

Five Great Reasons to Incorporate Your Startup in Arizona

By Martin C. Zwilling, Startup Professionals, Inc.

It used to be true that “everyone” incorporated in Delaware due to its more favorable terms, but many of these terms simply don’t apply to startups, or the differences don’t exist anymore. Most business professionals now recommend that your first choice should be your home state, or the state where your startup resides.

If your home state is Arizona, and you plan to do business here, following is a list of five key advantages of incorporating your business in Arizona:

- Arizona incorporation fees are low.
- The process is simple, including the convenience of geographical proximity.
- Local attorneys, if required, are more familiar with Arizona laws.
- Your company automatically gets an intrastate securities law exemption.
- No need to register as a "foreign" corporation in the state of operation.

There are still business considerations which might override low cost and simplicity. For example, if your business is likely to be large in size soon, have a large number of shareholders, or you have a high probability of going public, it might still be a good idea to incorporate in Delaware or Nevada due to these two states' more size-friendly laws.

For the rest of us, there are distinct advantages to staying close to home. Let’s take a closer look at some of these advantages:

1. Arizona incorporation fees are low.

Filing fees, including administration fees, vary from state to state, but will fall anywhere from \$50 in Mississippi to \$410 in Nevada. Arizona is close to the bottom, with statutory fees of only \$60. Even if you choose to add the expedite fee of \$35, and consider another \$100 for publication requirements, the costs to incorporate in Arizona are very reasonable.

Beware of the many legal-sounding site names on the Internet which offer this service for anywhere from \$1000 to \$10000. Unless you have unique requirements, you can do it yourself by following the instructions outlined below.

2. The process is simple, including the convenience of geographical proximity.

To incorporate a corporation in Arizona requires that you file Articles of Incorporation with the Arizona Corporation Commission, publish the incorporation filing in a newspaper of general circulation three times, and submit an affidavit of publication back to the Commission.

If you live in or near Phoenix or Tucson, you can simply drive to one of the following Arizona Corporation Commission offices for personalized service:

- Phoenix office: 1300 W. Washington, 1st Floor, Phoenix, AZ 85007
- Tucson office: 400 W. Congress St., Tucson, AZ 85701

Both offices are open Monday - Friday, 8:00 a.m. to 5:00 p.m., except holidays.

Finding a good name for your new Arizona corporation can sometimes be the most difficult piece of the formation puzzle. Ideally, you want a name that: (i) will afford strong federal trademark protection, but will not infringe on anybody's trademark or service mark, (ii) will be easy for your customers to remember, (iii) will describe your products or services, and (iv) will allow you to obtain .com, .net., .org, .biz, .info and .us domain names. The Arizona Corporation Commission web site can help you here.

Every newly formed corporations should obtain a federal employer identification number (EIN). Banks require this ID number for bank accounts. If the corporation will have employees and pay wages, it must file payroll tax returns and pay payroll taxes using the ID number. The easiest way to complete this process is to go online and fill out the IRS Form SS-4, Application for Employer Identification Number, and you will be issued the ID immediately.

If your company has employees or intends to sell a retail product in Arizona, you must also apply online for a Transaction Privilege Tax (TPT) license, Use Tax and Employer Withholding and Unemployment Insurance.

3. Local attorneys, if required, are more familiar with Arizona laws.

If your company needs a complex organizational or financial structure, the assistance of a local attorney may be required. He will be familiar with any unique Arizona requirements for organizational structures, record keeping, capitalization, debt financing, role of shareholders, distributions, personal liability, and state tax considerations.

4. Your company automatically gets an intrastate securities law exemption.

To qualify for the intrastate offering exemption, a company must be incorporated in the same state where it is offering the securities and carry out a very significant amount of its business in that state. It may offer the securities only to residents of that state, and may not sell any of the securities to anyone not a resident of that state. If you incorporate and do business in Arizona, this item alone can save you a significant amount of management time, paperwork, and legal fees.

5. No need to register as a "foreign" corporation in the state of operation.

Most states have laws that require entrepreneurs to re-register a Delaware company in the state where it is actually doing business, and unfortunately, re-registration involves more than a few hours of paper work. Not only will the new business be subject to all the same taxes and fees as an in-state company, but there is also the added expense of registering as a "foreign corporation" in the home state and any annual fees in both states.

But don't forget that forming the new corporation is just the "tip of the iceberg" with respect to operating a business in the corporate form. Although it is relatively easy and inexpensive to incorporate a business in Arizona, I recommend that you don't hesitate to consult an Arizona corporate attorney when incorporating for issues that may require legal advice and action. For example, when offering to issue stock and securities, all corporations must comply with federal and applicable state securities laws, which can be quite complex.

For additional information available outside of an attorney consultation, here is a list of Internet web site resources that I have found invaluable when starting a new business in Arizona:

- [Arizona Corporation Commission](http://www.cc.state.az.us/divisions/corporations) (www.cc.state.az.us/divisions/corporations) – source for all incorporation requirements, name registration, forms, and corporate operational rules in Arizona.
- [Arizona Department of Revenue](http://www.revenue.state.az.us) (www.revenue.state.az.us) - tax forms and tax information, licensing requirements, certification or permits for business activities conducted in Arizona.
- [Workers Compensation Insurance](http://www.statefund.com) (www.statefund.com) – employees must be covered by workers compensation insurance in Arizona.
- [Small Business Resource Guide CD](http://apps.irs.gov/businesses/small) (apps.irs.gov/businesses/small) - This IRS free CD contains tax information for small businesses including forms, instructions, and publications. You may order it by calling (800) 829-3676.

Now is the time to get started. With a little luck, your new startup should be up and running in 30 to 60 days.

About the author

Martin C. Zwilling is the Founder and CEO of Startup Professionals, Inc., an Arizona based company which offers startups a range of packaged offerings and consulting services. He is a member of the Arizona Angels investor group, where he serves on the Selection Committee. He is a mentor to startups through the Arizona State University Technopolis program, and has done guest lectures on entrepreneurship in their MBA program. He is also on the Board of a half-dozen startups, and has an extensive technology background with IBM and other large and small companies. He may be contacted directly at marty@startupprofessionals.com .