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DOING BUSINESS AS A SOLE PROPRIETOR by Thomas Jones.

The sole proprietorship is perhaps the most common form of business ownership. Conducting business as a sole proprietor has distinct advantages and disadvantages. You should be aware of these characteristics, as they can have a significant impact on your business. Please note that brief references appear in this article to corporations, another form of business ownership.

What is a sole proprietorship?

A sole proprietorship is an unincorporated business owned by one person (hence, the term sole). The owner of a sole proprietorship is known as a sole proprietor. If you conduct your business through a corporation, your business will not be a sole proprietorship. If you share ownership of your business with someone else, including your spouse, your business will not be a sole proprietorship.

The most important feature of a sole proprietorship is that the law makes no distinction between you, the sole proprietor, and your business. Virtually all the legal and tax consequences associated with sole proprietorships flow from this essential element.

As a sole proprietor, you can conduct business under your own name or under a trade name. For example, let's say I am a plumber. I can conduct business under my own name, Jim Poznak, Plumber. Or, I can conduct business under a trade name, such as EZ Flush. (Before using a trade name, you should read my article regarding trademarks, which appeared in the February, 1994, issue of Home and Small Business Reporter.) In either case--whether you conduct business under your own name or under a trade name--if you are the sole owner of an unincorporated business, your business will be a sole proprietorship, and you will be the sole proprietor.

A sole proprietorship can hire any number of employees. Because the law makes no distinction between you, the sole proprietor, and the business, you are not considered an employee. Sole proprietorships may also hire any number of independent contractors. (The difference between employees and independent contractors will be discussed in a future article.)

Whether you have zero or 100 employees (or independent contractors) makes no difference. If you are the sole owner, your business will still be a sole proprietorship.

Starting business as a sole proprietorship

Your sole proprietorship exists as soon as you start doing business. Let's return to our plumber example. As a plumber, my sole proprietorship starts to exist as soon as I do my first plumbing job. Consequently, the legal and tax implications of doing business as a sole proprietorship will also exist as soon as I do my first work as a sole proprietor.

The advantages of doing business as a sole proprietor

Conducting business as a sole proprietor brings two tax advantages. These advantages arise because the law makes no distinction between you and your business.

The first advantage is avoidance of double tax. What, you may ask, is double tax? Basically, double tax can occur if you conduct your business through a corporation rather than through a sole proprietorship. Corporations pay income tax separately from their owners. Double tax can occur when you (through your personal tax return) and your business (through its corporate tax return) must both pay taxes on the same dollar of income. We will examine the double tax problem more closely in the next issue of the Home and Small Business Reporter. For now, you simply need to know that as a sole proprietor, you will not pay double tax on your business income because the law make no distinction between you, the sole proprietor, and your sole proprietorship. All your business income is treated as your personal income.

The second tax advantage of sole proprietorships is that you can deduct your business losses to the extent of your total income that you may have from all sources, including interest, dividends, and gains from the sale of nonbusiness property. Furthermore, if you are married and file a joint tax return, your business losses will also offset your spouse's income. Your ability to deduct losses as a sole proprietor may reduce your family's total income tax burden and may be particularly useful during a startup or downturn phase of your business.

The above tax advantage involving business losses is perhaps best illustrated by looking at your 1993 U.S. individual income tax return (Form 1040). I know--you hoped you'd never have to look at it again! But trust me, this will be a short, helpful exercise. First, look at Line 12 on your Form 1040. Line 12 instructs you to report the income or loss from your business. It also requires you to attach Schedule C. Now, compare the amount of income or loss that you reported on Line 12 with Line 31 from Schedule C. They are the same! Look at Schedule C again. The amount on Line 31 (and thus on Line 12) is the amount of your gross business income or loss (Schedule C, Line 6) minus your total business expenses (Schedule C, Line 28). Class, the exercise is over. You may put your Form 1040 back in storage.

