

15.2: Sole Proprietorship

A **sole proprietorship** is an unincorporated business owned by one person or married couple. The legal name for a sole proprietorship is usually the owner's name.

There are many advantages to doing business as a sole proprietor. First, it's easy to create a sole proprietorship. In effect, no creation costs or time is required because there is nothing to create. The entrepreneur in charge of the business simply starts doing business, charging money, and providing goods or services.

Another key advantage to sole proprietorship is autonomy. The owner can decide how he or she wants to run the business. The owner can set her own hours, grow as quickly or slowly as she wants, and expand into new lines of businesses. That autonomy also comes with total ownership of the business's finances. All the money that the owner takes in, even if it is in a separate bank account, belongs to her, and she can do with that money whatever she wants.

A sole proprietorship is a **flow-through tax entity**, which means the business does not pay tax on its profits and does not file a separate tax return. Instead, the owner pays personal income tax on all business profits.

These advantages must be weighed against some disadvantages. First, because a sole proprietorship can have only one owner, it is impossible to bring in others to the business. In addition, the business and the owner are identical so it is impossible to pass on the business.

Raising working capital can be a problem for sole proprietors, especially those early in their business ventures. Many entrepreneurial ventures are built on great ideas but need capital to flourish and develop. If the entrepreneur lacks individual wealth, then he or she must seek those funds from other sources. Outsiders can make a loan to the owner, or enter into a profit-sharing contract with her, but there is no way for him to own any part of the owner's business. Traditionally, most sole proprietors seek funding from banks. Banks approach these loans just like any other personal loan to an individual, such as a car loan or mortgage. Down payment requirements may be high, and typically the banks require some form of personal collateral to guarantee the loan, even though the loan is to be used to grow the business.

Sole proprietors are personally liable for all the business's debts and obligations. Unlimited liability puts all the personal assets of the sole proprietor at risk. Personal homes, automobiles, bank accounts and retirement accounts—all are within reach of creditors.

Advantages of Sole Proprietorship	Disadvantages of Sole Proprietorship
<ul style="list-style-type: none">• Easy to create• No formal documents or governmental filings required to start business• No formation start up costs• Autonomy• Total control over finances and management decisions	<ul style="list-style-type: none">• Flow-through tax entity (owner pays personal income tax on all business profits)• Cannot bring someone else into business• Impossible to pass on the business• Hard to raise capital• Unlimited liability

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