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6 Legal Tips Small Businesses Should Know

Protect your business from lawsuits

Having read more than a year's worth of my legal articles here, you should already have a good grasp of legal matters that affect you as a small business owner. The following is a summary of sorts, a consolidated version of legal tips for small business owners like you.

1. Consider Incorporating

Remember that there are three ways you could put up a business: (1) Sole proprietorship, where you are the sole owner; (2) Partnership, you have one or more partners; (3) Corporation, you are merely one of many shareholders in your business. While a sole proprietorship is the easiest to put up, it also exposes you to personal liability the most. This is because you are personally liable for your business debts and you have no one to share those debts with. [See easy ways to keep your business liquid at all times here] In partnership, the partners are also personally liable with their personal assets for the payment of the debts of their company, but at least they could split the amount among themselves. On the other hand, in a corporation, because you are merely a shareholder and because corporations have legal personalities of their own, you are not personally liable for the debts and obligations of the corporation in case it is unable to pay its debts or if it is sued. Another benefit of incorporating is it gives you a way to raise capital without exposing yourself to liability for loan obligations. By simply selling your stocks, you could raise capital for expansion or for any other worthwhile purpose.

2. Make your employees and suppliers sign ironclad confidentiality agreements

Next to keeping your industrial secrets to yourself, this is the best way to protect yourself against leaks or unwarranted disclosures of your company's secret ingredients, secret chemical formulas, and other industrial secrets. In a confidentiality agreement, your employee or supplier promises to keep those secrets confidential, otherwise you could sue them for breach of contract and damages.

3. Insist on written agreements

Make sure that all agreements that you enter into with your clients, suppliers, and other persons involved in your business are rendered in writing. This is the only way you could avoid confusion with respect to the terms of your agreements. Furthermore, if any one of them fails to fulfill his or her obligation under the agreement, you'll have an actionable document to show to the courts.

4. Be diligent

To avoid lawsuits, keep your business premises safe and clean so that no one slips, falls, gets burned, or is injured in any other way. Also, maintain the highest quality that you can afford for the goods or services that you're selling. Finally, be sure to fulfill your part in any contractor agreement that you enter into.

5. Treat your employees fairly

Your business is only as good as your workers. An unhappy staff leads to malcontent, malingering, low quality products or services, labor disputes, and sometimes even sabotage. Give your employees fair wages, observe labor laws, treat your employees with respect, and do not overtire them beyond the needs of your business. If you do this, they will reward you with loyalty beyond the call of duty.

6. Know the law

As with everything else, prevention is the key. If you know the law, you could avoid potentially expensive mistakes and lawsuits. To avoid being dragged into a potentially costly labor dispute, you should read the Labor Code and its implementing rules at least once. To make sure you don't expose yourself to tax evasion suits, read the Tax Code, or at least the parts that apply to your type of business. If your business is a corporation or a partnership, get relevant information and updates from the Securities and Exchange Commission. Make it a habit to read the newspapers -- not just the business section, but also the headlines -- to update yourself on any legal matter that could affect your business

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