The disadvantages of sole proprietorships

In the "real world," every action has a reaction. In the "legal and tax world," every advantage has a disadvantage.

The principle disadvantage of sole proprietorships is that you, the sole proprietor, are personally liable for all the debts of your sole proprietorship. The reason for this is, once again, the law makes no distinction between you, the sole proprietor, and your sole proprietorship.

For an example, let's again assume that I am a plumber. While attempting to fix a pipe, I accidentally flood my customer's basement with sewage. I am personally liable for the damages caused by the flooding. This means that my customer can look to all of my personal and business assets to pay for the damage, including my bank accounts, my vehicles, my equipment, and perhaps even my house!

You can reduce your personal liability in several ways. If you are married and own your home with your spouse, you can shelter your house from personal liability by holding title with your spouse as tenants by the entirety rather than as joint tenants. You might also try to get a release from your customers. For example, as a plumber before starting on a job, I would ask my customers to sign a paper saying that they would not hold me responsible for any damage I cause, including damage caused by my negligence. Of course, customers may not want to sign such a release and you may not even want to ask for it. Another way may be to purchase insurance to cover potential damages, which you should do whenever possible. However, insurance may be costly, and not every risk is insurable. The best way to avoid personal liability may be to incorporate your business. This will be discussed in more detail next month.

A second disadvantage of conducting business as a sole proprietorship is that you may pay higher income taxes. I am sure you remember that as a sole proprietor you report your business income on your personal tax return (Line 12 on the 1040 again). While you do avoid double tax this way, if as a single person your total adjusted gross income exceeds \$115,000, or as a married person filing jointly your adjusted gross income exceeds \$140,000, you may pay income tax at the highest rate. By incorporating your business, you may be able to reduce your tax rate.

As a sole proprietor, you face two additional disadvantages. Starting in 1994, you cannot take any tax deduction for your health or life insurance. There is no good reason for this; the Internal Revenue Code just does not allow sole proprietors to take the deductions. A full deduction for your health insurance and a deduction for a \$50,000 life insurance policy is available to corporations, so long as all employees of the corporation are offered the insurance. If these deductions will save you enough money, you may want to incorporate your business.

Conclusion

Every business is different. What may be advantageous to you may be disadvantageous to someone else. However, because significant tax and legal repercussions flow from your decision to conduct your business as a sole proprietor, you should be aware of them. By being aware, you can best avoid unexpected and unintended consequences.

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Published: 2 April 2010

FORMS OF BUSINESS OWNERSHIP

by Kevin Wright

SOLE PROPRIETORSHIP:

The best way to begin to understand the significance of "becoming" a corporation, partnership or a limited liability company ("LLC") is to understand the implications of doing business as a "sole proprietorship." A sole proprietor is simply a person who is engaged in business as an individual. Sometimes the individual uses his own name in the name of the business e.g. "Jones Auto Repair." However, in many cases, the sole proprietor will want to use an "assumed name" such as "Brandon Auto Repair."

While doing business as a sole proprietor may seem fairly simple, there is one very serious adverse consequence, especially if the business involves products which could cause harm or injury to other persons. As a sole proprietor, you are personally liable for any and all debts and liabilities of the business. Whether a claim is made against your business by a customer, an employee, a competitor, or a trade creditor, you will be personally "on the hook" for any such claim. As a result, all of your personal assets, home, motor vehicles, savings accounts, jewelry, household goods, etc; will be subject to the claims of all such creditors. While certain jointly owned property (e.g. a residence) of a husband and wife may be exempt from liability to the creditors of only one of the spouses, even these joint assets may be jeopardized if both the husband and wife are involved in the operation of the business. Obviously, these are risks which many persons engaged in business would like to avoid.

