"Sole Proprietor"

The "Sole Proprietor" or "Sole Proprietorship" is one of the most common small business types. "Sole Proprietor" basically means One Owner or Individual Owner. It is most often used or referred to along with the term "Doing Business As" or "dba" initials representing the idea an individual is doing business in a name other than their given name. For instance Jane Doe an individual owner or "Sole Proprietor" may run a business that does custom designs of some particular item. Rather than naming her business Jane Doe's she may name it or "do business as" "Creative Designs." Therefore technically her business is Jane Doe dba "Creative Designs" a "Sole Proprietorship." The public will see the business as "Creative Designs" and have little thought as to what type of entity it is.

Although some people prefer using their own name on their individually owned business by far, the majority in this type of entity do business in an alternative name. This alternative name is also called a fictitious name. Most jurisdictions require people doing business in a name other than their own to pay a small fee and register the business. Depending on the state where you reside or are performing the business the registration may be done at either your town hall, the county offices or the Secretary of State's Office. The reason this is required is usually for consumer protection. If a customer, vendor or other party has a problem or dispute with a business fictitiously named their effort to confront the responsible party may be hampered if they could not determine who the owner or responsible party listed on the application which is a public record.

Although a large number of individuals do business in this type of entity, I believe it has much less to do with being favored and more to do with being the default for those who do not fully understand their options. Many "Sole Proprietors" begin their small business on the side using the skills or ideas acquired having worked a job and developed expertise or talent over some time. So understandably their focus is on providing their skill and service to those seeking them and not so much on accounting, taxes, entity and estate planning.

The definite advantage of the "Sole Proprietorship" is the ease and speed at which you are off and running. The disadvantages, however, may develop over time in all the areas as mentioned above. Lack of proper planning can cost you thousands in accounting, in taxes, estate planning, and unprotected liabilities. What you don't know and didn't bother finding out can hurt you, a lot!

Sole Proprietors pay more taxes, experience more audits and have more liability than any other group in the United States. Sole Proprietors have full liability for all their actions, debts, and damages both business and personal. Because you are your business any personal liability owed will attach to you personally and reach your business. Any business liability will extend to your business and reach you personally. You and your business are married. Your personal tax return and business tax return are married as they are one and the same. Because your business return is filed for on a Schedule C along with your personal 1040 tax return whether single or married filing joint, a problem with one is a problem with the other.

You have probably heard the saying, "Work smarter not harder." Well in today's business environment you do not only need to work smarter you also need to plan smarter. In my opinion, the Sole Proprietorship should be among the least used entities rather than the most. No matter how many hours or how much of your life is wrapped up in your business you would be wise to separate your personal life and assets from your business assets. By separating assets and limiting your business liabilities, a business problem can remain a business problem and a personal problem a personal problem. Your personal tax return will be separate from your business return. And if you have more than one business one business's problems from another. If you are already a Sole Proprietor nothing to despair, it is one of the easiest entities to convert to another type should you so choose.

Sole Proprietors as well as the owners of interests in other types of entities especially Partnerships and LLC's often take profits and personal income from their businesses in various ways. Although any type of business can set up payroll and establish the usual employer to employee relationship with W-2 reports and withholding and include its owner, many do not. Many owners just withdraw funds here and there as needed. Depending on the entity type this may cause some confusion between calculating earned income, dividends or profit share at year end. Be aware that the profits from your Sole Proprietorship will be considered your income at year end. Whether or not you have done tax withholding on yourself, your income tax return will compute the tax amounts due for Social Security and Medicare as well as the income tax amount. For self-employed persons, this includes the amount you would pay as an employer added to the amount you would pay as an employee. If not planned for, these amounts can be a surprise and leave you scrambling at year end.

Additionally after your first year in business, the IRS expects the self-employed individual that is not on a W-2 payroll plan to submit Quarterly Estimates, these reports and payment deposits are expected to come within ten percent of your actual tax due at year end. Depending on the amount outside that range will govern tax penalty amounts added. A rule of thumb to use would be to take last year's tax due amount and round it up slightly then divide that figure into four equal payment deposits for the current year. So if you owed just under ten thousand dollars with your tax return for last year then make four $2,500 payment deposits this year. Again this advice applies not only to Sole Proprietorship's but to all self-employed and holders of interests in Partnerships, LLC's, Associations and even Corporations especially the S Corporation.

I hope the preceding report or information has been helpful and that it provided you with some information you did not previously have. If you have any unanswered questions or would be interested in exploring further options for business or estate planning please feel free to contact us.

We offer a free first consultation which typically runs from 30 to 60 minutes. In that time we give a short overview of the services we provide and attempt to answer any questions you may have and to discern what services if any that we may be able to provide you with. We are not high pressure and will not ask you to make any purchase or decision during that time.

We will take the information offered by you and prepare a quote or estimate for any services you may have an interest in. We will provide that quote or estimate within a day or two of the free consultation by whatever means you prefer ie email, phone, fax or postal mail. It will be up to you after that whether to contact us again or not. We will not send endless emails, make harassing phone calls, or send continuous junk mail and we will never provide your information to other companies for any reason.

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