

Selecting the Optimal Jurisdiction for Business Formation in the United States

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How to cite this paper: Guo, E. (2026). Selecting the Optimal Jurisdiction for Business Formation in the United States. *Open Journal of Business and Management*, 14, 3210-3231.

<https://doi.org/10.4236/ojbm.2026.146156>

Received: August 30, 2026

Accepted: October 12, 2026

Published: October 15, 2026

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Abstract

When opening a business in the United States, selecting an appropriate jurisdiction of formation is critical. The common misconception is that a business should be registered in the same area where the business is operated. This may be true for small local businesses, but for larger businesses or businesses with high growth potential, choosing a formation state different from the operation state may be more beneficial. This study investigated the choice of formation state in the United States by looking into critical factors such as the ease of registration, business support, and long-term profitability. A general comparison among different states is provided without getting into the specific business operation details. Based on the analysis, Delaware is the most attractive state to register in, especially for businesses with outreaching potential. The study also provides a foundation for future research based on specific business requirements. When other factors such as company operation model, product type, and customer distribution are taken into account a different state of business formation may be the best choice.

Keywords

Business Formation, Registration, Tax, Liability Protection, Business Operation

1. Introduction

There is a plethora of businesses in the United States. By the mid-2020s, the total number of entities in the United States reached approximately 33 - 35 million (U.S. Census Bureau, 2025). Out of them, 99.9% were small businesses (U.S. Small Business Administration, 2024), evident that running business is not a privilege reserved for the wealthy anymore. In 2026, applications for new business are still rising (U.S. Census Bureau, 2026), more people are taking initiative to pursue en-

trepreneurship. Many factors contribute to this trend, with the growth of e-commerce being the biggest driving force (Walker, 2025). Online retail, e-payment, and digital marketplaces help lower the entry barriers for business formation. Prospective owners do not need to search for a physical location with both high volume of potential customers and affordable rent. Many online businesses can be run 24/7 without needing extra staff (Higgins, 2023). Other facilitators for easy business formation include social media marketing, remote work mode (Abraham, Master, Hassler, & Phillips, 2024), and simplified legal and administrative processes (Loo, Ramachandran, & Yusof, 2025). Together, these advancements reduce the investment and preparation time to launch a business.

Although physical location matters less now, choosing where to register a business is still a critical strategic decision. The key selection lies at the state level while the specific location within the state is of little significance. This is because the United States lacks a unified national business law. Instead, each state has its own business rules and regulations, which not only determine registration procedures and fees but also significantly impact the profitability of subsequent business operations.

2. Methods and Scope

This study compares the fifty U.S. states and the District of Columbia as jurisdictions for business formation. The analysis focuses on factors such as registration fees and subsequent business governance costs, state corporate income tax, administrative flexibility, inside and outside liability protection, and privacy protection for business owners.

Data were collected through a structured review of publicly available sources. Secondary sources included academic journals, books, commercial business information websites, and materials published by business service providers. These sources were consulted to identify primary sources and facilitate data collection, but all final data were verified against primary sources, such as state statutes, administrative regulations, official filing instructions, and economic development agency materials. The primary information was collected from websites of state legislatures, secretaries of state, or state tax authorities. Information for each jurisdiction was obtained through systematic searches of official government resources and subsequently cross-verified across multiple authoritative sources where feasible.

In each jurisdiction, features generally applicable to all newly formed business entities were considered, without accounting for the specific characteristics of a given business. Since limited liability companies (LLCs) and corporations (INCs) are the most common organizational forms, requirements for both categories were analyzed. Exemptions and incentives targeted at particular business entities or entrepreneurs were excluded.

Due to variations in statutory language and administrative practices across jurisdictions, a hierarchical source-verification approach was employed to resolve

discrepancies. State statutes and state administrative regulations were accorded the highest evidentiary weight, followed by materials published by official agencies. Where inconsistencies were identified among official sources, preference was given to the most current information from the legally authoritative source available at the time of data collection. In cases involving ambiguity, information obtained directly from the relevant state offices or departments was used for analysis.

The scope of this study is limited to publicly available information. Due to the dynamic nature of state laws and regulations, the timeliness of information is important to this study. This article should be used as a comparative assessment of business formation states in the United States rather than as legal or tax advice.

3. Analysis

3.1. Type of Business Registration

Companies formed in the United States choose one of the two registration options: home state registration or out-of-state registration. They are categorized based on the state(s) where registration and operation occur.

3.1.1. Home State Registration

Home state registration, also called domestic registration, refers to the practice that a company registers and operates business in the same state. It is usually the simplest and most convenient choice, particularly suitable for small, local enterprises, and people who intend to conduct business in the state they reside in. Community stores and services provided to neighboring areas constitute the majority of such businesses. These prospective business owners are familiar with the state regulations, customer needs, competitive situations, and logistics. Some people may have already established a valuable network for the business to hatch. In addition, being a resident in the state has already qualified some basic requirements for business formation, such as a physical address in the state and the proof of identity. Many states allow individuals to act as their own registration agent if they are residents of the state. This can save agent fees when individuals are able to handle the registration process themselves.

