

California Professional Corporations

A Corporation that provides “Professional Services” must incorporate as a Professional Corporation.

A Professional corporation is a special type of corporation for business owners who work in specialized fields. In California, professional corporations are established under the Moscone-Knox Professional Corporation Act, California Corporations Code section 13400-13410. In California, professionals must form either a California professional corporation or a registered limited liability partnership. Unlike many other states, California does not allow professionals to form a limited liability company or professional limited liability company.

Types of Professional Services Industries

Professional Services usually consist of the following activities:

- Accountant
- Architect
- Attorney
- Chiropractor
- Dentist
- Doctor of Medicine or Surgery

- Engineer of Medicine or Surgery
- General Professionals
- Pharmacists
- Psychologist
- Veterinarian
- Massage Therapist

A California Professional corporation can only lawfully render professional services through employees who are licensed to perform such services by the State.

1. The owner of the corporation usually requires a license for their profession
2. They are usually regulated by state in some way.

Selecting Name for your California Professional Corporation

Some states require an entity-specific designation in the corporate name, such as “PC” for a Professional Corporation.. (See Cal. Corp. Code § 13409 for name requirements.) It is important to check the name availability with the California Secretary of State. The name chosen for the professional corporation in California must also comply with any rules which regulate the service profession as well as any name requirements issued by the licensing agency for that profession.

Liability Protections of a Professional Corporation

Professionals who set their practice up as a California professional corporation are able to protect their personal assets against lawsuits brought against them through their business practice. Although setting up a California professional corporation does offer corporate owners protection against lawsuits, owners are not free from personal liability for malpractice from their own acts. The professional is protected from the malpractice of other owners within the company.

Professional Corporation Taxation Issues

A California professional corporation is generally taxed like a C-corporation, unless an S-Corp election has been made. In California, a personal service corporation that offer services in the fields of health, law, engineering, architecture, accounting, actuarial science, or consulting can make an S-Corp election. There are rules and restrictions, advantages and disadvantages when a California professional corporation elects to be treated as an S-Corp. Because of the tax implications, it is important to consult with a tax advisor before forming a professional corporation.

We **STRONGLY** recommend that you seek the advice of an attorney if you fall within the “Professional Services” statute. However, once you decide that you would like to form a Professional Corporation, we will gladly help you with your corporate filing.

Form a California Corporation

How to set up a Corporation

Incorporating offers several advantages and protects your company’s name. Should you choose to form a California corporation or form a [California Limited Liability Company](#), your company will be registered with the state of California. No other company will be able to use the name you have chosen. Go to our [FAQ page](#) for answers to basic questions regarding incorporating in California. Read about some of the advantages incorporating has to offer.

- [How to Set Up A Corporation](#)
- [Advantages of a Corporation](#)
- [Disadvantages of a Corporation](#)

If you have decided to create a corporation for your business, there are several tasks that you must do:

1. Choose an available business name. Note that California statute sets forth specific requirements for acceptable (and unacceptable) names for Corporations and LLCs. If you have any questions or concerns about the acceptability of your chosen name, please refer to California statutes. Some of the restrictions involve the use of the words “cooperative”, “bank”, “trust”, “trustee”, “insurer” or “insurance company”. Before selecting the name

for your corporation, you may want to refer to the following statutes. These statutes may not be all-inclusive of the laws pertaining to your particular situation.

- Regular Corporations – [Corporations Code Section 202](#)
 - Limited Liability Companies – [Corporations Code Section 17052](#)
 - Professional Corporations – [Corporations Code Section 13409](#)
 - Nonprofit Public Benefit Corporations – [Corporations Code Section 5122](#)
 - Nonprofit Mutual Benefit Corporations – [Corporations Code Section 7122](#)
 - Cooperative Corporations – [Corporations Code Section 12311](#)
 - [Quick Link to Corporations Code](#)
2. Appoint the initial directors of your corporation. California permits the corporation to have just one director.
 3. File your Articles of Incorporation with the [California Secretary of State](#) and pay the filing fee (\$100).
 4. Create corporate “bylaws,” which are the written operating rules for your corporation. Typically, the bylaws are adopted by the corporation’s directors at their first board meeting.
 5. Hold the first meeting of the board of directors.
 6. Issue stock certificates to the initial owners (shareholders) of the corporation. Issuing shares formally divides up ownership interests in the business and is a requirement of doing business as a corporation.
 7. Obtain any licenses and permits that are required for your business. This would include, but may not be limited to, obtaining a business license, an employer identification number from the IRS and a seller’s permit.

S Corporation Election

An S Corporation (Small Business Corporation) is an election made by a general corporation after its formation to change the way income is taxed through the IRS. This status allows the taxation of the company to be similar to a partnership or sole proprietor as opposed to paying taxes based on a corporate tax structure. The profits and losses of the business pass through to the corporation owner’s personal income tax. Like a Limited Liability Company, the tax “pass through” allows you to avoid “double taxation.”

Deciding what type of business company structure is best for your small business can be a confusing exercise. If you have any questions as to whether you would benefit from an S Corporation election, you should seek advice from your accountant or an attorney.

Advantages of a Corporation

- **Protect your corporate name:** Once you set up your corporation in a particular state, no other company can be established under the same name in that state.
- **Taxes:** Corporations avoid double taxation of corporate profits and dividends when they make an S-Corp election. Typically profit and loss also passes through an LLC and gets

reported on the personal income tax returns of the corporate owners. An LLC can, however, elect to be taxed as a corporation.

- **Personal protection for officers:** Corporations and LLCs allow the owners of the corporation to isolate and protect their personal assets. If a corporation has been properly structured and managed, the owners of the corporation should have limited liability for the corporate debts and obligations.
- **Credibility:** Credibility is in the eyes of the beholder. Adding “Inc” or “LLC” after your business name gives the appearance to consumers, vendors and others that you are an established company.
- **Duration:** A corporation is capable of continuing indefinitely. Its existence is not affected by the death or incapacity of shareholders, directors, or officers of the corporation. An LLC has a limited existence. Absent a contrary agreement, a limited liability company (LLC) is dissolved upon the death, withdrawal, or bankruptcy of a member unless the business is continued by unanimous vote of the remaining members. Although the operating agreement can be drafted to avoid such a result, the life of the LLC is still limited to the termination date in the Articles of Organization.
- **Expenses are deductible:** Both corporations and LLCs are allowed to deduct normal business expenses before allocating income to owners.

Disadvantages of a Corporation

- **Formalities:** In order to keep up your corporation in good standing, there are many formalities of organizing and running the corporation that must be followed. Failure to follow these formalities may result in the corporation losing its corporate status or a creditor “piercing the corporate veil.” Piercing the corporate veil allows a director or officer of a corporation to be held liable for the actions of the corporation. Reports and tax returns must be filed in a timely manner, and files and records (including minutes of meetings) must be properly maintained.
- **Cost.** Establishing (and maintaining) a corporation costs money. There are fees to file the Articles of Incorporation with the Secretary of State, tax prepayment fees, and other annual costs.
- **Tax consequences.** Corporations have potential double-tax consequences — once when the company makes its profit, and a second time when dividends are paid to shareholders. S corporation election by a corporation eliminates this double taxation.
- **Dissolution.** When a corporation is dissolved, a formal process must be followed. Dissolution does not happen automatically. Dissolving the corporation includes gathering corporate assets, paying creditors and outstanding claims, filing final tax returns, and distributing the remaining assets to shareholders.