

Top 10 Mistakes

People Make When Starting Their Business

A practical guide to avoid costly errors and build your business the right way from day one.

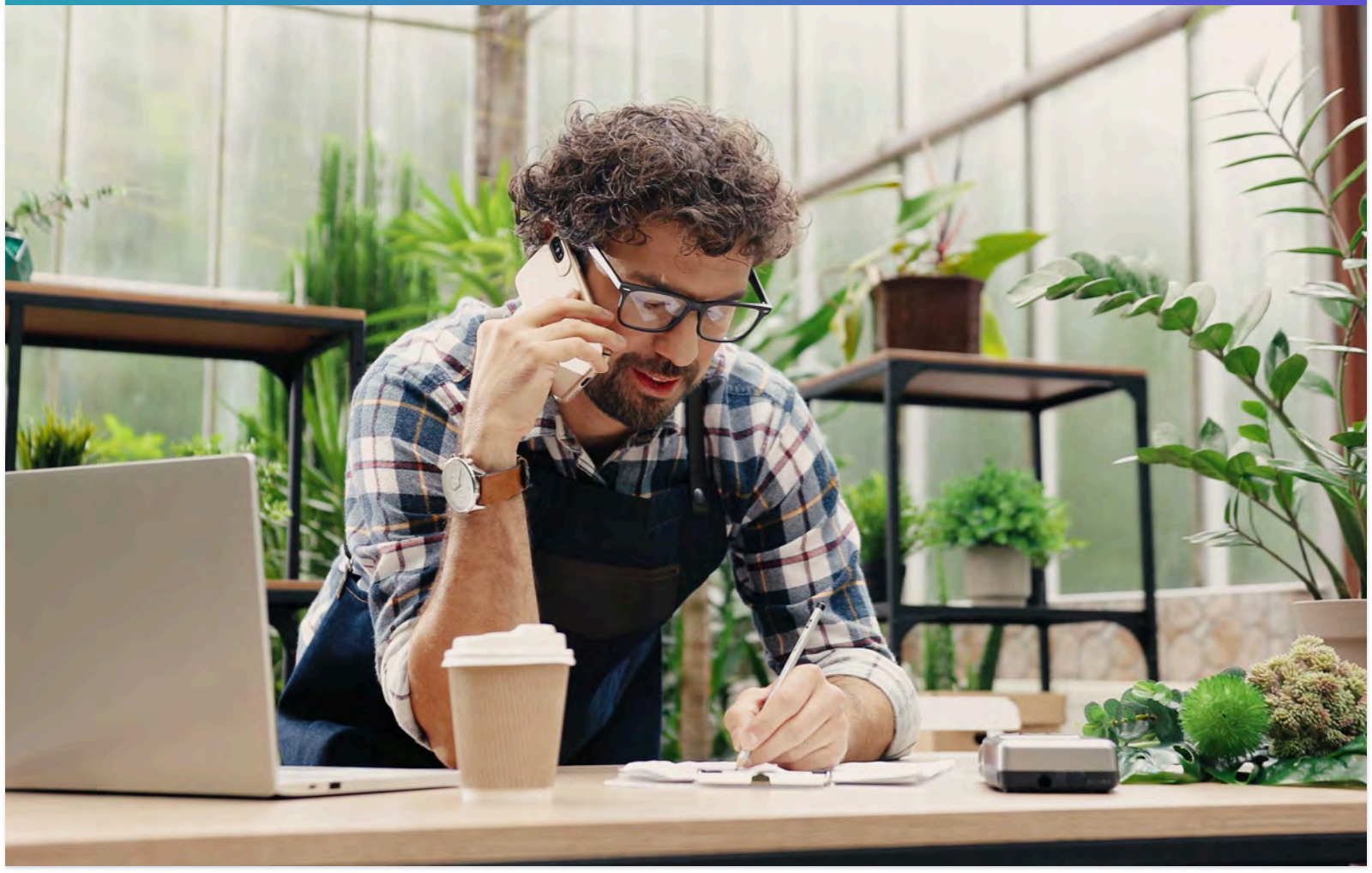


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Launching a business comes with a lot of decisions, and it's easy to rush past details that may seem minor at the time.

Choices like skipping business planning, picking a structure without all the information, or not fully understanding compliance and taxes usually don't cause problems right away, but they can lead to legal, financial, and operational issues later when they're much harder to fix.



This guide covers the 10 most common mistakes people make when starting a business—and shows you how to avoid them so you can get set up the right way from the start.



Not Having a Business Plan

Starting a business is exciting, but it's rarely simple, particularly when it's time to make concrete decisions on things like strategy and finances.