Although running business in the resident state is preferred, a specific business may have to be located in a different place. For example, running a beach house hotel requires a state with a seashore, tour guiding services need to be in places of interest with sufficient tourists. In most of these cases, small business owners either move to the state where the business plans to operate or hire a registration agent in that state to file the home registration. Major advantages of home registration include easier filing, lower cost, and simpler tax reporting structure. Requests for a business license are usually submitted within the company registration with no separate filing, application fee, or agent fee when professional agents are hired. Approval of the registration typically grants the right of operation in that state, as long as requirements in the specific business location are also fulfilled. For example, opening a food truck in a university city may require applica-

tion to the school administration. In addition, since operating in a state other than the formation state may be required to file as a foreign entity, home state registration avoids such foreign qualification process and the associated fees.

3.1.2. Out-of-State Registration

Out-of-state registration means a company registers in one state but operates in another. When out-of-state registration is selected and the business activities in the other state meet that state's statutory definition of "doing business", companies must "foreign-qualify" in that state. There are apparently many disadvantages associated with out-of-state registration. First, it means double filing with double application fees, one to a state to form the business, the other to a state for the operation license. If agents are used to handle the application process, two agents in the two different states need to be hired. In addition, both states' laws and regulations need to be studied and followed. The maintenance efforts are doubled, such as annual report, tax filing, and keeping up with the regulation changes in both states. These requirements increase the compliance complexity and reduce administrative efficiency. Despite the extra costs and paperwork, out-of-state registration is still highly attractive to many medium-to-large-sized enterprises when the overall business gains including financial, legal, and strategic benefits outweigh the extra filing and obligation for foreign entities. This is especially true for companies which operate in multiple states, since out-of-state registration is non-avoidable. In every non-formation state where the entities conduct activities that constitute "doing business", foreign qualification is required.

3.2. Factors to Consider When Choosing a State to Register a Business

When selecting a state for business registration (formation) in the United States, the primary considerations include registration cost plus ongoing maintenance fees, tax rates, administrative flexibility, liability protection, and privacy. Other factors such as entity type (e.g. limited liability company, corporation, partnership), product category, operation scale, and strategic planning are also important to consider. The regulations in the operation jurisdiction also affect the choice. If the operation state has extensive requirements for foreign qualification, people may have to give up an apparently better registration state and choose home state registration in that operation state. This study compares state policies that influence the selection of a business registration state, without focusing on the impact from each company's operation mode.

3.2.1. Registration Fee and Subsequent Maintenance Fee

A registration fee is charged by the government when a business unit is created as a legal entity. It is a filing fee to obtain a certificate of formation or articles of incorporation. Registration fees vary from state to state. **Table 1** lists the initial filing fees in different states. For LLCs (Limited Liability Companies), the registration fees are usually a flat fee ranging from \$45 (Arkansas) to \$500 (Massachu-

setts). Tennessee's fee is not a fixed amount, their LLC formation fee is \$50 per member, with a minimum of \$300 and a maximum of \$3000 (*Tennessee Secretary of State, 2026*). For INCs (Incorporated, also called Corporations), many states' charges are variable based on corporation stock. The minimum charges are listed here, which range from \$45 (Arkansas) to \$725 (Nevada). In Washing D.C., the filing fee is \$99 for corporations with less than \$100,000 capital and rises progressively with higher capital value, up to \$1650 (*D.C. Dept. of Licensing and Consumer Protection, 2026*). Similarly, New Mexico's filing fee ranges from \$100 to \$1000 based on the number of shares (*New Mexico Secretary of State, 2026*). In Massachusetts, \$100 is charged for each 100,000 shares in addition to the first 275,000 shares (*Secretary of the Commonwealth of Massachusetts, 2026*). There may be other charges required in the business registration process. For example, in Alabama, one must pay a fee (\$25 for paper form and \$28 for online) to reserve a business name before filing a business formation (*Alabama Secretary of State, 2026*). In Kentucky, a fee named organization tax is charged to corporations. This charge is \$ 0.01 per share on the first 20,000 shares with a minimum of \$10, \$ 0.005 per share for the next 180,000 shares, and \$ 0.002 per share on remaining shares (*Kentucky Secretary of State, 2026*).

Table 1. Initial filing fee for business registration in different states in the United States.

State	LLC	INC	State	LLC	INC
Alabama	\$200	\$200	Montana	\$35	\$35
Alaska	\$250	\$250	Nebraska	\$100	\$100
Arizona	\$50	\$60	Nevada	\$425	\$725+
Arkansas	\$45	\$45	New Hampshire	\$100	\$100
California	\$70	\$100	New Jersey	\$100	\$100
Colorado	\$50	\$50	New Mexico	\$50	\$100+
Connecticut	\$120	\$250	New York	\$200	\$125
Delaware	\$110	\$109+	North Carolina	\$125	\$125
District of Columbia (D.C.)	\$99	\$99+	North Dakota	\$135	\$100
Florida	\$125	\$70	Ohio	\$99	\$99
Georgia	\$100	\$100	Oklahoma	\$100	\$50+
Hawaii	\$50	\$50	Oregon	\$100	\$100
Idaho	\$100	\$100	Pennsylvania	\$125	\$125
Illinois	\$150	\$150	Rhode Island	\$150	\$230
Indiana	\$95	\$95	South Carolina	\$110	\$135
Iowa	\$50	\$50	South Dakota	\$150	\$150
Kansas	\$160	\$160	Tennessee	\$300+	\$100

