

# Resolution: Run honest business, keep family happy this year

**N**ow that New Year's resolutions are around the corner, let's look at one that's easy and gives you great peace of mind: This year I will run my business so I don't put my family assets at risk.

Having a company registered with the state does not automatically shield a business owner from personal liability. If a business operates as the alter ego of an individual, the "corporate veil" shielding the individual from liability can be pierced in certain circumstances.

This means you can lose your home, your bank accounts or the rest of your personal property because

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Law Talk



of a business debt.

So let's look at the factors courts use in determining whether to pierce the corporate veil and how you can help protect yourself.

■ **Inadequate capitalization:** People are not allowed to set up organizations to escape personal liability. Make sure you have put sufficient capital, or ownership money, into your company.

■ **Failure to issue stock:** If stock is not issued, get a stock certificate and stock ledger and issue the stock.

■ **Failure to observe corporate formalities:** These include maintaining corporate registration with the state, holding annual meetings, keeping minutes and signing corporate documents with the individual's title, such as "John Smith, President."

■ **Absence of corporate records:** Put everything in writing – tax returns, contracts, bids, work schedules, financial information.

■ **Nonpayment of dividends:** Document the flow of money to owners with proper resolutions.

■ **Diversion of assets:** Don't pay yourself outside of the ordinary course of business when money is owed to creditors.

■ **Nonfunctioning officers or directors:** Don't appoint board members or officers

who are not engaged in company decision making.

■ **Commingling funds:** Don't combine personal and business money. Companies need to document, in the form of corporate resolutions, the payment of funds to owners.

■ **Failure to maintain arm's-length relationships among related entities:** Don't give yourself a better deal than you can get on the free market, such as charging above-market rent under a lease.

If enough of the above factors along with fraud or injustice exist, you risk a court ruling that could cause the loss of your personal assets.

So make that resolution and follow through: "I will run my company as a separate entity and sleep better at night."