

5 Best Legal Practices for Every New Business

An introductory guide to the worlds of business and Michigan law, and how to succeed.

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CHAPTER ONE

*Form a Business
Entity*





Form a Business Entity

This should be is a no brainer.

You can start operating a business tomorrow if you want, however without forming a business entity you will be considered a sole proprietor. The downfall with that is you are putting your personal assets (home, car, personal finances) at risk. Fortunately, there is an easy solution: **form an LLC** (Limited Liability Company). An LLC is treated as a separate entity, which provides you an added level of protection so you are not always personally liable for the debts of the business.





Form a Business Entity

Continued

Forming an LLC is a simple process:

1. **Pick a name.** Then make sure that name is available. You can check that [here](#).
2. **File articles of Organization with the State of Michigan.** If you don't want to hire an attorney, you can do this by yourself, right [here](#).
3. **Create an Operating Agreement.** You will learn about this in Chapter 2.
4. **File for an EIN.** This is done through the IRS.



CHAPTER TWO

Establish a Written Ownership Agreement





Establish a Written Ownership Agreement

Put it in Writing!



I will say it again. Put it in writing.

Working with partners can be incredibly valuable. It gives you someone to turn to, someone to lean on, and someone to walk through the journey of owning a business with. Unfortunately, too many partnerships, and sometimes friendships, end because of a lack of planning.

Creating a written ownership agreement lays the foundation for success. For LLCs this is called an operating agreement. The operating agreement ensures all partners are on the same page from day one, and provides a system for how problems will be solved down the line.



Have a Written Ownership Agreement

Continued

Some things to consider in your Ownership Agreement:

- Who has what ownership?
- Can you sell your shares, or ownership percentage?
- How are decisions made?
- What happens in a deadlock?
- What happens if someone wants out of the business?
- Will owners be paid for their time working for the business?





CHAPTER THREE

*Focus on your
Contracts*





Focus on your Contracts.

At its heart, a contract is an agreement. Every business has agreements, be it with customers, suppliers, landlords, or partners. Often early in business, these agreements come in the form of a handshake or a pre-printed template. The problem here is not always what's agreed upon, but what is not even discussed or considered.

Having a well written contract will help with the following:

- 1. Ensure you get paid.** This is why you're in business in the first place right?
- 2. Protect Your Reputation.** Outlining details right from the start can cut down on misunderstandings. Those same misunderstandings often turn into complaints, and as you know, bad news travels fast.
- 3. Limit Your Obligations.** As a business owner, your time is valuable. Having a contract in place allows you to control and outline what your responsibilities are, therefore saving you precious time.



CHAPTER FOUR

Pay Attention to Personal Guarantees





Pay Attention to Personal Guarantees

I guarantee your creditor will

For new businesses, commercial credit agreements or commercial leases often *require* a personal guarantee.

A personal guarantee means that you are *personally* on the hook for the debt, regardless of whether the business succeeds.

Before you sign on the line, there are some things you should think about:

- What would happen if the business fails?
- What if you have to move to a new location?
- Can you afford to be on the hook for the \$3,500 monthly rent without the business income you were expecting?





Pay Attention to Personal Guarantees

continued

Fortunately, the specifics of personal guarantees can usually be negotiated.

For example, you want to sign a 5 year commercial lease, thus your landlord wants you to agree to a 5 year personal guarantee. In this situation, you may be able to negotiate and ask the landlord to accept a 2 year personal guarantee.

It is always important to use caution when signing a personal guarantee. Depending on the language of the contract, you could still end up being responsible for the payments you weren't anticipating.

If you have questions about your commercial lease or commercial credit agreement, talk to a professional.



CHAPTER FIVE

*Check for Required
Licenses*

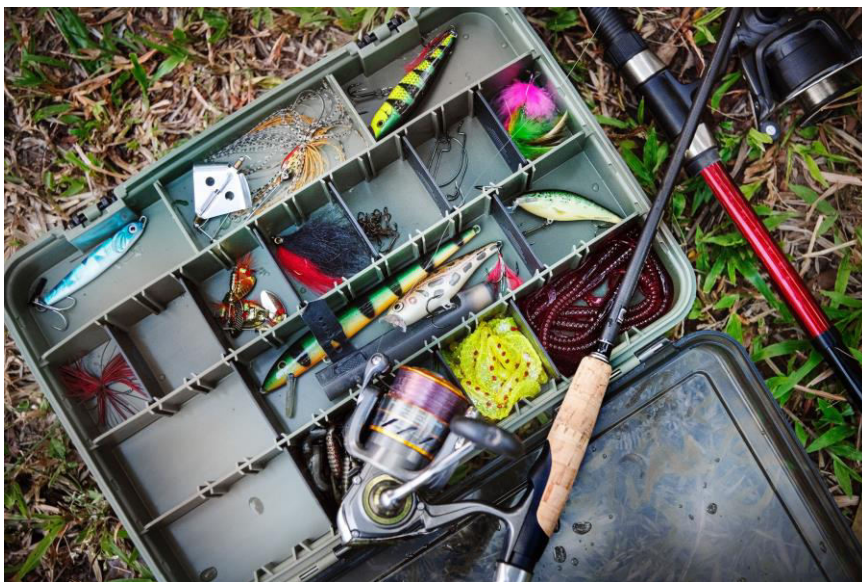




Check for Required Licenses

The State of Michigan requires certain businesses to have a license. These licenses must be obtained prior to doing business.

Some of these licenses are well known. Everyone knows you need a license to sell alcohol, but did you know you may need a license to sell bait to fishermen?



The **consequences** for operating a business without the required licenses can be harsh. Sometimes, operating without a license can make it difficult, or impossible, to obtain a license at all, meaning you may not be able to continue your business.



Check for Required Licenses

Continued

Before you start your business, always check to see if your industry has a required license. You can check out a few examples on the next page or click [here](#) for a complete list of business licenses required in Michigan.

Some industries that commonly require a license include:

- Food
- Alcohol
- Automotive (Mechanic, Dealer, etc.)
- Healthcare
- Finance
- Construction
- Marijuana



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