

A PRACTICAL GUIDE FOR ENTREPRENEURS,
INDEPENDENT CONTRACTORS & SMALL BUSINESS OWNERS

7 Legal Issues Every Small Business Owner Should Understand

How to protect your hard work, handle contract disputes, and collect unpaid invoices — without paying hundreds of dollars an hour for legal help.

INCLUDES

The 7-Point Small Business Legal Checkup — a one-page action checklist you can complete in about ten minutes.

Presented by

Zach Nyhuis

LegalShield Independent Associate

zachnyhuis@ascendancynetwork.com • +1 (616) 318-7816

What Is Inside

INTRODUCTION

Why You Are Reading This

CHAPTER ONE

The Foundations of Liability and Daily Contracts

Issue 1 — The Handshake Agreement Trap

Issue 2 — Using Generic Online Templates

Issue 3 — Misclassifying Workers

CHAPTER TWO

Disputes, Liability, and the Power of Document Review

Issue 4 — Unreviewed Client and Vendor Contracts

Issue 5 — Customer and Client Disputes

Issue 6 — Operating Without Personal Asset Protection

CHAPTER THREE

The Unpaid Invoice Trap and Everyday Legal Questions

Issue 7 — The Nightmare of Unpaid Invoices

Everyday Legal Questions

THE BIGGER PICTURE

What Most Business Owners Miss

YOUR ACTION TOOL

The 7-Point Small Business Legal Checkup

YOUR NEXT STEP

Where To Go From Here

CONTACT

Zach Nyhuis, LegalShield Independent Associate

Introduction: Why You Are Reading This

You started your business to build something of your own. You wanted freedom, control, and the opportunity to turn your skills into a thriving enterprise. Whether you are a self-employed professional, an independent contractor, or an entrepreneur managing a growing team, you have poured your time, energy, and hard-earned savings into your business.

But as your business grows, so does your exposure to risk.

Every day, small business owners make critical decisions. You sign agreements with vendors, deliver services to customers, hire contractors, and send out invoices. In a perfect world, every transaction would run smoothly. Every customer would pay on time, every vendor would deliver exactly what they promised, and every partnership would remain harmonious.

Unfortunately, we do not live in a perfect world.

At some point, you will face a customer who refuses to pay for completed work. You will encounter a vendor who changes the terms of an agreement at the last minute. Or you will find yourself staring at a complex, twenty-page contract sent by a potential client, wondering if you are signing away your intellectual property rights.

When these situations arise, most small business owners feel trapped. They know they need professional legal advice, but they dread the cost. Traditional law firms often charge hundreds of dollars per hour just to answer basic questions or review a simple agreement.

As a result, many business owners take the risk and go it alone. They download generic templates from the internet, cross their fingers, and hope for the best. This is known as the "hope strategy," and it is one of the most dangerous ways to run a business.

This guide was written to change that. In the following pages, we break down the seven most common legal issues that small business owners face. More importantly, we show you how to navigate these challenges affordably, protect your hard work, and secure the peace of mind you deserve.

HOW TO USE THIS GUIDE

Read the seven issues first. They take about ten minutes.

Then go to the 7-Point Small Business Legal Checkup near the back. That is where this stops being reading and starts being work.

Do not try to fix everything at once. Complete the checklist, find your two or three weakest points, and start there.

The Foundations of Liability and Daily Contracts

Issue 1 — The Handshake Agreement Trap

Many small businesses start with relationships built on trust. You agree to perform services for a colleague or client based on a verbal agreement, a handshake, or a brief exchange of text messages. While trust is essential, relying on handshake agreements is a major business risk.

Without a written contract, there is no objective record of what was agreed upon. If a dispute arises over the scope of work, deadlines, or pricing, it becomes your word against theirs. A clear, written agreement is not about a lack of trust. It is about clarity. It ensures both parties are aligned on expectations from day one.

Issue 2 — Using Generic Online Templates

When business owners realize they need a contract, they often search online for a free template. While this seems like an easy fix, generic templates are highly risky.

These documents are rarely tailored to your specific industry, your state's laws, or your unique business model. They often contain outdated clauses, confusing legal jargon, or terms that actually favor the other party. Using a generic contract is like wearing someone else's prescription glasses. It might sort of work, but it will not give you the clear vision you need to protect your assets.

