



Gordillo Law Firm

For your business • For your family

The Eleven Expensive Legal Mistakes Entrepreneurs Make and How to Save Yourself a Boatload On Legal Fees By Not Making Them (Or By Fixing Them Fast)!



Expensive Mistake #1: Not Choosing the Right Entity For Your Business (or Not Incorporating Your Business At All)

Choosing a business structure and creating a separate entity for your business is one of the most important decisions you can make as an entrepreneurial business owner.

Unfortunately, there is a lot of bad advice out there about incorporating and misguided lawyers and CPAs suggesting that incorporation as a separate legal entity is not always necessary. If you receive this advice, you will likely hear that there are no tax benefits for you or that you do not really need it.

Here's why this is bad advice ... if you are serious about building a business, you incorporate that business based on where you want to go with your business, not where you are right now.

If you want to stay where you are right now, do not incorporate and remain a sole proprietor. But of course, you don't want that or you wouldn't be reading this report.

You want to build a sustainable business that makes lots of money and minimizes your risk.

So, you incorporate. Probably an S-Corporation or an LLC. Give a call if you need help deciding which is right for you. We'll also help you choose where to form your entity. Your home state may be right, but sometimes it's better to incorporate elsewhere.

Not to mention there are benefits in the form of a reduced risk of tax audit. Did you know, you are 5-7 times more likely to be audited if you are not incorporated than if you are? It's probably because the government knows that if you are not incorporated, you are not taking your business seriously and likely to be making some mistakes on your taxes too.

Plus, you'll experience valuable liability protection for your personal assets from incorporating as well.

If you are not yet incorporated, contact us for a LIFT Start Up Session and we can get you started off right.

**Expensive Mistake #2:
Not Documenting Agreements**

Documented agreements are a must for every small business owner.

Handshakes and oral agreements are binding (except in certain circumstances where a written agreement is required, such as for the purchase of land).

The problem with unwritten agreements is that because there is nothing in writing it can be nearly impossible to know what the actual agreement really was.

Two well-meaning, good-hearted, great intentioned people can say the exact same thing and mean something totally different. And often that difference does not become known until investments and time have been made in the relationship, at which point unraveling can be sticky and expensive.

And it does not have to be expensive or painful to get agreements in place. One of the things we do is teach you how to write your own basic agreements, saving you loads of money on legal fees.

We also provide you with template legal documents so you can fill in the blanks and we offer ongoing, affordable membership packages so we can review those agreements for you and make sure they are executed properly and stored where they will be easily referenced in case something goes wrong later.

The best part about the agreement creation process is it lets you know early in the relationship whether the person you are entering into an agreement with is someone you really want to work with before you make big investments in the relationship

**Expensive Mistake #3:
Hiring, Firing and Otherwise Handling Team Members Incorrectly**

This is, bar none, your biggest area of risk in your business.



First and foremost, you want to make sure you are properly classifying your team members as either employees or independent contractors.

Classifying the people who work with you incorrectly can lead to charges of Worker's Compensation Fraud (not just civil, but criminal charges can result) and you can end up owing additional taxes if you treat a team member as an independent contractor when, in fact, they are an employee. Vice versa, you could be paying unnecessary payroll taxes if you have a team member who could be an independent contractor, that you are treating as an employee.

If you are concerned that you may not know how to ensure your team members are characterized properly, contact us.

Next, you want to make sure you have an employment manual that details policies and procedures related to working for you, that all employment is at-will, all work produced is work for hire and owned by you (not your team member), and that states what time records are required to be kept, information about vacation time, pregnancy leave and those sorts of things. We can help you get an employment manual in place, if you do not already have one, as part of our service to you.

Last, you will want to make sure your team members are keeping the right records because if something were to happen and you have a conflict with an employee or independent contractor at the end of the relationship, if you do not have the right records in place regarding hours worked, breaks taken, and employment status, you are on the hook.

Not to worry if you do not know what the "right records" are, we can help. Just let us know.

Expensive Mistake #4:

Starting a Competing Business While Still Employed (or Even Shortly Thereafter) & Getting Sued Without Insurance In Place

As an employee of a business, you should not start a competing business while you are employed. If you intend to compete with your employer, you will want to take steps to make sure you do it in a way that does not leave you at risk of a lawsuit and that protects you, if you do get sued.

To begin with, make sure you do not have an employment agreement that includes non-compete provisions. If you do, seek counsel to ensure you do not to violate those provisions.

This may seem obvious, but do not take trade secrets from your employer, solicit other employees or directly contract customers or clients of your former employer.



