



Sole Proprietorship

A sole proprietorship is the simplest and most common structure chosen to start a business. It is an unincorporated business owned and run by one individual with no distinction between the business and the owner. You are entitled to all profits and are responsible for all your business's debts, losses and liabilities.

Forming a Sole Proprietorship

No formal action is required to form a sole proprietorship. If you are the only owner, this status automatically comes from your business activities. In fact, you may already own one without knowing it. If you are a freelance graphic designer, for example, you are a sole proprietor.

But like all businesses, you need to obtain the necessary licenses and permits. Regulations vary by industry, state and locality.

If you choose to operate under a name different than your own, you will most likely have to file a fictitious name (also known as an assumed name, trade name, or DBA name, short for "doing business as").

Sole Proprietor Taxes

Because you and your business are one and the same, the business itself is not taxed separately – the sole proprietorship income is your income.

Advantages of a Sole Proprietorship

- **Easy and inexpensive to form:** A sole proprietorship is the simplest and least expensive business structure to establish.
- **Complete control.** Because you are the sole owner of the business, you have complete control over all decisions.
- **Simplified tax preparation.** Your business is not taxed separately, so it's easy to fulfill the tax reporting requirements.

Disadvantages of a Sole Proprietorship

- **Unlimited personal liability.** Because there is no legal separation between you and your business, you can be held personally liable for the debts and obligations of the business. This risk extends to any liabilities incurred because of employee actions.
- **Hard to raise money.** Sole proprietors often face challenges when trying to raise money. Because you can't sell stock in the business, investors won't often invest. Banks are also hesitant to lend to a sole proprietorship because of a perceived lack of credibility when it comes to repayment if the business fails.
- **Heavy burden.** The flipside of complete control is the burden and pressure it can impose. You alone are ultimately responsible for the successes and failures of your business.