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Kentucky	\$40	\$40+	Texas	\$300	\$300
Louisiana	\$100	\$75	Utah	\$59	\$59
Maine	\$175	\$145	Vermont	\$155	\$155
Maryland	\$100	\$120	Virginia	\$100	\$75+
Massachusetts	\$500	\$275+	Washington	\$180	\$180
Michigan	\$50	\$60+	West Virginia	\$100	\$100
Minnesota	\$155	\$155	Wisconsin	\$170	\$100
Mississippi	\$50	\$50	Wyoming	\$100	\$100
Missouri	\$50	\$58+			

Note: Different sources (Wolters Kluwer, n.d.; LLC Start Guide, 2026; Filing Fox, n.d.; & LLC by State, 2026) were consulted, but the final values were taken directly from the Secretary of State's website for each state. These values were collected on July 16, 2026, and may change anytime. One should always consult with each state's filing office for accurate cost at any given date. Fees for non-profit entities are not listed but are also available on the Secretary of State's websites. Fees for online submission are listed here. For example, in Arkansas online filing requires \$45 and paper filing requires \$50 (Arkansas Secretary of State, 2026).

The registration fee usually costs less than a few hundred dollars, the impact is mainly on small businesses. Although the fee for big corporations may reach a few thousand dollars, the percentage per share is still low. Entrepreneurs look into the registration fees in different states, but since this is a one-time charge only and not a significant amount, it is barely a decisive factor for the owners to choose a registration state.

On the other hand, recurring maintenance fees are much more important. They are the charges required to keep a company in good standing. Most of maintenance fees come from annual report fee and franchise tax. Annual reports are used to keep the state's business records updated and typically are accompanied by a small, fixed amount of filing fee. **Table 2** lists the annual report fees required in different states. Most states charge flat annual report fees. Several states do not require an annual report fee, such as Alabama, Idaho, Minnesota, New Mexico, Ohio, South Carolina, and Texas (Reyes, 2026). Some states (Arizona, Delaware, Mississippi, and Missouri) charge annual fees to INCs, but not to LLCs. Virginia is special in that for LLCs, no annual report is required, but an annual registration fee is mandatory (Virginia State Corporation Commission, 2026). In Montana, if the annual report is submitted prior to April 15th, the filing fee of \$35 is waived (Montana Secretary of State, 2026). For LLC's, a few states' annual report fees are in the hundreds of dollars, with Massachusetts reaches as much as \$500. In Tennessee, the annual report fee is \$300 minimum plus \$50 per member over 6 (Secretary of State Directory, 2026). For corporations, several states have variable fees. In Wyoming, the annual report fee is \$60 or 0.0002 of assets located in Wyoming,

whichever is greater (Wyoming Secretary of State, 2026). In Virginia, the annual registration fee starts at \$100 and reaches \$1700 for corporations with authorized shares over 270,000 (Virginia State Corporation Commission, 2026). In Nevada, the annual list fee and business license fee (\$200 for LLCs and \$500 for corporations) are combined, no matter if the business is operating in Nevada or not. As a result, a total of \$350 is charged per year for LLCs, while for corporations, the total cost starts at \$650 and increases with the value of authorized shares (Nevada Secretary of State, 2026).

Table 2. Annual report fee or similar annual administrative fee in different states.

State	LLC	INC	State	LLC	INC
Arizona	0	45	Nevada	350	650+
California	20 (Biennial)	25	New Hampshire	100	100
Colorado	25	25	New Jersey	75	75
Connecticut	80	150	North Carolina	200	25
Delaware	0	50	North Dakota	50	25
Florida	138.75	150	Oklahoma	25	0
Georgia	60	60	Oregon	100	100
Hawaii	12.5	12.5	Pennsylvania	7	7
Illinois	75	75	Rhode Island	50	50
Kentucky	15	15	South Dakota	55	55
Louisiana	35	35	Tennessee	300+	20
Maine	85	85	Utah	18	18
Maryland	300	300	Vermont	45	60
Massachusetts	500	100	Virginia	50	100 - 1700
Michigan	25	25	Washington	70	70
Mississippi	0	25	West Virginia	25	25
Missouri	0	20	Wisconsin	25	25
Montana	35	35	Wyoming	60+	60+

Note: Different sources (Registered Agency, n.d.; Fileforms, 2026; Northwest Registered Agent, n.d.). were consulted, but the final values were taken directly from the Secretary of State's website for each state. These values were collected on July 16, 2026, and are subject to change.

In some states, the business report and report fee are charged biennially, starting as low as \$9 (New York). **Table 3** lists the states which require biennial report fees. Corporations in Nebraska pay the biennial occupation tax with the report which ranges from \$26 up to \$23,990 (Nebraska Legislature, 2026).

Table 3. Biennial report fee or similar biennial administrative fee in different states.

State	LLC	INC	State	LLC	INC
Alaska	100	100	Kansas	90	90
District of Columbia (D.C.)	300	300	Nebraska	25	26+
Indiana	32	32	New York	9	9
Iowa	30	60			

Note: Different sources ([Registered Agency, n.d.](#); [Fileforms, 2026](#)) were consulted, but the final values were taken directly from the Secretary of State's website for each state. These values were collected on July 16, 2026, and are subject to change.