One of the most common mistakes new business owners make is jumping in without a clear and comprehensive plan for how the business will actually operate, grow, and make money.



What is a Business Plan?

A business plan breaks down and illustrates the reason your business exists, the goals you've set for it, and your plan to reach those goals. A well-crafted plan is thoroughly researched, realistic, and translates your vision into a format that's easy for anyone to understand.



Why It Matters

Having an in-depth business plan is essential for securing funding from friends, family, banks, and other investors. It demonstrates how serious you are about starting a business, and outlines the potential for profitability as well as the inherent risk of opening a business.



Get Started the Right Way

Northwest Registered Agent clients get free access to our comprehensive business plan templates, included with every LLC formation. Create a professional plan without starting from scratch.

Key Takeaway

Don't skip the planning phase. A clear, practical business plan gives you direction and helps prevent costly mistakes later.

Choosing the Wrong Business Structure

Choosing a legal structure determines how you're taxed, how much personal risk you take on, and how much flexibility you'll have as your business grows.

Many business owners rush into an LLC or default to a sole proprietorship without fully understanding the consequences.



Understanding Your Options

Common structures include sole proprietorships, partnerships, LLCs, nonprofit corporations, S-corporations, and C-corporations. Each comes with different rules around liability protection, taxes, record-keeping, and long-term scalability.



Why Structure Matters

The wrong structure can expose your personal assets, create unnecessary tax burdens, or force you into expensive changes later. What works for one business owner may be completely wrong for another.

Need Help Choosing?



We've broken down each business structure in detail, including similarities, differences, and ideal use cases for each.

[Read Our Business Structure Guide →](#)

Key Takeaway

Instead of choosing a structure based on what's popular, choose the one that fits your business, your risk tolerance, and your long-term goals.

Filing Your LLC in the Wrong State

Where you form your LLC matters more than many new business owners realize. Filing in the wrong state can mean extra fees, additional filings, and ongoing compliance obligations.



The State Filing Decision

Most businesses should form their LLC in the state where they live and actively operate. While states like Delaware and Wyoming offer favorable laws and tax structures for larger, multi-state corporations, those benefits typically don't apply to small businesses—which are usually simpler and more cost-effective to run in their home state.



Why This Gets Messy

If you form your LLC in one state but operate in another, you may be required to register as a foreign LLC and pay fees in both states. That means more paperwork, more costs, and more chances to miss something important.

Not Sure Which State Is Right for You?



Our business formation experts help hundreds of entrepreneurs navigate state-specific requirements. Schedule a free consultation and we'll walk you through the decision.

[Speak to an Expert →](#)

Key Takeaway

For most small businesses, forming your LLC in the state where you actually do business is the simplest and most cost-effective choice.

Skipping Market Research

A strong business idea is a great start, but many entrepreneurs move forward based on enthusiasm alone without confirming that there's real demand for what they're offering.



Why Research Matters

Market research helps you understand who your customers are, what they need, and how they make purchasing decisions. It also helps you price appropriately and avoid building something no one is willing to pay for.



Starting Smart

Even basic research like competitor analysis, customer interviews, or test offerings can reveal problems early, when they're easier and cheaper to fix.



Pro Tip: Start with three simple questions:

- 1 Who's already solving this problem?
- 2 What do customers complain about most?
- 3 What would make them switch to my solution?

Key Takeaway

Validate your idea before investing heavily. Understanding your market reduces risk and improves your odds of long-term success.

Failing to Separate Personal & Business Finances

One of the most common and costly mistakes LLC owners make is mixing personal and business finances. It usually seems harmless in the early days, but failing to keep finances separate can create serious legal, tax, and accounting problems down the road.



What Separating Finances Means

Separating finances means maintaining distinct bank accounts, credit cards, and records for your business. All income and expenses related to your LLC should flow through business accounts, not personal ones.



Why It Matters

Mixing personal and business finances puts your personal assets at risk. It can weaken your LLC's liability protection and complicate bookkeeping, tax season, and a business owner's privacy by exposing personal spending and assets to banks, auditors, or in legal business disputes.

Helpful Resource for New LLC Owners

Check out our page on opening a business bank account with an LLC resolution. This document clearly shows the bank who has the authority to start an account on behalf of a limited liability company. Your bank may require a resolution if your Articles of Organization or operating agreement don't specifically authorize someone to open an account.

[Read Our LLC Bank Account Resolution page](#) →

Key Takeaway

Open a dedicated business bank account as soon as your LLC is formed, use it consistently, and keep clean, accurate financial records.

