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The Best States to Incorporate: A Concise Guide

When entrepreneurs start businesses, they're often ready to set up shop in their own backyards or basement offices, whether they're in Oklahoma or Oregon. But before entrepreneurs incorporate in their home states, they should consider other locations.

Why? Well, each state differs in their incentives and penalties for doing business. Some states provide tax breaks to entrepreneurs, while others charge more heavily. Others just have a cheaper cost of living, making money go a little farther.

So, what's the best state to form a corporation? And what's the cheapest state to incorporate?

Thankfully, these questions aren't too tough to answer when one considers the tax and legal climate of several of the most business-friendly states.

We've explored the tax laws and various perks of 8 corporation-loving states in the U.S. to help you out. Even if these states aren't on your list, consider the following factors:

- **Tax filing fees** (Nevada has notoriously low fees)
- **Business-friendly laws and statutes** (Delaware is popular for this reason)
- **Income tax** (States with low or no income tax should be considered)
- **Sales tax** (States with low or no sales tax should be considered)
- **Franchise taxes and regulations** (relevant to those setting up a new branch of an already existing business)
- **If you're willing to live and work there** (Unless your business has a physical office in a certain state, it could be a lot of hard work to incorporate there).

Incorporating In a Certain State Vs. Physical Location of a Business

When you look at the numbers, it's tempting to incorporate in a state like Delaware or Nevada, even if you have no plans to set up a physical office there. But remember, if your business is located elsewhere, you must file as "Out of State." That's ok, but there might be higher fees and more filing to do.

If the physical location of your business is different than where you incorporate, you'll still have to file annual reports, pay filing fees, and get a registered agent in this state.

Nellie Akalp, CEO of CorpNet, warns that you can't avoid state taxes from the place where your business is located. It's best to proceed with caution.

“Just because you incorporate your business in Nevada does not mean those are the only state tax laws that apply to your business. While Nevada may not charge state income taxes for your corporation, the state where your business is physically located will come after you for those taxes sooner or later. Adding insult to injury, your tax liability may actually increase because you’re viewed as a foreign entity operating in the state.” – [Nellie Akalp, CEO of CorpNet, on Small Business Trends.](#)

Ultimately, it might be better to incorporate in the state where you already live and work. If you’re really serious about saving money as your business is getting off the ground, it might be worth moving.

Best State to Incorporate an Online Business

If you have an online business, you might be tempted to take advantage of another state’s laws. This won’t work out like you expect, and we recommend incorporating in a state where you already live and work, or at least in a state that’s very nearby. In order to incorporate, you’ll need a physical address.

The 8 Best States for Incorporating

So, what states are the best for incorporating? Those without income and sales taxes are among the most friendly.

We did the leg work for you—we’ve explored the tax laws and various perks of 8 corporation-loving states in the U.S.

States Without Income Tax

South Dakota

South Dakota is ranked by Tax Foundation, a taxation think tank, as the top state for incorporation in the entire country.

Incorporation authority [MaxFilings.com](#) reports that in South Dakota, incorporation provides the owners with legal protection such that personal income and assets cannot be sought to satisfy corporate debts or liabilities.

The state is also known to have to low ongoing filing burdens. This is a big help to early companies who are still firming up their business, as frequent filing requirements can distract focus early on and put a drain on inexperienced executives.

South Dakota hits a real home run when it comes to corporate income tax. In fact, the state enforces no income tax of any kind, corporate or personal. This is an obvious plus to those seeking to avoid draconian state taxes on high-earning businesses.

Furthermore, investment guide TheREIBrain.com reports that South Dakota does not enforce any capital gains tax, making it the ideal environment for incorporating.

A few more reasons to pick up and start business in South Dakota:

- *Low crime rates and tons of space to spread out.*
- *Rapid City and Sioux Falls have sizable populations and low housing costs.*
- *The four presidents of Mt. Rushmore can help with a history lesson.*

Wyoming

Similar to South Dakota, Wyoming's government website reports that the state has no corporate or personal income taxes of any kind. Owners of Wyoming corporations are responsible only for federal income taxes, the rest is theirs to keep and distribute at will. Wyoming also offers tax exemptions to businesses purchasing raw materials for production. Business-to-consumer transactions on gasoline and groceries are exempt from state taxes as well, which is a big benefit to entrepreneurs in these areas of business.

Wyoming is another state that TheREIBrain.com reports does not enforce capitals gains tax. Entrepreneurs in real estate investing and debt collection can thrive on deals performed in-state without worrying about the often high capital gains tax that many states require.

A few more reasons to pick up and start business in Wyoming:

- *Boasts some of the most beautiful landscapes and scenic beauty in the U.S.*
- *It's isolated and quiet.*
- *Ranches, cows, and tons of opportunities to go horseback riding.*

Nevada

Nevada is often discussed as one the most popular places in the country to start a business because of their extremely low taxation and commitment to privacy. Nevada is one of the three states in America to enforce no corporate or individual income tax, nor any tax on corporate shares. The Nevada [Secretary of State](#) points out that their business court system is one of the best in the country, minimizing time and cost to those summoned.

Nevada's legislation for issuing shares is one of the nation's most permissive, allowing businesses to offer them for capital, services, personal property, or real estate — allowing a high level of creativity. State law grants directors control over the value of these stocks, and as the Secretary of State himself says “their decision is final.”

