Sole Proprietorship

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Are you thinking about starting a business? There are many decisions to be made, but what business structure you choose will be a major decision. Below you will find information to assist you with whether a sole proprietorship is right for you. Remember you should consult an attorney for legal advice.

What Is Sole Proprietorship?

What does sole proprietorship mean? It is an unincorporated business entity with a single owner that is responsible for all the business decisions and liabilities. A definition given by the InvestorWords.com—Online Investing Glossary states a sole proprietorship is “a business structure in which an individual and his/her company are considered a single entity for tax and liability purposes. A sole proprietorship is a company, which is not registered with the state as a limited liability company or corporation. The owner does not pay income tax separately for the company, but he/she reports business income or losses on his/her individual income tax return. The owner is inseparable from the sole proprietorship, so he/she is liable for any business debts.” Therefore, all business assets, profits and losses are the personal assets, profits and losses of the owner. According to the Small Business Administration, over 70 percent of U.S. businesses are owned and operated by sole proprietors. Sole proprietorship requires a small amount of capital to operate the business.

It is easy to create and function within a sole proprietorship. Most people choose this business structure for that reason. The owner of the business is the decision maker and doesn’t share the profit with anyone. The profits are taxed as personal income. The owner does have unlimited liability with the debts and obligations of the business. Also, personal assets of the owner are at risk. Virtually all businesses start out as a sole proprietorship because in the start-up phase there are few assets to protect from liability issues. The owner is usually young so not concerned about transfer of assets to heirs and income shelter. Tax treatment is seldom a problem due to little, if any, profit during start-up and accounting/bookkeeping functions are simpler and more often done by the sole proprietor or a family member.

Naming a Sole Proprietorship

There isn’t any paperwork that needs to be filed with the Secretary of State with sole proprietorship to conduct business, unless the owner decides to do business under a different name than their personal name. If you choose a different name than your own, you will need to go through the following process. When selecting a business name you need to review the Ohio Revised Code section 1329.02 for the listing of restrictions of choosing a name. You cannot choose a name that is a registered trade name or state the incorporated name. You can conduct a name search to check the availability of a name at: www.OhioSecretaryofState.gov or by calling the Ohio Secretary of State at 877-767-3453 or by emailing: busserv@OhioSecretaryofState.gov. You will want to have a couple of names in mind before you start your search. Once you have your name search conducted and have a name selected you will need to complete the Name Registration, Form 534A. The form will need to be submitted to the Ohio Secretary of State.

Summary

Sole proprietorship is a good business structure for small start-up businesses. Once the business grows the owner will want to consider other business structures. Contact your attorney or the Ohio Secretary of State for additional information.

References