Franchise tax is another important cost to consider when choosing a business formation state. Franchise type taxes including business privilege tax, net worth tax, and corporate excise tax, are state-imposed fees charged annually for the privilege of doing business as legal entities in a state. **Table 4** lists franchise tax and similar entity-level taxes required in different states. Their main difference from annual report fee is that these charges are not administrative fee associated with filing a report. They are tax-like charges to raise state revenue rather than keeping the state records up to date. They are usually paid to the department of revenue or department of taxation, rather than to the secretary of state like annual report fees. However, franchise type taxes are usually not income taxes, because they are based on net worth or capital stock, not based on profit. Even for a business losing money, it still has to pay the franchise type tax. Only about one-third of all U.S. states charge franchise type taxes, regardless of income (or profit). Georgia (\$5000), California (\$12,590), and Alabama (\$15,000) have a relatively low maximum of this liability.

Table 4. Franchise tax or similar entity-level taxes.

State	Tax Name	Tax Details
Alabama	Business Privilege Tax	LLCs and INCs: Ranges from \$0.25 to \$1.75 for each \$1,000 of net worth, depending on the company's ability to pay (income). Maximum: \$15,000 for most entities. \$3,000,000 for financial institutions and insurance companies (Alabama Department of Revenue, 2026).
Arkansas	Franchise Tax	LCCs: \$150. INCs: \$300 for corporations without stock, or 0.003 of capital stock value with a \$150 minimum (Arkansas Secretary of State, 2026).
California	Franchise Tax	LLCs: \$800. If gross receipts exceed \$250,000, pay additional \$900 to \$11,790 based on receipts. INCs: \$800. (If income tax exceeds \$800, only pay the income tax) (State of California Franchise Tax Board, 2026).

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Delaware	Franchise Tax	LCCs: \$300. INCs: i) With authorized shares: \$175 - \$200,000 based on the number of shares. ii) With assumed par value: \$400 - \$200,000 based on total gross assets. A flat \$250,000 for large corporate filers (Delaware Department of State, 2026).
District of Columbia (D.C.)	Corporate Franchise Tax/Unincorporated Business Franchise Tax	LLCs and INCs: 8.25% of taxable income. Minimum: \$250 if gross receipts are \$1 million or less. \$1000 if gross receipts are more than \$1 million (D.C. Office of Tax and Revenue (OTR), 2026).
Georgia	Net Worth Tax	INCs: \$0 if net worth is \$100,000 or less, increases in increments with net worth, up to a maximum of \$5000 (Georgia Department of Revenue, 2026).
Illinois	Franchise Tax (being phased out)	INCs: 0.1% of paid-in capital allocated to Illinois (Taxpayers' Federation of Illinois, 2023).
Kentucky	Limited Liability Entity Tax (LLET)	LLCs and INCs: The lesser of 0.095% of gross receipts or 0.75% of gross profits, with a \$175 minimum. May be credited against income tax (Kentucky Department of Revenue, 2026).
Massachusetts	Corporate Excise Tax	INCs: On top of the income tax, \$2.60 per \$1,000 of the value of Massachusetts tangible property or net worth, with a \$456 minimum (Commonwealth of Massachusetts, 2026).
Nevada	Commerce Tax	LLCs and INCs: If gross receipts are more than \$4 million, pay from 0.05% to 0.33% of gross receipts, depending on business classification (State of Nevada Department of Taxation, 2026).
New Hampshire	Business Enterprise Tax	LLCs and INCs: 0.55% of the enterprise value tax base if gross receipts or enterprise value tax base exceeds \$298,000. Is credited against income tax (Business Profit Tax) (New Hampshire Department of Revenue Administration, 2026).
New York	Business Capital Base Tax, Fixed Dollar Minimum Tax	INCs: The highest among Income Based Tax, Business Capital Base Tax, and Fixed Dollar Minimum Tax (no separate income tax). Business Capital Base Tax: rate of 0.1875%, capped at \$5 million. Fixed Dollar Minimum Tax: fixed amounts ranging from \$25 to \$200,000 based on receipt brackets (New York State Department of Taxation and Finance, 2026).

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North Carolina	Franchise Tax	INCs: Minimum: \$200. \$1.50 per \$1000 of net worth, capped at \$500 for the first \$1,000,000 of net worth (North Carolina Department of Revenue, 2026).
Ohio	Commercial Activity Tax (CAT)	LCCs and INCs: 0.26% of gross receipts for entities with gross receipts above \$6 million (Ohio Department of Taxation, 2026).
Tennessee	Franchise & Excise Tax	LCCs and INCs: \$0.25 per \$100 of net worth with a minimum of \$100 (Tennessee Department of Revenue, 2026).
Texas	Franchise Tax (Margin Tax)	LCCs and INCs: If above a threshold (in 2026: \$2.65 million annualized total revenue): Retailers & wholesales: 0.375% revenue, Most other taxable entities: 0.75% revenue (Texas Comptroller, 2026).
Washington	Business & Occupation (B&O) Tax	LCCs and INCs: Rate depends on business classification (>50 types). Retailing: 0.00471 of gross receipts. Manufacturing, Wholesaling: 0.00484 of gross receipts. Service & other activities: 0.015 - 0.021 of gross receipts (Washington State Department of Revenue, 2026).