Instead, consider being up front with your employer and letting him or her know what you are planning so that you can explore the possibility of collaboration instead of competition.

If you do begin a business that is even close to in competition with your former employer, here's one way to protect yourself: get insurance in place before you begin your business so that if you are sued, you have insurance in place to pay for your defense.

The cost of defending a lawsuit (even if it's one you would win) could put you out of business before you even begin.

Expensive Mistake #5:

Not Protecting and/or Capitalizing On Your Intellectual Property

Your ideas are valuable. Lest you think you do not have any intellectual property, if you have a website (which you must in today's day and age), you have intellectual property. From the copy written on your website to the logo you use the brand you have invested in creating and the systems you have in place, you have intellectual property that is worth protecting.

One of the biggest risks we see is that business owners hire copywriters, web designers or other providers of creative content without ensuring you own that content. Let us help you make sure that you are never stuck in a situation where you are held hostage for content you believe you own.

Contact us to not only find out how to protect your intellectual property with trademarks and copyrights, but how to create maximum value from the intellectual property you have.

Expensive Mistake #6:

Weak (or Non-Existent) Record Keeping

Chances are, you have no idea what records to be keeping. It's nothing to be ashamed of, but you do need to know.

Good record keeping, while not always easy for busy idea-filled entrepreneurs, is a must for maintaining the benefits of your business entity.

Business records you want to keep on file are corporate resolutions documenting transactions of the corporation on an annual basis (such as hiring, firing, capital contributions, loans to the company, big deals, purchases of insurance and the like), annual meeting minutes (yes, even if you are the only owner, you do need to have an annual meeting), and of course monthly financial reports.



Strong accounting and record keeping help protect your personal assets when (not if) you're sued and they will come in handy when you transition out of your business down the road.

It's your corporate records that show the world your business exists separately from you and documents how much you have put into your business so you do not end up getting taxed on money you have already paid tax on once.

Keep a special binder just for your corporate records and have a redundant electronic file as well. This will be the evidence you need in a lawsuit or in an audit. If all of this seems just a little too much, give us a call and ask how we can not only update your corporate records, but keep track of them for you as well.

Expensive Mistake #7

Not Having an Advisory Team Lined Up For Support

Running a business takes a village. If you are serious about building a business that makes an impact, is profitable and does not require you to give up your life to run it, you are going to want a great team of advisors to support you and your business.

Start out with a bookkeeper/accountant who is not just doing data entry, but really gets to know you and your business and can help you read your numbers and tell the story of your future.

Add to that, a great CPA/tax advisor—someone to keep you out of the IRS' way, maximize your deductions and keep as much money in your pocket as possible. Now you are talking.

Then, you will be ready to hire a financial advisor who does more than chase yield for your investments, but can help you understand how to build business credit and finance the growth of your business. Look for a financial advisor who specializes in serving business owners, as that person will have a whole different set of tools than the guy or gal serving high income W-2 earners.

Create a relationship with a local banker sooner rather than later. In this case, smaller will actually be better for your business. Smaller neighborhood banks can offer services the big guys can't, like better interest rates on business or personal loans and payment services such as ACH debit. You will want to apply for a line of credit as soon as possible and with the right banker behind you, it will smooth the way to the financing that can back you up during times of crunch or expansion.



And yes, find a lawyer you love now! Meet with your lawyer early and often so that you have your business set up right, agreements documented, intellectual property protected, employment policies in place and then when something does come up, you have a great ally to jump in and handle things for you.

Make sure your attorney is business savvy and not just a document drafter, reactively responding to your needs, but instead a proactive trusted advisor you can count on to be looking out for you before you even knew you needed looking out for.

Finding the right attorney with an entrepreneurial mindset can feel like looking for a needle in a haystack since most attorneys are not even savvy about their own businesses, but we are out here. Call us if you would like to talk about how we can proactively become a trusted member of your advisory team focusing on the growth of your business.

Once you have identified the village to support your business, introduce your advisory team members to each other. Have a luncheon with all of them at the same table. Heck, they may even pick up the tab. The point is these folks need to know each other and feel free to connect with each other to keep you moving forward.

Expensive Mistake #8

Jumping Into a Lease or Agreement to Buy Land Too Quickly

Chances are, at some point, you are going to either lease or buy space. Take your time. At the moment, the commercial real estate market is a buyer's market. There's a lot out there. If you don't find what you want right away, keep looking. Negotiate, negotiate, negotiate. Even if negotiating is hard for you, at least ask for a better deal. Compare prices, negotiate some more. The deals out there are crazy good. Get one!

