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## **Update from the Office of the Secretary of State**

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# Update from the Office of the Secretary of State



## I. THE TEXAS BUSINESS LANDSCAPE

In calendar year 2020, the Office of the Secretary of State saw a 22.74 percent increase in the number of domestic entity formations when compared to the previous calendar year. This significant growth was driven in part by the rise in limited liability company formations, which increased approximately 26.8 percent. As statistics show, the limited liability company is the entity of choice for persons creating a new business entity of limited liability in Texas. As of June 1, 2021, limited liability companies make up approximately 67 percent of the total population of active domestic entities. The breakdown of domestic formations is shown below:

Entity Type Description	2019	2020
For-profit Corporation	21,747	22,255
Nonprofit Corporation	13,016	13,799
Professional Corporation	570	518
Professional Association	304	268
Limited Liability Company	202,901	257,292
Limited Partnership	4,478	4,134
<b>Totals:</b>	<b>243,016</b>	<b>298,266</b>

Based on the number of domestic entity formations in the first quarter of calendar year 2021, the uptick in business entity formations may continue for 2021. A review of production statistics for Q1 2021 indicates that the Secretary of State filed 95,630 certificates of formation which is approximately a 50.4 percent increase from the number of domestic entity formations filed in Q1 of 2020.

## II. ENTITY NAMES

### A. Names Must Be Distinguishable

Effective June 1, 2018, the entity name availability standard in Texas was changed to a “distinguishable in the records” standard.<sup>1</sup> Although the Texas entity name standard is now similar to the standard used by many jurisdictions, the manner in which the “distinguishable in the records” standard is interpreted and applied from state to state varies. Consequently, it is still necessary for you to be familiar with the application of the entity name availability rules as adopted by the secretary of state to avoid rejection of your filing instrument.

1. Section 5.053 of the Business Organizations Code (BOC) sets forth the new general standard for name availability; namely, a filing entity name must be distinguishable in the records of secretary of state from the name of any existing domestic or foreign filing entity, any fictitious name under which a foreign filing entity is registered to transact business in this state, or any name reservation or registration filed with the secretary of state. The administrative rules used to determine the availability of entity names are contained in §§79.30-79.46 of Title 1, Part Four of the Texas Administrative Code (TAC), which may be viewed at <https://www.sos.texas.gov/tac/index.shtml>.

2. Chapter 79 rules apply to all filing instruments required to be reviewed for name availability received by the secretary of state. These rules apply to both domestic and foreign corporations (for-profit, nonprofit, and professional), limited liability companies, limited partnerships, as well as professional associations. See 1 TAC §§79.31.<sup>2</sup> These sections do not apply to limited liability partnerships. Section 5.063 of the BOC does not require the secretary of state to determine the availability of a limited liability partnership's name.

3. The administrative rules adopted by the secretary of state for use in determining the availability of an entity name hinge on an understanding of the term "key word", which is used throughout Subchapter C of Chapter 79. A "key word" is a substantive element of an entity name. By rule "key word" is defined as "a word or words that alters the proposed name sufficiently to make it distinguishable in the record."<sup>3</sup> A key word does not include:

- a. an article of speech or a conjunction;
- b. a preposition, unless the addition, substitution, or omission of the preposition alters the name sufficiently to make the name distinguishable;
- c. the word "Company" or the abbreviation "Co." unless the addition or omission of the word or abbreviation alters the name sufficiently to make the name distinguishable; or
- d. an organizational identifier that operates as an organizational identifier for the entity or that appears after all key words in the entity name.

## **B. Three-Tiered Name Standard**

1. The Texas entity name standard has *three* tiers:<sup>4</sup>

a. *Distinguishable*. Names that are the distinguishable in the records of the secretary of state; that is, a comparison of the names sufficient differences to make the name distinguishable in the records. (1 TAC §79.38) In accordance with 1 TAC §79.38, a proposed name is distinguishable in the records if one or more of the following conditions exist:

(1) A comparison of the names reveals a difference in at least one key word. (e.g., *China Silk, LLC* vs *China Silk Imports, LP*);

(2) The key words are the same but are in a different order. (e.g., *123 Auto Repair, Inc.* vs *Auto Repair 123 Company*);

(3) The key words or contractions of key words are derived from the same root word. (e.g., *ABC Bakery Co.* vs *ABC Bakers LLC*);

(4) The key words are the same but are in a different language<sup>5</sup>. (e.g., *Paloma Gallery, LLC* vs *Dove Galería, Ltd.*);

(5) The key word or words sound the same but at least one word, on its face, has a different meaning or connotation. (e.g., *Mussel Beach Café, Inc.* vs *Muscle Beach Café Co.*); or

(6) The key word or words are the same except for the addition, substitution, or omission of prepositions which alter the names sufficiently to make the names readily distinguishable. (e.g., *Light Entertainment LLC* vs *Into the Light Entertainment, Inc.*)

b. *Same*. A proposed name that is deemed to be the same by the secretary of state cannot be filed even if the existing entity is willing to provide notarized consent. In accordance with 1

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