



# **How to Set Up Your Internet Business in Another State (or Country)**

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## The Scam

Enough is enough.

Nearly every Internet marketing seminar these days has some asset protection or tax *guru* selling scams that involve setting up corporations or limited liability companies (LLCs) in Nevada or Wyoming.<sup>1</sup>

These con artists are often current or former lawyers or accountants, which unfortunately gives them credibility when they lie to you from the stage.

Don't believe the hype. It could cost you your business - and even put you in prison!

Twenty years ago, the same scam was being pitched for other states, such as Maine and Delaware. The only things different these days are (1) the names of the states have changed and (2) the scam artists are targeting Internet business owners like you as victims.

How does it work?

The typical con artist selling these scams will tell you that his system is unique because it will protect/hide your assets plus you will pay little or no income taxes.

Sound too good to be true? It is.

Unless you actually live in Nevada or Wyoming, chances are you've been conned.

Why?

Let's say that you live in Texas<sup>2</sup> but set up a Nevada corporation for the tax and asset benefits. You operate your entire Internet business from your home in Texas and even

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1 For purposes of this report, Nevada will be emphasized instead of Wyoming because it is more popular these days, particularly with California Internet business owners who are trying to avoid California's high taxes and regulations. However, the concepts are the same whether we're dealing with Nevada, Wyoming, or even an offshore haven like Belize or the Cayman Islands.

2 Texas is used as an example because the author is licensed to practice law there but the concepts apply in most states. In fact, California, Florida and New York are more aggressive than Texas about the issue.

have your Nevada corporation set up a business checking account at your local Texas bank.

Are you really doing business in Nevada or are you actually doing business in Texas?

## **Qualifying to Do Business**

The State of Nevada will be happy to take your annual fees *but* the State of Texas is going to be very interested in the business you're doing too.

In fact, to do business in most states, you must either set up your business entity there or qualify to do business in that state as a *foreign* entity. In Texas, for instance, this would mean registering your Nevada corporation (or LLC) with the Texas Secretary of State's Office.

And this means registration fees, annual franchise taxes in Texas, and filing an annual report listing the officers for your Nevada entity with the Texas Secretary of State's Office.

To recap, you're now doing paperwork in both Nevada and Texas, probably paying taxes in both states, and making a public record in Texas of who controls your business (say goodbye to privacy).

## **If You Get Caught**

What the con artist is counting on is that you don't get caught. And you might not....but what if you do?

Let's look at Texas as an example.

"If a foreign entity [*such as a Nevada corporation or LLC*] transacts business in Texas without registering,

- \* the entity cannot maintain an action, suit, or proceeding in a Texas court until it registers;

- \* the attorney general can enjoin the entity from transacting business in Texas;

\* the entity is subject to a civil penalty equal to all fees and taxes that would have been imposed if the entity had registered when first required; and  
\* if the entity has transacted business in the state for more than ninety (90) days, the Secretary of State will impose a late filing fee for an Application for Registration equal to the registration fee for each year or part of year of delinquency.” Source: [Texas Secretary of State's website](#).

There you have it. Back taxes and penalties.

Will the con artist who sold you the Nevada entity be around to pay these? Or will you be stuck?

## **Personal Liability**

If your corporation or limited liability company hasn't qualified to do business in the state where it actually does business, there's a real danger that all the asset protection features disappear. If your business gets sued, the court could ignore the existence of your corporation or limited liability company, treat it as a sole proprietorship, and you'd be on the hook personally to satisfy any judgment against you or your business.

And, of course, there's the personal liability for those taxes you didn't pay to the state for those years you didn't register your entity to do business.

## **Hiding Your Identity**

Con artists who sell Nevada and Wyoming entities will sometimes do so based on privacy. Some will go so far as to make unsubstantiated claims about the ability to use bearer shares and the effect of using such shares. Note that transfers of bearer shares, by gift or sale, can trigger a taxable event both at the federal and state level.

Even assuming such is possible, and that there are no adverse tax consequences when a transfer is made, there's also the matter of identifying who controls the company when you file an annual report with the state where you actually do business. What good is hiding your identity in State A when the business entity has to disclose it in State B?

## How About Using Multiple Entities?

Talented con artists who pitch these asset protection scams at seminars will increase their profits by recommending that you pay them to set up a bunch of corporations or LLCs.

Although there are variations, the typical argument made is that you can create a management company for your other entities. If a particular corporation or LLC you own loses a lawsuit, the management company can then loot the profits of that entity through management fees so that you get all of the benefits and don't have to pay a dime to the winner of the lawsuit.

That's an attractive idea until the winner of the lawsuit figures out what you're doing and goes back to the same judge to nail you for fraud. Think the judge is going to be sympathetic to you? Unlikely.

Piercing the veil under *alter ego* theory or a similar legal argument after looking at the facts, the judge is likely to find the management company liable, you *personally* liable, and may even award the other side attorney fees and court costs for having to deal with the nonsense.

In plain English, the judge will probably recognize the shell game you're playing, understand that you own all the entities involved, and reject them in order to make sure the winning side gets paid what they're owed by you.

## Choice of Governing Law

Just because you set up a Nevada entity doesn't mean Nevada law will apply if you get sued in another state.

The law of the state where you're sued, *not* Nevada's law, is most likely going to determine what will happen to you.

If you're sued in *federal* court, federal rules of civil procedure will govern *and* the substantive law will probably be either federal law or the state law in the place where you're sued.

## **What's the Solution?**

If you're really doing business in the state where you live, don't fall for the slick talking pitch from the sleazy lawyer or CPA selling you on setting up a corporation or LLC elsewhere for tax or asset protection savings.

Consult with a qualified Internet business lawyer, your accountant, and make wise decisions as to the type of entity you really need.

There *are* ways to legitimately set up and run your business online in another state (or country<sup>3</sup>) but tax and legal formalities must be observed so that you don't get in trouble.

Remember that proper tax avoidance (minimizing your taxes) is legal. Tax evasion (not paying taxes you owe) is illegal. The latter can cost you a lot of money and even lead to criminal charges for tax fraud.

### **If this special report has helped you...**

E-mail copies of it to your friends and colleagues who own business websites.

You will be doing them a favor.

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<sup>3</sup> Post-9/11, the U.S. government aggressively tracks offshore banking as part of the "War on Terror" and "War on Drugs." Foreign banks are cooperating. Extra precautions must be taken if you live in the United States and decide to set up your business overseas.

## Author Bio



Internet Business Law Attorney Mike Young has a long history of helping clients protect their businesses by applying protective strategies to online marketing dating back to the mid-1990s. He spends most of his time in the State of Texas and the Republic of Panama.

Mike is the author of the book “[Internet Laws – How to Protect Your Business Website without a Lawyer.](#)” His [Website Legal Forms Generator](#) software is used by a who’s who in business and online marketing.

Mike is a sought-after strategist and speaker who has worked with some of the biggest names in online marketing, spoken to groups of business owners, and has appeared on many information webinars and teleseminars.

In addition to representing businesses online, Mike co-owns several successful online ventures. He’s also the current President of the [Internet Attorneys Association](#) and Chairman of the [Internet Ethics Council](#).

A devoted husband and father, Mike enjoys having the time to be actively involved in family life. He gets his exercise chasing three rambunctious [Pembroke Welsh Corgi dogs](#).

His Internet law firm’s primary website is <http://MikeYoungLaw.com>.