Note: Different sources ([Discern, 2026](#); [Corporate Legal Services, 2026](#)) were consulted, but the final values were taken from the websites of the responsible state tax authorities. These values were collected on July 16, 2026 and are subject to change.

Business owners often view franchise type taxes as a minimum fee to state, as they are charged regardless of the business operating status. Many argue about their necessity of existence. The Taxpayer's Federation of Illinois calls franchise tax "an archaic outlier" ([Taxpayers' Federation of Illinois, 2023](#)). However, due to the huge revenues franchise type taxes generate, many states choose to maintain them. A good example is that Illinois' repeal of its franchise tax was revoked during the COVID-19 pandemic period due to the state's financial concerns. Although franchise type taxes are generally separate from an income tax, a few states have blended them to some extent. In California, the franchise tax serves as a threshold for the minimum corporate income tax. Washington, D.C., Massachusetts, and New York do not have separate income tax, the franchise tax already includes the income-based component, but it either sets a minimum or adds additional charge to the conventional income tax. In Kentucky and New Hampshire, franchise tax can be credited into income tax. Arkansas is unique in that the franchise tax is submitted together with an annual franchise tax report, and they are submitted to the Secretary of State, not the Department of Revenue.

3.2.2. Tax Rates

Another critical factor to consider when selecting a state for business registration is the future tax burden once a business is founded. This refers to the conventional income tax charged based on profit. All businesses in the United States are obli-

gated to pay federal corporate income tax. For example, 21% (flat rate) of income of C-Corporations is remitted to the Internal Revenue Service (IRS). This part of the tax liability is independent of the state selected for business formation. On the other hand, state tax rates vary significantly, choosing a state with lower business tax can help maximize profitability. It is worth noting that by default, LLCs do not pay corporate income tax, unless they elect to be taxed as corporations.

State corporate income tax is generally tied to where a business conducts taxable activities, rather than where it is formed. Multistate businesses may be subject to income tax in multiple jurisdictions based on nexus and income apportionment rules. If no income is attributable to the formation state, the state does not impose corporate income tax on the business. From this perspective, the tax rate is relevant to the selection of formation state primarily when home state registration is selected, meaning that the business is registered and operated in the same state. However, if an out-of-state business has the potential to generate income in the formation state, the state corporate income tax rate becomes an important consideration.

The majority of U.S. states levy a corporate income tax, which can be set either as a flat rate (e.g., 6%) or graduated rates (higher profit associates with higher percentage). Corporate income tax usually makes up the largest portion of state-level charges on businesses with strong earnings. Six states (Nevada, Ohio, South Dakota, Texas, Washington, Wyoming) do not impose a traditional state corporate income tax. However, only South Dakota and Wyoming are true zero corporate tax states, as the other four have substitute business-level taxes, as discussed in the section earlier on franchise type taxes. Among states that do impose a corporate income tax, the most common range is 5% - 7% of taxable corporate profit. Four states are considered high-tax states, they are California (8.84%), Illinois (9.5%), Minnesota (9.8%), and New Jersey (up to 11.5%). Alaska's tax rate can be up to 9.4%, but most corporations pay considerably less there. Maine's top rate reaches 8.93%, but most corporations pay 3.5% - 6%. States with low corporate income tax are North Carolina (2.5% flat), Missouri (4.0% flat), Oklahoma (4.0% flat), Colorado (4.4% flat), Utah (4.65% flat), Arizona (4.9% flat), Indiana (4.9% flat), and North Dakota (variable at 1.41% - 4.31%).

Comparing flat tax rates is simple, but comparing states with graduated tax rates is not straightforward; just reading the high end or low end may be misleading. The actual tax rate applied to a business needs thorough research. For example, Arkansas' rate ranges from 1% to 6.5%, with the top bracket begins at a relatively low-income level (corporates with income over \$100,000 pay tax at 6.5%) ([Code of Arkansas Rules, 2026](#)). On the other hand, although the range of Maine's tax rate is higher, from 3.5% to 8.93%, the top rate does not start until income exceeds \$3.5 million. Corporates with up to \$350,000 income still pay the low-end tax rate of 3.5%, which is very attractive to small business owners ([Maine Revenue Services, 2026](#)).

Unlike the one-time business formation fees, income tax is a recurring annual

expense, directly deducted from the profit. Therefore, a smart entrepreneur should be very familiar with tax rates at the state level and have a clear projection of the company's future earnings. With that, the tax system of various states can be fairly compared for the eventual annual tax liabilities. It must be pointed out that tax structures are far from being a simple percentage rate, numerous factors can affect the tax liabilities, including a company's legal structure and the applicable state regulations such as exemption, apportionment rules, deductions, and credits. Hiring qualified tax professionals may help evaluate the specific circumstances to make the best choice.

3.2.3. Administrative Flexibility

The impact of government support and legal literacy on business success has been underestimated by the public. In fact, government regulations not only determine how easy the entity formation process is, but also strongly influence how the business operates. Administrative flexibility has been increasingly prioritized by business owners over the upfront fees when selecting the registration location. States with clear and transparent corporate laws lead to less ambiguity in interpreting requirements, giving business owners confidence in business compliance. The time spent on learning rules, preparing paperwork, renewing license, and navigating restrictions on business structure upgrade are all burdens for entrepreneurs. In addition, the missed market opportunities due to delays, the need to seek professional assistance, and the risk of rework can add to overall cost of business formation and operation.

