

**A Summer Re-Run –  
Recurring Themes in Business Entity/License Changes  
and Other Licensing Tidbits  
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As Phil said in Groundhog day, “Do you ever have déjà vu?” Though this may seem familiar to an article in 2010, it is a topic that comes up frequently and thus we thought we would address it again. These licensing tidbits are applicable to many situations including change in entity form, new licenses, and the sale of a construction business.

**CSLB Approval Required for Change in Business.** For those of you contractors who may be considering changing your business from a sole proprietor to a corporation (and it is generally a good idea), you should beware that the Board requires notification and issuance of a new license for such business entity changes. Licenses are associated with the business and not necessarily the qualifier. Thus, licenses are not really simply transferable from one business to another, even if the qualifying person is the same for both.

To obtain this new license, one must submit a new [\*Application for Original Contractors License \(Exam Waiver\)\*](#). (If you previously took the exam for your current license, passed it, and are applying for the same classification previously held, no exam is required.) One must pay the required fees (of course), post a new bond, and provide proof of workers’ compensation insurance (or file an exemption) for the new business under the new business name.

**Like Your Old License Number?** There are a few exceptions where the Board will allow one to keep the **old license number**. For example, if the original license is for a sole ownership business which is incorporating and the sole owner/qualifier will own more than half of the corporation, the original license may be reissued. A request must be submitted with the application.

**Wait For It!** Remember, until you are approved and the new license is issued by the Contractors State License Board (or until the license is reclassified by the CSLB), one cannot contract in the name of the new corporation without the proper license in hand. I suggest submitting the application as soon as possible to the Board to avoid any lapse in licensing.

This can be confusing; let me give the most common example. Incorporation starts with the Secretary of State, which is a different and separate governmental critter from the Board. One files the Articles of Incorporation with the Secretary of State. When the stamped Articles are returned, this indicates the entity is now a corporation and open for business. Many contractors at this point presume the process is complete. But further approval is needed from the Board – which takes several months – before the new corporation can do business as a contractor.

Essentially, there is a point where the corporation is in existence, but the contractors’ license has not yet been transferred/reissued to the corporation (the board can be slow in doing this). You cannot contract as the corporation until a new license is issued or the previous one is reissued.

When the business type changes and the contractor starts operating as a corporation but a new license is not issued, the risk is huge – the business faces all the legal risks of being an unlicensed contractor. This includes exposure of the contractor to the Business & Professions Code Section 7031 requirement of disgorgement of all monies paid by a client.

**Properly Licensed as a Partnership?** Contractors will sometimes loosely use the term “partner” or “partnership.” Be careful in this situation. The Board considers a partnership a separate entity – like a sole proprietorship or corporation – that requires a separate license. I recently came across an issue with a contractor client regarding whether the business was properly licensed as a partnership. The contractor was licensed as a sole proprietorship, but the business perhaps operated as a partnership.

Be sure that you are operating in a manner that aligns with the entity type the CSLB has on file for you. If you are a partnership you should consider incorporating for additional protections.

**Corporate License Stays with the Corporation.** We note that once you have a new contractors’ license issued to a corporation, or your sole proprietor license reissued to a corporation, that license number stays with the corporation. If for some reason you need to change entities or create a new entity, you should be entitled to apply for a new license with exam waiver, but you will receive a new license number.

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