What Is A Sole Proprietorship?

Most small businesses begin life as a sole proprietorship.

A sole proprietorship is a business owned by one person. In most cases this is the same person who runs the business from day to day.

Sole proprietorships own all the assets of the business and get to keep all the profits generated by it. They are also completely responsible for any liabilities or debts of the business. The owner cannot separate him or herself from the business legally. They are one and the same.

The major advantages of this form of organization are:

1. It is the easiest form of ownership to organize.

2. It is the least expensive form of ownership to organize.

3. The owner receives all the profit from the business, which they can keep or reinvest.

4. If things do not go well, it is the easiest form of business to dissolve.

There are disadvantages too.

1. The owner has unlimited liability and legal responsibility for the business. This means both your business and your personal assets are at risk.

2. The ability to raise funds is usually a disadvantage. Most sole proprietors have to raise funds from personal savings, consumer loans, credit cards, and the like.

3. If your business needs to hire employees it is sometimes more difficult to attract them. Or at least attract those employees that might aspire to owning a piece of the business someday, such as would the case in a partnership.

Federal tax forms needed by sole proprietors include:

1. Tax return – form 1040

2. Profit or loss from a business – Schedule C

3. Self-employment tax – Schedule SE

4. Estimated tax – form 1040-ES

5. Depreciation – form 4562

6. Home office expenses – form 8829

7. Others, depending on whether you have employees and other factors.

This article is intended to be used as an introduction and a guideline. Seek professional assistance before making a decision about how to structure your small business.