A few more reasons to pick up and start business in Nevada:

- *Las Vegas is a metropolis with cultural activities and tons of entertainment.*
- *Relatively low cost of living.*
- *Close to many of the nation's best national parks (The Grand Canyon, Arches, Bryce Canyon, and more).*

Florida

Florida ranks high in a study performed by the [Tax Foundation](#), primarily due to the fact that it lacks the state individual income tax. To help some companies avoid additional corporate income tax, Florida exempts “S” corporations from state taxation.

[GimmeLaw.com](#), an online resource of various state laws, reports that Florida's online business infrastructure is the best in the country, offering a search-able database of documents and online filings in seconds.

Software businesses especially benefit from incorporating in Florida. According to Tax Foundation research, Florida is one of several states that provide exemption from taxes for business-to-business software sales. This act allows both software users and retailers of businesses to save big on bulk purchases of expensive software licenses.

A few more reasons to pick up and start business in Florida:

- *The hustle and bustle in major cities like Miami and Orlando.*
- *Warm weather. Say goodbye to shoveling snow.*
- *Tons to do: Walt Disney World, Universal Studios, alligator tours, beautiful beaches, and more.*

States Without Sales Tax

Alaska

If you can stand the climate, Alaska offers a blend of business hospitality that is specifically set up to attract new companies to the area. First and foremost, [GovSpot.com](#) reports that the state enforces no individual income taxes, so when the business begins to pay you, all you need to concern yourself with is the corporate and federal income tax.

Perhaps just as important is the fact that the state does not have any sales tax, which allows businesses to decrease costs by buying materials and supplies in-state.

Alaskan LLCs are reported to offer some of the best protection to their owners in the country. As reported by AlaskaUSATrust.com, the revised legislation makes it impossible for a court to order the dissolution of an LLC unless it can prove that the company cannot continue to carry on its purpose in business.

A few more reasons to pick up and start business in Alaska:

- *Polar bears live there. Need we say more?*
- *Amazing seafood. A plethora of salmon and halibut will keep you full.*
- *The Northern Lights. Alaskans rave about this beautiful star show, only visible in locations close to the North Pole.*

New Hampshire

The website of the government of New Hampshire reports that the state does not enforce an individual income tax on earned money. The only state income tax that business owners in the state must pay is on income from interests and dividends, assessed at a flat rate of 5%.

This unique structure is largely why New Hampshire was listed among the best states in the country in terms of individual income taxation. The lack of a sales tax helps to keep costs even lower for businesses in New Hampshire. Companies buying supplies from other companies pay substantially less without the additional sales tax added on.

New Hampshire does tax business profits at a rate of 8.5%. This rate isn't especially low, considering several states already discussed have no such tax at all. However New Hampshire redeems itself in this aspect by enforcing no capital gains tax.

A few more reasons to pick up and start business in New Hampshire:

- *Beautiful scenery, complete with all four seasons.*
- *Close proximity to major cities (many people living in New Hampshire commute to Boston. New York City is only 5-6 hours away by car).*
- *Great lakes, camping, and skiing.*

Montana

[Tax Foundation](#) lists Montana as having the sixth best business tax climate in the country. The state offers business owners an escape from sales tax, which is an excellent way for Montana to spur its own economy by encouraging business to do their materials shopping in-state. While having no state sales tax is certainly a perk, it is not the only reason why businesses should consider incorporating in Montana. The state is home to the 10th best property tax and 16th best corporate income taxes in the nation.

Businesses in Montana are eligible for a high number of tax deductions not seen in other states. These credits and deductions include job credits, research and development deductions and credits, investment credits, and deductibles for the cost of goods sold by the business. Additionally, Montana lacks a gross receipts tax (tax on the total revenues of a company), which can further decrease a company's amount of taxable income.

A few more reasons to pick up and start business in Montana:

- *Glacier National Park is one of the most epic and beautiful places in the nation.*
- *A ton of space to grow. The population is under one million in the fourth largest state!*
- *Big towns and large universities: Missoula, Bozeman, Great Falls, and Billings.*

Delaware

The tiny State of Delaware is the legal home to more than 850,000 businesses, 50% of all publicly-traded companies in the U.S., and 63% of all Fortune 500 companies. What is it that makes Delaware so attractive to corporations? Besides not charging any sales tax, the state offers a comprehensive package of incorporation services including thorough and easily accessible legal guidance from their well-developed legal courts.

Delaware's relaxed laws, which includes a high cap on the amount of interest lenders can charge borrowers, makes it an extremely popular state especially for banks. But there's something good for any type of business that is considering planting its roots in Delaware – as long as it's legal.

A few more reasons to pick up and start business in Delaware:

- *Close to many major cities in the mid-Atlantic (New York City, Philadelphia, Baltimore, Washington D.C.)*
- *The Delaware beaches are beautiful, kid-friendly, and perfect for vacation. From anywhere in the state, you can get to most in fewer than two hours.*
- *Delaware is actually the first state!*

When It's Time to Incorporate

Incorporating in a certain state isn't a quick decision. Assess your options, run the numbers, and make sure you're choosing a place that satisfies your professional and personal needs. Don't incorporate before you're ready, and be careful to decide how you'll do it, whether you'll be a sole proprietorship, LLC or corporation.

If you're wondering how to incorporate your business, then use [the U.S. government's resources](#) to help you get going. Each state is different, so steps vary across the country.

