

A close-up photograph of a hand placing a wooden block on top of a stack of other wooden blocks. The blocks are light-colored wood with a dark stain on one side. The background is a plain, light-colored surface.

# Legal Tips for Nevada Entrepreneurs

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## **Introduction.**

It takes more to be successful with your own business than providing exceptional goods or services. But, unfortunately, simple but common mistakes can cause serious financial problems. In writing this eBook, my goal is to make sure you avoid these mistakes.

As an entrepreneur, understanding how business laws affect you will make your life easier, help your business succeed, and prevent you from facing financial problems. Initially, there are only three factors to consider, and they are:

### **1. Accounting and Bookkeeping.**

Bookkeeping is essential to a successful business. You can outsource this work. However, giving someone access to your bank account is asking for trouble. Tax debt is a common reason why businesses fail, so consider the cost of a good accountant an investment in your success.

### **2. Business Structure.**

Once your business accumulates assets, such as money in the bank, a merchant service account, accounts receivable, or assets worth more than \$10,000, it could be time to create a business structure.

Under Nevada law, a business owner operating as a sole proprietor may protect up to \$10,000 in business equipment from the owner's creditors.

A business can successfully function as a sole proprietorship until the business accumulates assets above \$10,000 or earns a significant profit. Until the business is profitable, it may not be important to create a business structure.

Many people believe forming an LLC is a good choice for a business structure. As an owner or member of an LLC, you cannot be held financially responsible for the debts of the LLC. And an LLC does allow you to choose how it is taxed. Another advantage of forming an LLC is that forming and maintaining it costs less than doing so for a corporation.

Unfortunately, for many reasons, having a business structure doesn't provide the benefits you believe. For example, the LLC cannot borrow money, sign a lease, or obtain goods or services unless a person with good credit agrees to "guarantee" or co-sign these debts. So the protection with an LLC structure is incomplete. Also, under Nevada law, an LLC is not protected from the owner's creditors.

As a result, if the owner (or member) of an LLC is sued and loses the case, a creditor may seize the LLC and strip away its assets.

Luckily there is a loophole to help entrepreneurs under Nevada law. But it requires the business to operate as a corporation.

Like an LLC, a corporation doesn't have credit either. The owner(s) or shareholders will still need to guarantee the company's debts personally, just as they must with an LLC. And the corporation will cost about 20% more to form and maintain.

A corporation must hold an "annual meeting." Of course, I refer to the "annual meeting" as the company-paid birthday party at my favorite restaurant. At my birthday party, my guests and I decide who will be president, secretary, treasurer, and resident agent of the corporation. We vote to approve the most recent company tax return. And then, I sign some paperwork describing these decisions before I enjoy a glass of bubbly at the company's expense.

### **3. Understand Business "Segregation."**

"Segregation" is a word that, unfortunately, is loaded with political and social connotations. But segregation is an important legal term that describes keeping business funds separate from your personal finances. If business money and spending aren't kept separate, they can lose their legal protection and tax benefits. Legal experts often call this "piercing the corporate veil."

*Huh? What does that mean?*

**When you have a business, owning a corporation is "sort of" a story the government lets you tell the world. You own the business, but you aren't really the business.**

With a business, you always keep the business money in a separate account. You should never spend the money in the business account on anything other than business expenses. If you want or need to withdraw money for personal use, you should withdraw the funds as either a salary or a business draw.

Using a business bank account to pay personal expenses violates the legal requirements of both business and tax laws. As a result, the business can lose its claim to the legal protection of being a separate entity.

For example, if someone primarily uses their phone for business, paying the phone bill from the business account is okay. But if someone works from home, they can't pay personal expenses such as water, power, or other utilities from the business account. The reason is that they still would have to pay these expenses even if there was no business.

Using a business account to pay personal expenses, such as groceries, restaurants, or similar expenses, is withdrawing money from the business. Therefore, unless the purchase is mainly related to business operations, the business should not directly pay personal expenses.

## So, to summarize -

- **Keep business earnings in a separate account.**
- **Don't spend business money on anything other than business expenses.**
- **To withdraw money for personal use, take it out of the business account either as your salary, a loan, or a business draw.**
- **Don't use business funds to pay your personal expenses. Doing this will contradict your claim that the business is a separate entity. It also violates the requirements of both business and tax laws. As a result, the business can lose the right to claim legal protections.**
- **Making a mistake or attempting to hide a personal expense as a business expense can have serious consequences. People have gone to prison as a result, so take operating your corporation or LLC seriously.**

# The first step to business success is to understand and comply with business laws.

*Few entrepreneurs want to spend time learning about the business laws when they could be spending time working to grow their business. And paying expensive legal fees to manage these issues may not be realistic.*

*I hope understanding the three simple steps outlined in this eBook will prevent you from making dangerous mistakes.*

***Best wishes for success with your business!***

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