The most critical administrative burden is legal obligation. Given expensive and lengthy litigations, states that handle business disputes efficiently and fairly attract most companies to obtain insurance against future legal issues.

Complex and unstable regulations make it almost impossible for the entrepreneur themselves to keep up with regulatory changes, hiring professionals to interpret the rules and ensure compliance is becoming a necessity. Some states impose supplementary requirements on company registration, which are easily overlooked. For instance, Arizona and Nebraska require LLCs to publish formation information in a newspaper. In New York, this requirement is as detailed as publishing a company formation notice in two local newspapers for six consecutive weeks, followed by submitting proof of publication to the state government ([The New York State Senate, 2026](#)). Nevada requires a state business license for any business entity formed there, no matter whether it operates in Nevada or not ([Nevada State Business License Requirements, 2026](#)). California requires newly formed LLCs and corporations to submit an initial Statement of Information within 90 days of registration ([California Secretary of State, 2026](#)). In Washington, an initial report with a filing fee is required within 120 days of the business entity's origination. This fee is waived only if it is submitted together with the origination document ([Washington Secretary of State, 2026](#)). Any missed action or any submission not meeting the state requirements may cause undesired delays and can even halt business activities. For this reason, entrepreneurs and investors prefer

states with fewer requirements and better business support.

Administrative flexibility also includes whether a state permits advanced corporate structures, such as series LLCs and statutory close corporations. In a series LLC, multiple internal divisions exist, each has its own assets and liabilities. Delaware is the first state allowing series LLCs. Now about 40% of the states have adopted this structure. With this option, multiple sub-entities can be established in the future as a business expands. A statutory close corporation is a corporation with less public features. It allows a small group of shareholders to directly operate the business entity. This structure allows for greater owner control and lower risk of outside influence, is a good choice for many family-owned businesses. As of 2026, only about 20% of the states permit statutory close corporations. The flexibility on business types allows company to choose the best format at the beginning phase and still be able to grow into the other category as the business expands.

3.2.4. The Extent of Inside and Outside Liability Protection

There are always risks associated with opening a business. Thus, before opening a business, the owner must understand inside liability protection and outside liability protection. Inside liability protection is the protection of an owner's personal assets from liabilities and debts incurred by the business entity. Outside liability protection is the protection of a business entity from the personal creditors of an owner. Inside liability protection has been established for centuries. All states generally separate owner's personal assets from business debts. Since it shields members from corporate debts, protecting personal assets from losses, investment and business formation have been significantly boosted. With regards to comparison among different states, the inside liability protection is fairly consistent, with a few nuanced differences in the governing rules. While outside liability protection, which protects business from personal issues, differs substantially from state to state. It is noteworthy that outside liability protection is much stronger in LLCs than corporates, as corporate shares are considered personal property which is not protected from the shareholder's personal creditors. When a creditor with a judgment against a member attempts to reach their business, in states like Delaware and Wyoming, the creditor usually gets a charging order rather than taking over the business entity. In this case, the creditor only gets the profit distributed to the debtor-member but not the managerial control of an LLC. But in states like California and Colorado, a creditor may acquire LLC ownership interest, which puts the entire business under risk. As of 2026, about one third of the states do not allow foreclosure. In these states, a personal creditor cannot become a member of an LLC simply because one or more members of the LLC owe money. Another one third of the states do not provide strong outside liability protection, an LLC's ownership or structure can be changed if one of more members are in debt. This could also lead to business dissolution. The last one third of the states are in between. Their laws are vague; the settlement depends on the circumstances and the court decision (LLC Attorney, 2026). When choosing a registration state for LLCs, the extent of outside liability protection is a key factor to consider.

3.2.5. Privacy Protection for Business Managers and Investors

Many people do not realize the importance of privacy protections for business owners and executives. They either assume all business owners' information is inevitably public or think privacy only matters for famous individuals. However, privacy is far more than avoiding unwanted attention and distraction; it is a safeguard for personal security, asset protection, and business decisions. If business owners or executives' personal information is publicly disclosed, they may face unnecessary scrutiny, persistent solicitation, intrusive inquiries or even become targets for identity theft and other fraud. Privacy protection reduces the visibility of the individuals behind business transactions, which helps preserve the confidentiality of acquisition strategies and investment activities, allows quiet entry to market, and ensures better negotiation power. Maintaining privacy can also reduce the risk of opportunistic or fraudulent lawsuits, thus avoiding legalized extortion. It is worth noting that privacy protection is mostly focused on LLCs not corporations where shareholders' information is anyway not part of public records. Privacy regulations differ heavily among states. As of 2026, most states require companies to report member information during business formation, which makes the business owners' personal information searchable by others. Only four states do not mandate public disclosure of members or managers when an LLC is formed (Miller, 2025). They are New Mexico, Wyoming, Delaware, and Nevada, with descending privacy protection. New Mexico is the most private LLC state, because it has no annual filing requirement, thus after business formation, the owners' information is not released in the subsequent years either. Wyoming and Delaware require some level of recurring filing, such as annual report and franchise tax. Although the required filing does not directly disclose member or manager information, it creates potential channels for third parties to infer the identities of LLC owners. Nevada requires an initial list and an annual list of managers (but not all owners), so it is not truly anonymous as the other three above-mentioned states (LLC Founder, 2026).

