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**Nellie Akalp** • Aug. 10, 2021



Do your clients want help setting up their new business as a “digital nomad”? Digital nomads are people who use tech to work remotely from anywhere they hang their hats, whether it be a beach, a foreign country, or a recreational vehicle. To help your clients navigate the world of becoming a digital nomad, here’s what you need to know about digital nomad entrepreneurship and the legal structures that work best for a digital nomad business.

# The Rise of the Digital Nomad

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usually stay in one geographic area, while digital nomads travel around while working and running their businesses.

The extent of the digital nomad's journey is as varied as the types of businesses run by these traveling entrepreneurs. While some may travel for years across the globe, others may only be nomadic for short stints, returning to their home base intermittently before taking off again.

As the name implies, typical digital nomads tend to have strong tech skills and are first adopters of new technology. The MBO report also found digital nomads work in various industries such as information technology, education, training, consulting, coaching, research, sales, marketing, P.R., and creative services. So really, any business that can be run remotely using digital tools is a good fit for the digital nomad lifestyle.

## Digital Nomad Entrepreneurship

Although starting a business in the U.S. and running it from anywhere in the world is entirely possible technologically, many digital nomads still need to know how to do it legally and stay in compliance.

The first step, which may seem contrary to the spirit of the digital nomad, is the requirement to claim permanent residency for the business. No matter what state your client decides to call "home," the law looks at several factors determining the entrepreneur's domicile vs. residence. A residence is a home the entrepreneur lives in, so for digital nomads, the residence will frequently change. A domicile is the place your client considers to be a permanent home, where the client returns after traveling. The business's "home state" is where the entrepreneur started and/or registered the company with the state, opened its bank accounts, and where the taxes are filed.

Even digital nomad sole proprietors (who aren't required to register their businesses

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qualification is when the state determines a company conducts enough business to be registered in the state. As the conditions for foreign qualification vary by state, it's essential your client check with the Secretary of State to find out if filing is necessary.

If your client's business has employees residing and/or working in a state different from the business's home state, the business must also register with that state's Department of Revenue and Department of Labor (or similar office) to withhold payroll and unemployment taxes.

The key legal factor for digital nomads, no matter where they have roots or register their businesses, is where they make their sales. Whether the sales occur in the U.S. or a foreign country, sales taxes need to be collected (and paid) wherever the sales are made. In addition, the kinds of sales that constitute taxable items also vary by state and country. To register for sales tax collection, your client should visit the state's Department of Revenue website, find the sales and use tax section (or "new business activity") and fill out the information about the company.

Finally, digital nomads must determine if the countries they visit require a visa to work in and whether the business needs to be officially registered in that country. Many digital nomads aren't in one location very long, so it might seem easy to stay off the radar. However, it's better to keep on the right side of the law—especially if some sales occur in the country where the digital nomad is traveling.

## Legal Structures for Digital Nomads

Although many digital nomads prefer to be sole proprietors, there are many reasons a more formal legal structure can be advantageous.

**Sole Proprietorship.** All states consider businesses owned by a single owner or a married couple to be a sole proprietorship by default unless the company is registered as another legal entity. There is no legal separation of the business in a sole

proprietorship—sole proprietors are not considered employees and do not file

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there might be a mix of partners who are digital nomads and others who stay put. Legally, like the sole proprietorship, there is no legal separation between the business and the partners. All profits and losses are passed on to the partners, and if there are any legal disputes, the partners are personally liable.

**Limited Liability Company (LLC).** The best legal structure for a digital nomad might be the limited liability company (LLC). Without the formality of the corporate structure, the LLC combines the liability protection of the C Corp with the tax benefits of the sole proprietorship. Profits and losses flow through to the digital nomad and are taxed at the personal income tax rate. In an LLC, the business is considered separate from the owner, and therefore, in most cases, the entrepreneur is protected from personal liability. Registration and compliance occur at the state level, so it's important to know what the business's home state requirements are for an LLC.

**C Corporation.** The C Corp offers the best protection from personal liability but has the most compliance requirements and is the costliest business structure option. In a C Corp, the business is its own entity and files its own taxes. The owner of a C Corp is an employee of the business. The most significant burden is double taxation, as the business income is taxable, and then the owner is taxed again on income distributed to the owner in the form of dividends. Because of the demanding filing requirements and required annual reporting, most digital nomads don't need to incorporate unless they decide to take on investors.

## No Permanent Address?

Today, not having an actual physical office space is not detrimental to business success. As long as the digital nomad entrepreneur has a place to receive mail (a P.O. box will do) and a place to meet with clients in-person, when necessary (rented meeting space), a digital nomad can run a business without a hitch.

One special consideration for digital nomads who own an LLC or C Corp is to

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*LLC filings, and corporate compliance services in all 50 states. Nellie and her team recently launched a partner program for accountants, lawyers, and business professionals to help them streamline the business incorporation and compliance process for their clients.*

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