CORPORATIONS:

A corporation is a separate legal entity which is formed in Mississippi by filing "Articles of Incorporation" with the Mississippi Secretary of State in Jackson, Mississippi. The Articles of Incorporation are required to state the following information:

The articles of incorporation must set forth:

- (1) A corporate name for the corporation that satisfies the requirements of Section 79-4-4.01;
 - (2) The number of shares the corporation is authorized to issue and any information concerning the authorized shares as required by Section 79-4-6.01;
 - (3) The street address of the corporation's initial registered office and the name of its initial registered agent at that office; and
 - (4) The name and address of each incorporator.
- (b) The articles of incorporation may set forth:
- (1) The names and addresses of the individuals who are to serve as the initial directors;
 - (2) Provisions not inconsistent with law regarding:
 - (i) The purpose or purposes for which the corporation is organized;
 - (ii) Managing the business and regulating the affairs of the corporation;

(iii) Defining, limiting and regulating the powers of the corporation, its board of directors and shareholders; and

(iv) A par value for authorized shares or classes of shares;

The Articles must be signed by at least one incorporator, regardless of the number of shareholders of the corporation.

Once the Articles of Incorporation are filed, there are still many important steps which must be taken in order to properly establish the corporation and enable it to engage in business. For example, "bylaws" must be approved to set forth the rules and procedures under which the corporation manages and operates, shares of stock must be issued to shareholders of the corporation, directors must be elected by the shareholders, officers must be appointed by the board of directors, certain filings must be made with the IRS and other taxing authorities, and various other legal and financial matters must be addressed. Needless to say, none of this should be undertaken without having competent advice from attorneys, CPA's and other advisors who have experience in advising and representing corporations and other business entities.

The principal advantage of incorporation is that, because the corporation is now the "owner" of the business, it is the corporation which is responsible for the debts of the business. Under Mississippi law, if the corporation is unable to pay one of its creditors, the creditor does not normally have the right to seek recovery of the debt against the shareholders, directors or officers of the corporation. Accordingly, the creditor may only seek recovery against the assets of the corporation and not against the personal assets of the shareholders. Of course, if the creditor has obtained a "personal guaranty" from the shareholders, this will allow the creditor to seek recovery against the shareholders personally. Also, any person who commits a fraudulent or negligent act which results in harm or loss to another person, may not avoid personal liability even if he or she is acting as an officer or director of a corporation. Of course, even should this be the case, the other shareholders, officers and directors will not normally be held personally liable for the fraudulent or negligent acts of another person.

The principal disadvantage of incorporating is that it may often result in "double taxation" of the earnings of the corporation. Not only is the corporation required to pay income taxes on its earnings but, after the corporation distributes its earnings to the shareholders in the form of dividends, the shareholders must also pay income tax on such funds! To avoid this result, many corporations file an "S corporation" election with the IRS. Under the applicable tax regulations, the earnings of an "S corporation" are taxable directly to its shareholders and not to the corporation. Despite the apparent benefit, the IRS imposes many limitations on the structure and operation of an S corporation and this election should never be made without the advice of competent legal and tax advisors. In 1996, the Internal Revenue Code was amended to give S corporations much more flexibility, especially with respect to the number of eligible shareholders (75) and the types of entities which may become S corporation shareholders.

PARTNERSHIPS:

A partnership occurs when two or more persons combine to operate a business. Normally, the allocation of profits and losses, management and operation of the partnership is set forth in a written "partnership agreement" which is signed by all of the partners. Also, the partners of a partnership do have some very limited protection from the claims of creditors under the Mississippi Partnership Act. Under the applicable law, a creditor must first seek recovery against the assets of the partnership before seeking recovery against the personal assets of the individual partners. Nonetheless, it is clear that the personal assets of the partners are ultimately exposed to the claims of partnership creditors.

Unlike the corporation, the earnings of the partnership are not exposed to "dual taxation." Under the Internal Revenue Code, all of the earnings of the partnership are allocated and taxed directly to the individual partners. This is one of the principal reasons why many individuals choose to operate in the partnership form, rather than as a corporation.

