California Residents with Out-of-State Companies

You can form your company anywhere. California decides separately whether it wants to be paid.

This is the most common structure question I hear from California residents: my company is in Wyoming, Nevada, or Delaware, so do I still owe California anything? Usually, yes.

Forming elsewhere is a decision about where your entity is organized. It is not a decision about where your entity is taxed or where it has to register.

The Rule

A limited liability company that is doing business in California must register with the Secretary of State, file a California return, and pay the $800 annual tax. That applies whether the company was formed in California or somewhere else.

California treats a company as doing business in the state if any of these is true:

- It is organized or commercially domiciled in California.
- It actively engages in any transaction in California for financial gain.
- Its California sales, property, or payroll exceed the indexed thresholds. For tax year 2025, the most recent year the Franchise Tax Board has published, those were $757,070 in sales, $75,707 in property, or $75,707 in payroll, or 25% of the company's total sales, property, or payroll. They are adjusted annually.

The second one is broader than most people expect, and it is the one that catches remote owners. If you live in California and run the company from your desk in California, California's position is generally that the company is doing business there.

Corporations Too

None of this is limited to limited liability companies. An out-of-state corporation doing business in California under the same test must qualify with the Secretary of State, file a California return, and pay at least the $800 minimum franchise tax. A C corporation pays franchise tax on its California net income or the $800 minimum, whichever is greater. An S corporation pays California's 1.5% tax on its California net income, with the same $800 floor. Corporations do not pay the separate fee measured by gross receipts that limited liability companies pay, described below.

The Thresholds Are Not a Safe Harbor

This is worth flagging because a lot of published advice still gets it wrong.

California's Office of Tax Appeals has held in a series of recent cases that the numerical thresholds are an additional test, not a ceiling. A company can fall well below all three and still be doing business in California under the general standard. In one 2025 decision, an out-of-state limited liability company with about $14,000 in California sales and a few thousand dollars of inventory sitting in a fulfillment warehouse was found to be doing business in the state. In another, wages of about $1,100 paid to one California worker for a few weeks of website work were enough.

Falling under the numbers is not a defense.

What It Costs

- **$800 annual tax,** owed every year the entity is registered or doing business in California, including years with no revenue and no activity, until the entity is formally canceled.
- **From the first year, for limited liability companies.** The temporary first-year exemption covered only tax years beginning in 2021 through 2023. A limited liability company formed or registered from 2024 forward owes the $800 in year one. Corporations are treated differently: a newly incorporated or newly qualified corporation does not owe the $800 minimum in its first taxable year, although it still owes tax on any California net income.
- **A separate fee for limited liability companies,** on top of the $800, once the company's total income from all sources derived from or attributable to California reaches $250,000. It is measured on gross income, not profit: $900 at $250,000, rising to $2,500 at $500,000, $6,000 at $1 million, and $11,790 at $5 million and above.
- **Form 568,** filed annually by a limited liability company. Corporations file Form 100, or Form 100S for an S corporation.

How California Finds Out

Not through some aggressive investigation. Through ordinary paperwork.

A K-1 issued to a California resident. A California address on a bank application, a merchant account, or a license. Payroll run for someone in California, which the state's employment agency reports. A deed. A lawsuit. A federal return with a California address and business income on it.

What the Out-of-State Company Actually Gets You

It is not nothing, and it is worth being precise about it:

- **The formation state's internal governance rules,** which are often more flexible than California's.
- **No public listing of members or managers** in some states, which is real privacy from the general public.
- **No income tax in the formation state** on income sourced there, which matters only if

income is actually sourced there.
- **The formation state's charging order provisions,** with a qualification that matters. See directly below.

Charging order protection is the feature these states are marketed on, and it is the one most often overstated. A charging order limits a creditor who has a judgment against you personally to a lien on distributions, with no vote and no control. Where it applies, that is a genuine advantage.

The qualification is that it is the formation state's rule, and the court deciding your case is likely to be a California court. Whether a California court applies Wyoming's or Nevada's charging order provision to your interest, rather than California's own law, is a contested question rather than a settled protection. The position is weaker still where you are the only owner of the company, because the protection was designed to shield co-owners from one owner's personal creditors and several courts have held that it does less work when there are none. Forming out of state improves your position. It does not decide the outcome.

Charging order protection belongs to limited liability companies and partnerships. Corporate stock has none; a creditor with a judgment against you can generally reach your shares directly.

What it does not get you is relief from California. If you have California ties, budget for California.

Two-Entity Structures

A common arrangement is an out-of-state parent owning a California operating entity. That can serve real purposes, including keeping your name off California's public records and organizing multiple businesses under one owner.

Understand what it costs: the California entity still registers and still pays the $800 and any applicable fee, and if the parent is managed from California, the parent may have its own California exposure. You now have two entities, two sets of books, two annual filings, and possibly two $800 payments.

California Real Property

Property in California means a California obligation, regardless of where the owning entity was formed. Register there, and expect the $800.

Also check the change-in-ownership rules before transferring. California reassesses property on a change in ownership, and while exclusions exist where beneficial ownership stays proportionally the same, they generally have to be claimed correctly and on time. A transfer done casually can permanently reset an assessed value that took decades to build.

Before forming anything for a property, run the break-even. Over the years you expect to hold it, compare the $800 a year (plus any fee) against what the entity protects and what insurance alone would cost to cover the same risk. Sometimes the entity wins. Sometimes a strong policy and an

umbrella do the job for less.

What Actually Reduces Your Exposure

Insurance sized to the risk, including umbrella coverage. Separating genuinely risky activities from valuable assets. Getting the tax classification right. Keeping the entity's affairs separate from your own so the protection you paid for is available when you need it.

Those do more, and cost less, than a formation state chosen for its reputation.

Related reading at bjoffrionconsult.com/blog: "Your company does business where you do, not where you formed it" and "Registration, licensing, and tax nexus are three different questions."

If You Want This Answered for Your Situation

Multi-State Operating Analysis — from $450 per state. Whether your activity in a given state actually requires registration or licensing, what is involved, what it costs, and what becomes public.

Entity Structure Audit — from $850. A written review of what each entity does, where your filings are inconsistent with reality, and what to fix in what order.

The fee for a consultation is credited in full toward any written work you commission within 30 days.

Full service list and current pricing: www.bjoffrionconsult.com/services

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