Issue 3 — Misclassifying Workers

As your business expands, you may need to bring on extra help. Many entrepreneurs choose to hire independent contractors rather than full-time employees to save on overhead. However, state and federal agencies have strict rules regarding worker classification.

If you treat an independent contractor like an employee — by controlling their schedule, providing their tools, or dictating exactly how they perform their daily tasks — you could be flagged for misclassification. This can result in penalties, back taxes, and legal disputes. Understanding the legal boundary between a contractor and an employee is critical for any growing business.

Disputes, Liability, and the Power of Document Review

Issue 4 — Unreviewed Client and Vendor Contracts

In business, you are often asked to sign agreements drafted by other parties. Large clients and established vendors will hand you their standard contracts, which are naturally written to protect their interests, not yours.

Signing these documents without a thorough professional review is risky. You might unwittingly agree to unreasonable payment terms, harsh cancellation penalties, or broad indemnification clauses that hold you financially responsible for mistakes made by the other party. Having a professional review your contracts before you sign them is the simplest way to prevent expensive legal headaches down the road.

Issue 5 — Customer and Client Disputes

Even if you do everything right, you will eventually encounter an unhappy customer. Perhaps they claim your service did not meet their expectations, or they demand a full refund for a project that took weeks to complete.

When a dispute arises, emotions run high. Many business owners make the mistake of responding defensively or ignoring the issue, hoping it will go away. A single unaddressed dispute can quickly escalate into a formal complaint or a costly legal battle. Knowing how to handle customer complaints professionally, with clear documentation and consistent policies, is essential to protecting your reputation and your bottom line.

Issue 6 — Operating Without Personal Asset Protection

Many independent contractors and self-employed professionals operate as sole proprietorships. While this is the easiest way to start, it offers no separation between your personal assets and your business liabilities.

If your business is sued or falls into debt, your personal savings, your car, and even your home could be at risk. Choosing the right business structure — such as a Limited Liability Company (LLC) or a corporation — creates a legal barrier between your personal life and your business activities. Understanding when and how to structure your business is a fundamental step in long-term risk management.

The Unpaid Invoice Trap and Everyday Legal Questions

Issue 7 — The Nightmare of Unpaid Invoices

There is nothing more frustrating than completing a project, sending the invoice, and being met with silence. Unpaid invoices damage your cash flow, waste your administrative time, and cause immense stress.

Many small business owners do not know how to collect outstanding debts. They send polite email reminders, which are easily ignored. They worry that taking stronger action will destroy the client relationship or cost more in legal fees than the invoice is actually worth.

However, you do not have to accept unpaid invoices as a cost of doing business. Often, a formal collection letter written on a professional law firm's letterhead is enough to prompt a non-paying client to clear their balance. Knowing your rights and having a structured process for debt collection is vital to keeping your business financially healthy.

Everyday Legal Questions

Running a business means facing a constant stream of minor legal questions. Can I use this image on my website? What should my refund policy say? How do I handle a dispute with a subcontractor?

Because traditional legal help is so expensive, most business owners simply guess the answers. They make decisions based on forum posts or advice from friends. Over time, these small, unaddressed questions compound, creating hidden vulnerabilities in your business.

What Most Business Owners Miss

What many small business owners fail to realize is that legal protection is not just about defending yourself in court. It is about confidence.

When you know your contracts are solid, your business structure is correct, and you have professional support standing behind you, your entire approach to business changes. You negotiate from a position of strength. You take on larger clients because you are no longer intimidated by their complex agreements. You run your daily operations without the constant, lingering worry of "what if."

Avoiding legal support does not save you money. It costs you peace of mind, focus, and growth opportunities. The key to business longevity is moving from a reactive model — where you only look for help after a crisis occurs — to a proactive model, where you prevent problems before they start.

The 7-Point Small Business Legal Checkup

Reading about the seven issues is step one. This is step two. Work down the list and check the box only when you have actually done the task — not when you intend to. Most owners finish this in about ten minutes.

Be honest here. The list is only useful if it tells you the truth about where you stand.

☐

1. The Handshake Agreement Trap

Do this: List every client or vendor you are working with right now on a verbal, text, or email-only agreement. Circle the one with the most money at stake. That is the first one to put in writing.

