

## **Sole Proprietors**

### **Purpose:**

- ◆ Business owned and operated by one person
- ◆ Usually small businesses or solo professional
- ◆ Majority of businesses start this way

### **Organization**

- ◆ **No formal organizational requirements**

Exception #1: Must file Fictitious Name Certificate with Clerk of Circuit Court where doing business

Exception #2: Must get state and local business license as applicable

### **Control**

- ◆ Owner has absolute control over all affairs of the business

### **Duration**

- ◆ Terminates upon transfer, death or bankruptcy of the owner

### **Liability**

- ◆ The owner is personally liable for all obligations of the business
- ◆ The assets of the business and the owner's personal assets are available to creditors

### **Transfer of Interests**

- ◆ Interests of the owner are freely transferable at any time

### **Tax Treatment**

- ◆ The owner and the business are one and the same for income tax purposes
- ◆ Profits and losses are reflected on the owner's personal income tax return
- ◆ The owner must pay self-employment taxes and withholding & social security tax on employees

### **Advantages**

- ◆ Easy, quick and inexpensive
- ◆ Simple to operate
- ◆ No formalities to observe except state and local licensing and zoning laws

### **Disadvantages**

- ◆ No structure for additional equity holders
- ◆ Personal endorsement of the owner's spouse often required for loans
- ◆ No separate business entity and therefore unlimited liability for owner