3.2.6. Other Factors

There are other factors to consider when choosing a business formation state, but usually they are not decisive. One constraint could be the company name availability. If a company name has already been registered in a state, no other entity may choose the identical name in the same state. Consequently, the owner has to change the business name or look for another state.

3.3. Best States for Business Formation

Since business registration regulations in the United States are primarily enacted at the state level rather than federally, and the out-of-state registration option is available, a proprietor can choose any state to form a business entity. The comparison of all 51 jurisdictions showed substantial trade-offs among formation costs, administrative flexibility, liability shielding, and privacy protection. No single jurisdiction consistently outperformed all others. A supplementary review of publicly

available business-formation guides was conducted to assess how these trade-offs are resolved in practice, and which states are most frequently recommended for business formation (Estrada, 2026; Dammann & Schündeln, 2011; Romano, 1985).

The vast amount of existing data has pinpointed that when registering a company in the United States, three states emerge as the top choices for the majority of individuals and organizations: Delaware, Nevada, and Wyoming (Mak, 2026; Thrift, 2026). Delaware currently hosts over 1.5 million registered companies. In fact, more than two-thirds of the companies listed in the U.S. Fortune 500 (the top 500 companies by total revenue) are incorporated in Delaware (Cordero Law Group, 2025). Nevada and Wyoming also attract a significant number of companies (Universal Registered Agents, 2025). The key features of business registration in each of these three states are outlined below.

3.3.1. Delaware

Delaware's primary advantage lies in its legal system. Delaware's corporate laws are undisputably regarded as the most sophisticated in the United States. The Delaware General Corporation Law (DGCL) is renowned for clarity, predictability, and flexibility (Legal Guide Team, 2026). The Delaware Court of Chancery specializes in business cases, with judges resolving disputes rather than juries. The state legislature reviews and updates corporate laws annually. Furthermore, the judicial process is expeditious, and legal costs are low.

For business registration, filing fee in Delaware is not the cheapest. It increases at different rates based on the number of authorized shares, with breakpoints at 20,000 and 200,000 shares (Delaware Department of State, 2026). But Delaware's office of the Secretary of State operates with high efficiency, which intrigues many entrepreneurs.

Typically, Delaware is not considered a low-tax state for potential business owners. Delaware's corporate income tax rate is 8.7%, which is at the high side compared with other states. However, this tax only applies to companies conducting business within the state, people who incorporate there but only operate in other states would avoid such tax. Delaware imposes franchise tax. LLCs pay a flat fee of \$300 per year while corporations pay up to \$250,000 per year, which is a substantial amount. However, there are some tax benefits in this state, for instance, stock of Delaware corporations owned by nonresidents is exempt from Delaware taxation (The Delaware Code Online, 2026).

Delaware is one of the leading states for liability protection. It not only protects shareholders' personal assets from corporate liabilities but also shields the company assets from members' personal debt. In addition, Delaware is one of the top states with strong privacy protection. It safeguards investor's privacy by maintaining a strict separation between corporate information and shareholders' personal details.

A unique advantage from Delaware is the strong investor and venture capital (VC) acceptance. This is directly related to Delaware's business-friendly corporate law and the excellent reputation of its business courts. Investors are comfortable

with Delaware companies because they can better predict legal outcomes on corporate issues. Gaining a more advantageous position in potential economic disputes and resolving legal issues quickly and smoothly outweighs Delaware's administrative fees, annual report requirement, and relatively high tax rate. Many investors prefer Delaware companies also because they are familiar with Delaware's corporate structure. This will make potential acquisition or IPO (Initial Public Offering) smoother. Nowadays, many VC term sheets and private equity deals include Delaware incorporation as a condition (Bell & Ganey, 2025). This gives Delaware a significant advantage as a state of business formation if a company has the potential to go public. In fact, many well-known companies, such as Amazon, Google, Tesla, Walmart, American Express, and Disney, are registered in Delaware.

Overall, the preference for Delaware as a business formation jurisdiction demonstrates the overwhelming importance of legal infrastructure in determining where businesses choose to register. For corporations pursuing outside investment, Delaware is the established standard for incorporation. For out-of-state LLC's, Delaware also remains a leading option, due to its business-friendly legal environment.

3.3.2. Nevada

Nevada's initial filing fee for LLCs is \$425, more expensive than most states, as on top of the Articles of Organization fee of \$75, it requires \$150 for initial listing of managers and \$200 for business license. For corporations, filing fees are even higher. The Articles of Incorporation fee for corporations is not a flat amount, it starts at \$75 and increases with increasing value of authorized shares, with a maximum of \$35,000. The business license fee of \$500 for corporations makes the minimum formation cost reach \$725, much higher than the filing fee in most other states (Nevada Secretary of State, 2026).

