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Starting a business often begins with a quick online filing. A few clicks, a filing fee, and suddenly you have an LLC or corporation. What business owners don't realize is that how you form a business at the outset affects liability protection, taxes, ownership rights, management control, and how disputes play out later. Problems that surface years down the road often trace back to decisions made or missed on day one.

Here are ten of the most common mistakes in forming a new business:

1. Choosing an entity without understanding tax consequences

Many owners pick an LLC or corporation based on what they've heard, not how it'll be taxed. The differences between pass-through taxation, S corporation elections, and corporate taxation can significantly affect cash flow and long-term planning. Entity choice should be driven by tax strategy, not convenience.

2. **Failing to sign an operating agreement or shareholder agreement**

Forming the entity is only the first step in the process. Without a written agreement between the owners, state default rules control how the business operates. Those rules rarely match what the owners intend, and they often create problems when disagreements arise.

3. **Mixing personal and business finances**

Using personal accounts to pay business expenses (or vice versa) is one of the fastest ways to undermine liability protection. Separate accounts, clear records, and disciplined financial practices aren't optional, they're part of maintaining the legal separation you created.

4. **Assuming an online filing service handles everything**

Online platforms can file formation documents, but they don't structure your business. They typically don't address ownership, governance, tax elections, or compliance requirements. Many owners assume these issues are taken care of when they aren't.

5. Failing to properly issue ownership interests

Ownership isn't determined just because someone contributes money or effort. Interests or shares need to be properly authorized, issued, and documented. Skipping this step creates confusion about who owns what and can lead to disputes that are difficult to unwind.

6. Listing the wrong ownership percentages

It's surprisingly common for formation documents or internal records to reflect incorrect ownership splits. Sometimes this is a simple mistake, but other times it reflects a misunderstanding of how contributions translate into ownership. Either way, correcting it later can be complicated and contentious.

7. Not documenting capital contributions

When owners put money, property, or services into the business, those contributions should be clearly documented. Without records, disagreements can come up over who invested what, and whether those contributions were loans, capital, or something else.

8. Not obtaining required licenses or registrations

Formation isn't the same as authorization to operate. Additional licenses, permits, or registrations may be required depending on the business and location. Overlooking these can result in fines, delays, or inability to enforce contracts.

9. Failing to maintain records and follow formalities

Even businesses with fewer formal requirements, like LLCs, still need to maintain basic records and observe certain formalities. Corporations need to document major decisions, hold meetings, and keep accurate records. Ignoring these obligations creates exposure and weakens the structure you put in place.

10. Accidentally creating a partnership or naming the wrong owner

Sometimes, without realizing it, two or more people begin operating a business and create a legal partnership by default without liability protection. In other cases, the wrong person or entity is listed as the owner in formation documents, creating

problems with taxes, contracts, and control.

Start Your Business on the Right Legal Foundation

Forming a business entity isn't just an administrative step. It's a legal and financial foundation. When that foundation is rushed or misunderstood, the consequences tend to surface later, when the stakes are higher and the fixes more expensive.

A small investment of time and guidance at the beginning can prevent significant problems down the road.
