

## Importance of an Annual Meeting (Yep, Large and Small Businesses)



As you are probably aware, one of the requirements for maintaining a corporation's existence (and the liability protection that it affords) is that the shareholders and Board of Directors should meet at least annually. Although most people view this requirement as a necessary evil, it doesn't have to be a waste of time. For example, in addition to being a first step in making sure the corporation is respected as a separate legal entity, an annual meeting can be used as an important tool to support your company's tax positions.

Besides the election of officers and directors, other actions that should be considered at the annual meeting include the directors approving the accrual of any bonuses and retirement plan contributions, and ratifying key actions taken by corporate officers during the year. The directors should also specifically approve any loans to shareholders to lessen the opportunity for the IRS to reclassify the loans as taxable dividends. In addition, if the corporation is accumulating a significant amount of earnings, the minutes of the meeting should generally spell out the reasons for the accumulation to help prevent an IRS attempt to assess the accumulated earnings tax.

These are just a few examples of why well-documented annual meetings can be an important part of a corporation's tax records. We would be happy to be involved in your company's annual meeting but, alas, we believe the attorney should be the quarterback here although we often assist to hopefully ensure tax-effective minutes of the meeting are prepared. Corporate statutes in the various states vary somewhat across the nation – another reason it is critical knowledgeable legal counsel is involved to make sure the minutes are consistent with your state's corporate provisions. When scheduled shortly before the corporation's year-end, many companies consider the annual meeting as an opportune time for their accountant and attorney to plan together for the wrap up of the year. Thus, please feel free to call us, as the time for your annual meeting draws near.

---

Abo and Company, LLC and its affiliate, Abo Cipolla Financial Forensics, LLC, Certified Public Accountants – Litigation and Forensic Accountants are proud members of XPX Philadelphia while managing member, Marty Abo, is treasurer of the chapter. The above article was retrieved from the "E-mail alerts" disseminated to clients and friends of the firm. With offices in Mount Laurel, Morrisville, PA and Franklin Lakes, NJ, tips like the above can also be accessed by going to the firm's website at [www.aboandcompany.com](http://www.aboandcompany.com) or by calling 856-222-4723

## Abo and Company Illustrative Corporate Minutes Tax Checklist

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
1. Are the following general (nontax) items included in the minutes:			
a. Proper notice of the meeting in accordance with the bylaws or state statute?	_____	_____	_____
b. Quorum present or waiver of quorum?	_____	_____	_____
c. Acceptance of prior meeting's minutes?	_____	_____	_____
d. Election of officers?	_____	_____	_____
e. Officers' review of corporate results for the year?	_____	_____	_____
f. Ratification of significant officer actions for the year?	_____	_____	_____
2. Do corporate minutes specifically reflect the following:			
a. Approval and accrual of officers' bonuses for the year?	_____	_____	_____
b. Determination of profit-sharing contribution?	_____	_____	_____
c. Establishment of fringe benefit and qualified retirement plans?	_____	_____	_____
d. Reasons for accumulations of earnings?	_____	_____	_____
e. Listing of officer salaries for next year (along with justification if they are likely to be challenged as unreasonable)?	_____	_____	_____
f. Approval of loans to employees (and terms of such loans)?	_____	_____	_____
g. Approval of loans to/from shareholders (and terms of such loans)?	_____	_____	_____
h. A review of the legal status of corporation?	_____	_____	_____
i. Board of Directors approval by the end of the tax year of charitable contributions to be paid within 3½ months after tax year-end?	_____	_____	_____
j. Personal use of employer-provided autos to shareholders is part of the shareholders compensation?	_____	_____	_____
k. Details of taxable transactions between the corporation and its shareholders?	_____	_____	_____
l. Reasons why a shareholder/employee received inadequate compensation during the year and the intention to pay make-up compensation in future?	_____	_____	_____
3. Does the corporation's valuation in buy/sell agreements need to be updated?	_____	_____	_____
4. Are the following capital structure transactions covered in the minutes:			
a. Approval of any new stock issued?	_____	_____	_____
b. Approval of any stock redeemed or retired to treasury?	_____	_____	_____
c. Approval of any stock bonuses or stock options issued? [Consider whether to recommend that the stock recipient make a Section 83(b) election.]	_____	_____	_____
d. Approval of any sale, liquidation, or reorganization?	_____	_____	_____
e. Approval of any Section 351 asset transfers?	_____	_____	_____
f. How dividend payment amounts were set or reasons for not paying dividends?	_____	_____	_____