Although Nevada does not levy a state corporate income tax, it requires annual list fee (\$150+) and annual business license fee, even for companies not operating in Nevada. The cost for LLCs every year is a flat \$350, while for corporations, the annual cost is \$650 - \$11,625 (Nevada Secretary of State, 2026). Nevada also charges a commerce tax for all businesses with gross receipts over \$4 million. Compared with typical income tax rates, the commerce tax rates of ~0.05% to 0.33% on gross receipts are relatively low, though (State of Nevada Department of Taxation, 2026).

Nevada is a state with strong liability protection, similar to Delaware. Their charging orders generally limit remedies available to personal creditors, protecting company assets (Nevada Public Law, 2025). Nevada's privacy protection for business owners is stronger than most states, but it is not a state with truly anonymous LLCs. This is because its initial and annual lists only require identification of managers or managing members, hence non-managing members can be invisible to public (US LLC Global, 2026). Overall, zero state income tax and strong liability protection make Nevada a popular state for business formation. But the tax advantages are offset by extremely high registration fees, business license fees,

and commerce tax.

3.3.3. Wyoming:

Wyoming is attractive to investors mainly because of low cost and high privacy. The \$100 business registration fee and \$60 (or 0.0002 of assets in state) annual report fee are relatively low. And there is no state corporate income tax, franchise tax, personal income tax, or business license fee in Wyoming. The sales tax rate is only 4% (Tax Foundation, 2026). In Wyoming, the names of company members and managers are not disclosed. In addition, Wyoming has business regulations friendly to investors. It is one of the states with strongest charging order protection, shielding personal creditors from taking control of LLCs.

3.3.4. Other States:

Although registration in a state does not guarantee physical operation in that state which adds tax revenue and job opportunities to the community, it still brings financial benefits (formation fee, franchise tax, etc.) and jobs (through in-state registration agents) to the local economy. In the long run, registering in a state increases the probability of operating in that state, which means more capital investment and job creation. Many states are trying to attract businesses by simplifying company registration process, reducing costs, and improving legal support. South Dakota and Rhode Island offer tax incentives (SDGOED, 2026; State of Rhode Island, 2026), New Mexico and South Carolina have no annual report requirement (Entity Brief, n.d.), Connecticut and Mississippi are phasing out their franchise tax by 2028 (Justia U.S. Law, 2025; Mississippi Legislature, 2024), and Nevada is developing a specialized business court system (Nevada Administrative Office of the Courts, 2026). A few additional states of public interest were also studied, and their highlights are described below.

1) New York State

As New York being the largest financial center in the United States, the advantages of registering in New York State include easier access to capital, strong international reputation, and well-developed commercial law. However, high taxes and high fees are the obvious disadvantages.

2) Florida

Florida is attractive mainly for home-registered businesses who operate in the state. The key contributing factors include no personal income tax, the large and growing population, and business-friendly regulations. These advantages diminish if a company does not intend to operate in Florida. If only looking for a business formation state, Florida usually is not a top choice due to no specialized corporate court, relatively high initial and ongoing costs (with corporate income tax of 5.5%) (Florida Department of Revenue, 2026), and low owner privacy.

3) California

California is the 4th largest economy in the world and #1 in new business starts (Governor of California, 2025; California Business and Economic Development, 2026). This claim made by the Governor of California makes people think that Cal-

ifornia is the top choice for business formation in the United States. However, the claim only refers to business operation not business formation. Similar to Florida, registering a business in California may be beneficial only if the business operates there. This is because California maintains high taxes/fees and rigid regulations despite the proximity to venture capital. The process of setting up a company and maintaining compliance can be costly and time-consuming. California's corporate law has less management flexibility and owner privacy than most other states. For example, California law requires corporations to have at least three directors (except for corporations with fewer than three shareholders), mandates cumulative voting for minority shareholders, and demands a Statement of Information that discloses information of key officers ([California Legislative Information, 2026](#)).

4. Conclusion and Disclaimers

To sum up from this study, selecting the optimal jurisdiction for business formation in the United States is not a straightforward task. The use of out-of-state registration combined with foreign qualification allows businesses to separate their state of formation from their state of operation. This option can help decouple certain competing factors involved in business formation decisions. From a business environment perspective alone, without considering the specific characteristics of individual businesses, no single state is universally optimal for the formation of all business entities. Delaware has become the most popular choice for venture-backed corporations, mainly because of its business-friendly legal and regulatory environment, including efficient state administration, legal predictability, and widespread investor familiarity. For LLCs, these advantages are less pronounced, as the benefits of home state registration may outweigh the benefits offered by a more business-friendly registration state. Wyoming and Nevada are viable alternatives to Delaware. However, this is a general guideline without involving specific details about the business operation mode or owner's individual needs. It is only based on analysis of current state regulations and overall entrepreneurs' preferences. Other elements of a given business entity may be dominating factors and completely alter the conclusion from this study. Potential business owners should remain alert to regulatory updates prior to registration. When searching for applicable regulations, people should prioritize official sources, obtaining information directly from ".gov" websites whenever possible. When completing forms online, users must verify the security of the website and strictly avoid disclosing any unnecessary information. Due to the complexity of business creation, it is highly recommended that this process is handled by a qualified legal professional.

Author Contributions

Sole Author, Elaine Guo, for conceptualization, information collection, data analysis, and writing. The author has read and agreed to the published version of the manuscript.

Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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