

Top 8 Legal Mistakes Made by Startups



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Starting a new business is exciting, and your business has a lot of growth potential, but there is also the potential for making costly mistakes as you get started. If you learn how to avoid the most common errors, your startup can run smoothly from the beginning and your company is better prepared to be successful and profitable in the long run.

1. Not Registering Your Name

Whether you intend to be a [sole proprietor](#) or a [corporation](#), you should make sure that no one else is using the name you have selected for your company. If you register a limited liability company (LLC) or a corporation, a name check is required, but be certain the name is available before you design a website, have a logo made, or print business cards.

2. Not Choosing a Business Structure

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Take some time to consider your options, which include sole proprietorship, partnership, LLC, and corporations (both S and C corporations) and choose the option that makes the most sense for your business startup. Keep in mind that you are planning for your startup to grow, so you will want to put a structure in place that can accommodate your big plans. When starting an LLC or partnership, be sure to have member or partner agreements in place as well, so everyone's role and share is clearly designated.

3. Not Having a Standard Contract

When you start a business you likely don't have a lot of customers, but since you intend to see a lot of growth, you should develop a standard contract to use with all of your customers. This will streamline things and ensure that you protect yourself. Take a look at contracts your competitors are using. Draft a contract that is easy to understand and not overly long. Talk with an attorney to ensure you create a contract that is favorable for your business and fair to your customers.

4. Not Having a Nondisclosure Agreement

When you are exploring how to start a startup, you will likely be talking to a lot of people and sharing a lot of information about your business idea as you try to get advice, hire people, get estimates, and retain professionals. A [nondisclosure agreement](#), or NDA, will help ensure that the information you share with others remains private.

5. Not Hiring Employees Correctly

Many startups are more focused on finding the right employees than they are on following proper procedures. Hiring the right employees is a key part of your success when starting a small business, and it is equally important that you have the proper documentation when you hire people. These include USCIS Form I-9, IRS Form W-4, offer letters, noncompetes, [employee handbook](#), and benefit forms, as well as standard operating procedures for jobs and tasks. Taking the time to create these documents when you begin your company can save you a lot of headaches later on and provide important protections for your business.

6. Not Paying Attention to Securities Laws

When starting a business, it is tempting to want to hand out stock to your family, friends, and investors. After all, you're excited to be starting your own business and want to include them in your plans. Issuing stock is something that needs to be done carefully and in compliance with securities laws though, so rein in your excitement and talk to a lawyer who can help you with required disclosures, filings, and forms. Talk to the lawyer *before* you issue any stock since you need to be strategic about issuing it. Making a mistake with stock could result in expensive penalties for your company.

7. Not Having a Business Lawyer

There are going to be a wide variety of situations in which you will have legal questions, will need to have documents reviewed, don't know how to protect your own interests, and may not have any idea as to what your rights are. When you start your business, you should have a lawyer who is there to help you as you make important decisions and commit to legal agreements.

8. Not Protecting Intellectual Property

Getting copyright, patent, and trademark protection should be a first line protection put in place to safeguard your company's intellectual property. Note that you can trademark at the state and federal level, but patents and copyrights are federal procedures.

If you can avoid making these eight top startup mistakes as you launch your new business, you and your business will enjoy a much smoother start.

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