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valuable guide to help you advise them as they grow their businesses.

**Nellie Akalp** • Jan. 17, 2023



**By Nellie Akalp.**

Are your clients interested in expanding their businesses to a new state? Here's a valuable guide to help you advise them as they grow their businesses.

### **Foreign Qualification**

If your client wants to keep their home state as the primary state of business and expand their business to another state, the first determination is whether they must file for foreign qualification. Because sole proprietorships and partnerships are not state-governed entities, they do not need to file for foreign qualification. The rules

for corporations and limited liability companies (LLCs) are different: both must file

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- Any company representative conducting in-person meetings with customers
- Having full or part-time employees living or working in the state
- Any offer of services, selling of products, or bidding for a contract
- Having a professional license (such as medical, accounting, etc.)

Again, because LLCs and corporations are legally formed in one state, any activity in another requires foreign qualification.

## Registered Agents

A company with foreign qualification must name a registered agent with a local address in the state. A registered agent is a person or company with the authority to accept “service of process” (legal documents and government notices) on behalf of a business. Examples of documents include:

- Official federal and state correspondence
- Subpoenas for information
- Tax notices from the IRS and local tax authorities
- Lawsuits
- Summonses to appear in court
- Wage garnishment notices when ordered to withhold a portion of your employee's wages and send it directly to a person or organization to which that worker owes money
- Corporate filing notifications

## Is There Nexus?

Since the Supreme Court ruling on the [South Dakota v. Wayfair case](#) in 2018, expanding a business to make sales in another state establishes economic nexus for your clients and extends their compliance requirements. At a minimum, states can

require out-of-state companies with more than 200 transactions or \$100,000 in-

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Most states also require sellers to collect and remit local taxes (either city or county), so be sure your clients know to obtain the appropriate seller permits and tax account licenses to comply.

### **Paying Employees in Another State**

Clients planning to have employees working and/or residing in another state must register to comply with the state's payroll tax regulations. Again, the process varies by state; however, the business usually must register with the state's Department of Revenue and Unemployment Office. Once registered, the company will be issued an employer account number and an unemployment insurance account number. Your client must provide the account numbers when filing returns and making deposits in all electronic and paper filings.

Each state determines its state income tax, and there may be an additional local tax for employees working or living in certain cities or counties. In addition, the unemployment insurance tax varies by state and is only paid by the employer. Some states have flat income tax rates; others have progressive ones, depending on income—and the same goes for unemployment taxes.

Make sure your client finds out if there are any state-specific taxes they must also pay or if an employee is exempt due to being in a lower-income area or a protected population. Some states have reciprocal agreements which allow employees in those states to be exempt from income tax withholding.

### **Other Licenses and Permits**

It's essential for clients expanding to other states to make sure they have all the necessary licenses and permits required before taking that step. States typically give

new companies a short window to register their companies with the state, so your

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