LIMITED LIABILITY COMPANIES:

The limited liability company or "LLC" is a relatively new form of doing business which is now recognized in most states. The LLC has grown in popularity because it combines the best features of a corporation and a partnership. Like a corporation, the owners (called "members") of the LLC are not personally responsible for the debts of the LLC. Like a partnership, there is no dual taxation and the earnings of the business are taxed directly to the members. The LLC is also preferable in many ways to the "S corporation," which also avoids personal liability and dual taxation. The LLC is not subject to most of the limitations which are imposed on S corporations by applicable law. For example, while an S corporation is not allowed to have more than one type or class of stock ownership and is not allowed to have more than 75 shareholders, the LLC is not subject to such limitations. Overall, the LLC simply allows more flexibility in the structure, operation and management of the business than does the S corporation.

Like a corporation, an LLC is created by filing "Articles of Organization" with the Mississippi Secretary of State in Jackson, Mississippi. The Articles must contain as stated in Miss. Code Ann. Section 79-29-101, the following:

(1) In order to form a limited liability company, a certificate of formation must be executed and filed with the Secretary of State. The certificate must set forth:

(a) The name of the limited liability company;

(b) The street and mailing address of the registered office and the name and the street and mailing address of the registered agent for service of process, required to be maintained by Section 79-29-106;

(c) If the limited liability company is to have a specific date of dissolution, the latest date upon which the limited liability company is to dissolve;

(d) If full or partial management of the limited liability company is vested in a manager or managers, a statement to that effect;

(e) Any other matters the managers or members determine to include therein.

(2) A limited liability company is formed at the time of the filing of the certificate of formation in the office of the Secretary of State or at any later time specified in the certificate of formation if, in either case, the certificate of formation so filed substantially complies with the requirements of this chapter. A delayed effective date specified in a certificate of formation may not be later than the ninetieth (90th) day after the date it is filed.

(3) For all purposes, a copy of the certificate of formation duly certified by the Secretary of State is conclusive evidence of the formation of a limited liability company and prima facie evidence of its existence.

As in the case of the corporation, the proper creation of an LLC does not stop with the filing of the Articles. A formal "Operating Agreement" is necessary, tax filings must be made and various other steps need to be taken with the advice and assistance of competent legal and tax advisors.

You should also be aware of the existence of the Limited Liability Partnership, a cousin of the LLC which is often utilized by professional service businesses (law firms, CPA's, etc;). While most professional groups have traditionally formed a "professional corporation," or "PC," for many the "LLP" seems to offer more flexibility while still offering protection from personal liability when a claim is made against the business entity.

The Mississippi Limited Liability Company Act can be found at <http://www.mscode.com/statutes/79/029/index.htm>. However, a subscription to the Mississippi Code is required to access.

WHAT COSTS WILL I INCUR?

Clearly, the formation of a partnership, corporation or LLC will result in certain monetary expenditures which are not likely to be faced by the sole proprietor. Also, there will be additional filings which will need to be made with the IRS and other governmental offices on a regular basis which would not apply to the sole proprietor. On the other hand, the sole proprietor obviously faces many potential significant claims and liabilities which would not apply to the shareholder of a corporation or the member of an LLC.

It is difficult to estimate the total attorney fees, accounting charges and other costs which will normally result in the formation of a corporation or LLC. Obviously, each business enterprise has its own particular issues and problems which must be addressed by legal and financial advisors. The number of shareholders (or members) and the relative contributions and relationship of each to the business enterprise will also have an impact on overall costs. If the owners elect to enter into a "buy-sell agreement" providing for the purchase by the survivors of the ownership interest of a deceased or disabled owner, this may also result in extended and complex negotiations. Such agreements may also provide a "right of first refusal" to the other owners if a particular owner wishes to sell his ownership interest to third parties.

