) (also called Certificate of Existence) to show that they are currently doing business and in good standing in the state in which they formed their business. Please contact the bank to see if they have this requirement.

Certificate of Incumbency

Certificate of Incumbency (also called "Incumbency Certificate") is an official document that lists the names of incumbent directors and officers within an organization, and their corporate position within it. An Incumbency Certificate is used as confirmation of the identity of the signing authorities of a company and to prove that they are authorized to enter into legally-binding transactions on the company's behalf. This certificate can be drafted on demand (there are plenty of samples online), and must be signed by the company secretary and sealed by a [company seal](#).

Banking Resolution

Banking Resolution is a company document issued by the Board of Directors (for corporations) or by Members (for LLCs), giving certain individuals the authority to open a bank account on behalf of the company. Some banks have specific language that they require to include in the resolution (and would often supply a sample), other bank accept resolutions issued by the company, as long as it clearly presents and identity of the individual(s), and the extent of the authorization.

Operating Agreement / Bylaws & Minutes

An operating agreement is an agreement among LLC Members governing the LLC's business, and Member's financial and managerial rights and duties. Corporate bylaws are generally concerned with the operation of the corporation, setting out the form, manner or procedure in which a corporation should be run. Bylaws come with minutes of meetings (in the beginning they would include the initial meeting, where bylaws are adopted by the board of directors).

Some banks would require a company representative to present the bank with a copy of those documents (operating agreement for LLC, and bylaws with minutes to corporations) when opening a bank account (albeit its quite rare).

Apostille/Embassy Certification

If you plan to open a bank account in your country or in one of the offshore locations you should be aware of the local regulations and inquire at the bank which documents would be needed to open an account. Typically, at least the Articles of Organization/Incorporation would be required, and this document then needs to be certified for international use.

If you plan to open a bank account in any jurisdiction that is a signatory of a Hague Convention (also called "Apostille Convention") then you would need to have an Apostille attached to a certified copy of your company's Articles (this is done on a state level only).

If you plan to open the bank account in any other country or jurisdiction that is not a signatory of the Hague convention then the process is a bit more complicated and involves certification of the document at the US State Department and then at the Embassy of the country/jurisdiction in question.

Banks to Try

In the current banking market, customers can choose between brick-and-mortar banks, typically big national banks with numerous local branches throughout the country, or Internet-only banks.

The advantage of brick-and-mortar banks, such as Chase, Citi Bank, Bank of America, Wells Fargo, or HSBC, is that they have many local branches where you can visit and speak to representatives in person. On the other hand, the main advantage of Internet-only banks, like Silicon Valley Bank, EverBank, ING Direct and HSBC Advance, is that they do not have the overhead expenses of operating local branches, and therefore can afford to offer their customers better rates on their accounts.

Internet-only banks might be more flexible in terms of accepting applications of foreigners, however many of those banks reject applications without Social Security Number.

It's a good idea to contact several banks and see what options they have for foreigners who cannot travel to the US. If you can travel in person then you should have no problem opening a bank account, provided you are equipped with all the documents when you show up at the bank. Most banks would permit you to fax or email them whatever document that would be missing, the most important thing for them is to go through identity verification process of the applicant.

Conclusions

Although opening a bank account in the US might seem a complicated issue, it is really only complicated by the requirement of personal appearance at the branch. Therefore its a good idea to plan ahead before a company is formed and see if (a) a bank account in the US is absolutely necessary, or one of the alternatives would work just fine, (b) is it possible (or feasible) to make the trip to the US in person, or (c) is there are third party (friend, relative, someone you would choose to trust) located in the US who would agree to join the company as partner or manager.



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