Not Maintaining Your LLC Properly

Forming an LLC is only the first step. To get the liability protection an LLC is supposed to provide, you have to maintain it correctly.



What "Piercing the Corporate Veil" Means

An LLC creates a legal separation between you and your business. But if you don't treat it like a separate entity, courts can ignore that separation and hold you personally responsible for business debts or lawsuits.



Common Maintenance Failures

The biggest mistake is mixing personal and business finances. Other common issues include missing annual reports, failing to pay required fees, or not keeping basic records up to date.

Never Miss A Deadline Again



Northwest Registered Agent clients receive compliance reminders and annual report filing assistance. We track your deadlines so you never miss critical filings.

[Hire a Registered Agent →](#)

Key Takeaway

Forming an LLC isn't quite enough. Maintaining it properly is what protects you. Stay compliant, keep records current, and treat your business as a separate legal entity.

Ignoring Operating Agreements

An operating agreement defines how your LLC is run. Even if you're the only owner, many business owners skip it entirely or rely on generic templates that don't reflect how their business actually operates.



Why This Document Matters

Without an operating agreement, your LLC is governed by your state's default rules, which may not match your intentions at all. This becomes especially problematic if disputes arise or ownership changes.



Planning for the Unexpected

A good operating agreement sets expectations, outlines decision-making authority, and provides a roadmap when things don't go as planned.



Northwest Registered Agent Benefit:

All Northwest Registered Agent clients get a customizable operating agreement template.

[Get Your Free Operating Agreement →](#)

Key Takeaway

An operating agreement provides protection. Make sure yours actually reflects your business.

Mistake #8

Not Understanding Licensing & Permit Requirements

Many new business owners assume that forming an LLC covers all of the legal basics. In most cases, licenses or permits are needed to operate legally as well. Taking the time to secure them early helps avoid issues later.



What Licenses and Permits Are

Licenses and permits are approvals issued by federal, state, county, or city agencies that allow your business to operate legally. Requirements change based on your industry, location, and the type of services or products you offer.



Why It Matters

Operating without the proper licenses can invalidate contracts or delay growth when problems surface later. In some cases, you may need to stop doing business until compliance issues are resolved.



Pro Tip:

Start with your city or county business licensing office. They'll point you to industry-specific requirements you might not find through online searches. Do this research before you invest in inventory, signage, or a physical location.

Key Takeaway

Don't assume your LLC filing covers everything. Research and obtain all required licenses and permits before operating.

Taxes are one of the most misunderstood parts of running an LLC. Missteps here often lead to unnecessary taxes, penalties, or missed savings opportunities.



The S-Corporation Election

An LLC can elect to be taxed as an S-corporation, which can reduce self-employment taxes once the business is consistently profitable. This strategy isn't right for everyone, but when used correctly, it can produce meaningful savings.



Why Timing Matters

Electing too early (or without proper setup) can create more problems than it solves. It's important to understand when the election makes sense and what's required to maintain compliance.

Get Expert Guidance on Tax Elections



Our team includes specialists who help business owners understand when an S-corp election makes sense and what's involved.

[Get Expert Advice →](#)

Key Takeaway

Tax elections should be strategic, not automatic. Get informed before making changes that affect how you're taxed.

Many business owners believe they have to handle everything on their own. While that mindset is common, it often leads to burnout and inhibited growth.



The Cost of Going It Alone

Time spent on tasks outside your expertise is time not spent growing your business. Whether it's compliance, handling mail, administrative work, or otherwise, doing everything yourself increases the risk of mistakes.










Smart Delegation

Building a reliable support system of professionals and trusted services allows you to focus on what you do best and scale more effectively.

Northwest Registered Agent Benefit: A Complete Business Foundation

We're an independent company that's helped entrepreneurs since 2002. We keep you compliant and focused on running your business—no upsells, no hidden fees. We're here when you want more than just paperwork.

We provide everything you need to establish and maintain your business. With every LLC formation or registered agent service, you get:

-  A business address for public documents
-  A business domain name
-  A pre-built, open-source website with SSL
-  A professional email address
-  A business phone number
-  Access to Corporate Guides®
-  Privacy by Default®

[Get Started with Northwest Registered Agent →](#)

Key Takeaway

You don't have to do everything yourself. Getting the right help early on can save time, money, and stress.

READY TO BUILD YOUR BUSINESS THE RIGHT WAY?

You've learned the 10 most common mistakes that trip up new business owners. Now it's time to avoid them. Whether you're just getting started or need to fix issues from the early days, Northwest Registered Agent gives you the tools, resources, and expert guidance to do business right.

[Start Your LLC Today →](#)