TRANSFER OF BUSINESS INTERESTS TO SUCCEEDING GENERATIONS

The formation of a corporation or LLC can give the business owner some estate planning options which are simply not available when all of the assets of the business are held solely in the name of the owner. In the case of a sole proprietorship or partnership, if an owner should die, all of his business assets may require "probate" in order to be passed on to his or her heirs or devisees (Also see RMBGT's article on Estate Planning). During his lifetime, the sole proprietor, and even a partner, may find it somewhat confusing and difficult to bring his children or other family members into the business and formally establish their individual rights and responsibilities.

On the other hand, in the case of the corporation or LLC, shares of stock (or membership interests in the LLC) can be issued to family members or other owners to clearly delineate their ownership interests in the business. Also, if one of the owners should die or become disabled, the probate of the stock or membership interest will generally be much less complicated than the probate of the assets owned by the sole proprietor or partners. Also, if a partnership only has two partners, the partnership can no longer continue to exist in its present form with only one surviving owner. In the case of a corporation or LLC, if the stock or membership interest is owned jointly with a spouse or other person, or if the buy and sell agreement provides for payment directly to a spouse or other beneficiary, the probate process may be

entirely avoided.

A business owner who wishes to start the process of retiring, and wishes to begin the process of passing on his business to his children or other beneficiaries, will normally find that a corporation or LLC provides more options. In some cases, two or more "classes" of stock may be created so that the initial owner can retain significant voting control while passing on the future appreciation in the value of the business to his children. There are, in fact, a number of methods by which a business owner can begin the process of transferring an interest in the business to his children while retaining sufficient assets and income to provide for the owner in his retirement. Some of the more common methods for transferring ownership and future appreciation in a family business to the owner's children, while retaining sufficient income for the owner, involve gifts, private annuities, stock recapitalizations, installment sales, family holding companies, family partnerships, sale and leaseback transactions and various kinds of grantor trusts.

Suffice it to say, that there are many options open to the owner of a business in the planning of his estate and protection of his loved ones in the event of his or her death or disability. Failure to do such planning may result in the imposition of excessive and unnecessary estate taxes on the business property. Such planning requires competent advice and assistance from attorneys and tax advisors who have experience in this area of the law.

BUSINESS FAILURE AND BANKRUPTCY

While no business owner plans to fail, it is a fact of life that most businesses will become familiar with our bankruptcy laws in one way or another. Often such familiarity results when a debtor or creditor of the business has failed and is involved in a bankruptcy proceeding. The bankruptcy trustee may then seek to dispute debts owed by the bankrupt debtor or seek to set aside past payments to creditors on the basis that they constituted preferences or fraudulent conveyances. Needless to say, the unexpected failure of a major supplier or customer can have a domino effect which can lead to the failure of a business which heavily relied on such supplier or customer.

Under the bankruptcy laws, a preference is basically defined as any payment made by the debtor on any past due indebtedness, and not for new consideration, within ninety days prior to the filing of the bankruptcy. In some limited circumstances, the preference period may be extended to one year. Unfortunately, the business owner who successfully negotiated payment on a past due debt from a failing debtor may find that he has no choice but to return such payment to the debtor's bankruptcy trustee after the debtor has filed bankruptcy. Other creditors of the debtor who were not so successful in getting payment on past due debts will, in fact, insist that the trustee seek recovery of such preferential payments. In addition, if the creditor has received a transfer of any of the debtor's property prior to bankruptcy in a transaction in which the creditor did not give the debtor fair market value, it also may be set aside as a fraudulent transfer. "Sales" of property to relatives and other close friends and acquaintances will likely be scrutinized by the bankruptcy trustee to determine if fair payment was made.

Once the bankruptcy is filed an automatic stay issued by the bankruptcy court prohibits any creditor from taking any action to recover any indebtedness against the debtor or its property. Even a phone call to the debtor after the bankruptcy filing may in some circumstances be deemed to be a violation of the automatic stay and may subject the creditor to contempt of court proceedings. Of course, if it is your business which is in bankruptcy, you will naturally appreciate the value of the automatic stay as a protection against aggressive creditors.

