

MIND YOUR BUSINESS

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Q: I recently formed an LLC (limited liability company) and registered it in Hawaii to avoid paying the \$800 annual fee charged by the Franchise Tax Board in California. If I open a branch office in California, will I still be exempt from the Franchise Tax Board fees?

Starting Out in San Francisco

A: I hope you genuinely plan to do business in Hawaii. Because if you registered there just as a way to avoid paying taxes or fees in California, you've made a big mistake.

All companies doing business in California need to register here, according to Sandy Shepard, an attorney with Good Solutions legal and business consulting in San Rafael.

That does not mean only companies that are headquartered in California. It includes companies based elsewhere that have stores, warehouses, employees, offices or pretty much any kind of presence here. (There is an exception if your only presence in the state is a salesperson.)

"Companies like the Gap pay fees in every state because they've got stores in every state," Shepard said.

So despite your Hawaii registration, you **must** also register as a foreign LLC in California if you do any business here. Rather than avoiding California's \$800 filing fee, you will have to pay that on top of your Hawaii fees. And you'll have to do the California paperwork in addition to the Hawaii paperwork.

"This person may want to have a Hawaiian corporation if it gets him better fees on the golf course there, but he's not going to get any tax benefits out of it," Shepard said.

Want more details? See "The Small Business Start-Up Kit for California," by Peri Pakroo (Nolo Press). And talk to an accountant to make sure you are handling your taxes correctly.