Red flag: *You cannot name what was agreed to, in writing, for a job worth real money.*

☐

2. Generic Online Templates

Do this: Open the contract template you use most. Check three things: does it name your state, does it say exactly when you get paid, and does it say what happens if either side walks away? Any missing answer is a gap.

Red flag: *You do not know where your template came from, or you have never read it end to end.*

☐

3. Worker Classification

Do this: For each person you pay who is not on payroll, answer yes or no: Do I set their hours? Do I supply their tools? Do I direct how the work gets done? Write down the answers.

Red flag: *Two or more yes answers for the same person.*

☐

4. Unreviewed Client and Vendor Contracts

Do this: Pull the last agreement someone else wrote that you signed. Find the cancellation terms and the indemnification section. Read both out loud.

Red flag: *You cannot find those sections, or you read them and still do not know what they mean for you.*

☐

5. Customer and Client Disputes

Do this: Write your refund, revision, and cancellation policy in plain language on one page. Put it somewhere a customer can actually see it before they buy.

Red flag: *The policy only exists in your head, or it changes depending on who is asking.*

☐

6. Personal Asset Protection

Do this: Confirm your current business structure in writing and note the date you last reviewed it. If you are operating as a sole proprietor with steady revenue and outside customers, put a review date on your calendar this month.

Red flag: *You are a sole proprietor, you have customers and revenue, and you have never reviewed the structure.*



7. Unpaid Invoices

Do this: List every invoice more than 30 days past due. Add up the total. Write that number at the bottom of this page.

Red flag: *The total is more than one month of your operating costs, and you have no written collection process.*

Score Yourself

Count the boxes you could NOT check, or the tasks where you hit a red flag.

0 - 2 GAPS

You are in solid shape. Put a reminder on the calendar to run this checkup again in six months, and get one professional set of eyes on your main contract.

3 - 4 GAPS

This is where most small businesses live. Nothing is on fire yet, but you are carrying risk you never agreed to carry. Pick your two biggest gaps and handle them in the next thirty days.

5 OR MORE GAPS

Your business is exposed in more than one direction at the same time. That does not mean something bad is going to happen. It means that if it does, you will be paying full price to fix it. Start with the gap that has the most money attached to it and work backward.

Total past-due invoices from Item 7: \$ _____

Write it down. That number is what going without a collection process is costing you right now.

Where To Go From Here

Now that you understand the seven critical legal issues facing your business, and you know which ones apply to you, the question becomes how to address them without spending a fortune.

You do not need to hire an expensive in-house attorney or pay hundreds of dollars an hour to get professional help. You simply need a smarter way to access the legal system.

Imagine having a resource where you can:

- Have your business contracts and agreements reviewed by a professional before you sign them.
- Consult with an experienced attorney about any business question, no matter how small, without worrying about a ticking clock.
- Have professional letters written on your behalf to help resolve disputes or collect outstanding payments.

That level of protection lets you focus on what you do best: growing your business, serving your clients, and building your legacy.

About LegalShield®

LegalShield believes every small business owner, independent contractor, and entrepreneur deserves access to high-quality, affordable legal protection.

For more than 50 years, LegalShield has worked to break down the barriers to the legal system. LegalShield connects members with established, experienced provider law firms that deliver professional consultation, contract reviews, and document assistance.

Instead of paying high hourly rates, members pay a predictable monthly subscription. That gives you direct access to professional legal advice and assistance when you need it most, so you can protect the business you have worked so hard to build.

HAVE A QUESTION ABOUT YOUR RESULTS?

You finished the checkup. The next question is which of your gaps actually matter for your type of business — and that answer is different for a contractor than it is for a salon or an online store.

Reach out and we will walk through your results together. There is no cost for the conversation, and you keep the guide either way.

Zach Nyhuis

LegalShield Independent Associate

Email zachnyhuis@ascendancynetwork.com

Phone +1 (616) 318-7816

Important Notice

This guide is provided for general educational purposes only and is not legal advice. It does not create an attorney-client relationship. Laws vary by state and by situation. For advice about your specific circumstances, consult a licensed attorney.

Zach Nyhuis is an independent associate of LegalShield and is not an attorney. Plan availability, benefits, and coverage vary by state and by plan. Review the plan contract for complete terms, coverage, and exclusions. LegalShield® is a registered trademark of its respective owner.