And when you do, make sure the property does what you need it to do in every way. It shouldn't be too big or too small, too long a lease or too short. Pay attention to the location, to the neighbors, to the neighborhood. Land in a place you're proud of, that you can joyfully invite your clients and customers into.

Check the building structure and attachments. If you're not comfortable doing that yourself (and who is?), hire an inspector. When entering into a purchase contract or lease deal, have a backdoor. You want to have plenty of opportunity to change your mind and not lose your earnest money or deposit.

And finally, bring your lease or purchase agreement to your lawyer for review before you sign on the dotted line. Call us if you need a review done now.



Expensive Mistake #9
Not Knowing What You Do Not Know

The biggest traps you have to watch out for are the ones you simply do not know about. So, make an effort to **get in the know** about things like:

- how to document your own legal agreements (and then run them by us before they are finalized),
- how much and what type of insurance you need so you do not end up with not enough of what you need or too much of what you do not need,
- how to read your financial reports and use your numbers to predict the future of your business,
- tax strategies that can save you thousands or even tens of thousands on your taxes each year

If you really do not want to invest the time in learning all of this yourself, make sure you have a trusted advisor watching your back and staying proactively involved in your business. That's where we really excel – we do not just react when problems come up in your business, but have a process in place to ensure we stay current on what's new for you, your industry, and your business so we can be a partner in your business growth. Contact us if you would like more information on how we do that.

Expensive Mistake #10
Not Having a Succession Plan For Your Business and an Estate Plan For Your Family

What happens if something unexpected happens to you? How will your family cope? How will they receive the benefit of your life's passion and work? Who will manage your company after you are gone? Will your company fold if you aren't here to run it? Is this the main source of income for your family? If you have a partner, how will he or she buy out your family in the event of your incapacity?

If you want your work (and income) to continue without you and for things to be as easy as possible for your loved ones in the event of an illness or your death, you need to think these answers through now.

We know how tough it can be to think about these realities and that is why we have a process in place to make it super easy for you.



In fact, our clients routinely tell us if they had known how easy it would have been, they would have taken care of all these pesky matters long before – it feels so good to have your affairs in order, really.

Wills, trusts, powers of attorney, health care directives, buy/sell agreements, kids protection plans, business succession plans ... while you could learn the ins and outs of all of this yourself, that is definitely not the best use of your time and energy. Contact us and let us take one thing you do not need to be thinking or worrying about off your to do list so you can focus on building your business. Your family will thank you.

**Expensive Mistake #11:
Not Having the Right Type or Amount of Insurance
(Or Being Sold More Than You Need)**

When it comes to insurance, you really want to know what you need, what you do not need and what you are likely to overlook or be over sold.

Insurance agents come in two general flavors – order taker or highly trained ninja sales professional paid a big commission.

Order takers are generally offering health, auto, general business, malpractice coverage and umbrella. If you have no idea what I am talking about, it is time for you to get in the know about your insurance needs.

As a business owner, you need to have all the traditional personal lines of insurance, but you also want to have general business and some type of errors and omissions coverage (malpractice/professional liability). Plus, you want to consider getting an umbrella policy to cover any claims in excess of your primary insurance – it's relatively cheap to have a big umbrella, so be sure to ask your agent about it.

You will also want to consider disability insurance, but before you finalize an investment here, run it by us so we can help you confirm you are getting a policy that is worth the investment. There are some shady characters in the disability insurance arena who will sell you a policy that looks good, but will be very challenging for you to actually collect on when you need it.

And when it comes to life insurance, buyer beware. If you have dependents, you will definitely want term insurance (which means you pay for a specific term, generally 10-20 years paid one year at a time, and the policy pays your loved ones if you die during the term, but there is no investment component). Permanent insurance policies (often called Universal, Variable or Whole insurance) have an investment component and can be tricky. These policies are sold by



the best sales people in the world, and have high commissions built in, so there is lots of incentive for you to end up with more insurance than you need or even insurance you do not need.

One of the advisory functions we serve for our clients is vetting insurance decisions, so give us a call and run your next insurance investment through us so we can help you make the right choices about this what you really need.

Our Commitment to Save You Money + Free You Up to Make More Money

We are not like ordinary lawyers who are reactive to your needs, focused on documenting transactions that have already taken place or are brought in when something happens – we help our clients proactively by staying regularly involved in our clients' business.

We have a unique process in place for getting your business in great shape, primed for profits and for keeping it that way. Think about the relationship Warren Buffet has with his lawyer Charlie Munger and you will understand the kind of relationship and value we strive to provide to all of our clients.

Your next step? Request a LIFT Start Up Session or LIFT Foundation Audit. When you mention this report, will take 50% off our normal session fee.