If the creditor has valid security interests or liens on property of the bankrupt debtor, the creditor may

have less to fear from the debtor's bankruptcy. In fact, if the creditor has a security interest in the debtor's cash and accounts receivable, the debtor is prohibited from using this cash collateral without the consent of the creditor or the order of the bankruptcy court. Any such order will normally be conditioned upon the giving of substitute security or other adequate protection to the creditor to prevent loss of the creditor's secured position.

In what is called a Chapter 7 bankruptcy, the debtor seeks to obtain a discharge of its debts. However, if the creditor can establish that the debt was incurred as a result of fraud or intentional tort (e.g. an assault), the indebtedness may be deemed non-dischargeable. An action to have a debt determined to be non-dischargeable must be filed within 60 days of the first scheduled meeting of creditors or it will be deemed to have been waived by the creditor.

Fraudulent behavior by the debtor in connection with the filing and carrying out of the bankruptcy proceeding may also result in a ruling that the debts of the debtor may not be discharged. A debtor who attempts to hide assets from the bankruptcy court or otherwise files false and intentionally misleading information may lose the right to seek dischargeability of his debts through bankruptcy. Criminal prosecution may also be instituted against a debtor (or an officer or director of a debtor corporation) who commits fraud in connection with the bankruptcy.

Many financially troubled businesses file a Chapter 11 bankruptcy in which the business seeks to propose a plan of reorganization under which it may continue to do business. Such plans will be carefully scrutinized for feasibility by the creditors as well as the bankruptcy court and trustee. Negotiations between the debtor and a Creditors Committee usually precede the filing of the reorganization plan and help to determine the likelihood of obtaining approval of the reorganization plan by the creditors and the court. Typically such reorganization plans not only propose that the debtor be given an extension of time to pay its debts but also that the total amount owed be reduced. In many cases, the plan may propose that unsecured creditors receive only a small percentage of the actual amount owed to them.

Clearly, it will be beneficial for you to seek assistance of counsel at an early stage if your business is facing financial difficulties so you can review the options which may be available to you both inside and outside of bankruptcy. If you are a creditor in a bankruptcy action it is important for you to determine if you are being afforded the rights to which you are entitled under the bankruptcy laws and if you are being given adequate protection with respect to any security interest you may hold in the debtor's property. The earlier your counsel is involved in this process, the less likely it will be that mistakes will be made which could have a significant negative impact on your future business operations.

Published 9 June 2009

Publisher: Harper-collins

Place: New York

Types of Business Ownership

Proprietorship – business owned and operated by one person

74% of all USA businesses

Accounts for 6% of all sales in USA

Advantages: (1) decisions are made by only the owner; (2) simple process to start – just get a business license (3) profits belong to the owner; (4) pride of ownership; (5) lower taxes

Disadvantages: (1) unlimited liability (personal assets at risk); (2) limited life of business (when the owner quits/can't work, the business ends); (3) difficult to raise capital for business; (4) risk of loss is not shared

Partnership – business owned and operated by two or more people

8% of all USA businesses

Accounts for 4% of all sales in USA

Advantages: (1) easy to start (should have all the agreements spelled out ahead of time); (2) not many regulations; (3) not as difficult to raise capital for business; (4) combination of knowledge and skills;

Disadvantages: (1) unlimited liability; (2) profits are shared; (3) limited life of the business; (4) disagreements

Corporation – business owned by stockholders/investors but operated by officers

18% of all USA businesses

Accounts for 90% of all sales in USA

Advantages: (1) easy to raise capital (stocks, loans); (2) limited liability; (3) unlimited life of business; (4) hire specialized skills and knowledge; (5) shared risks

Disadvantages: (1) difficult to start; (2) less direct control; (3) double taxation: corporate tax and individual tax; (4) limited activity

Multi-nation corporations (international or global business) are businesses that sell or produce products in more than one country.

Non-profit Organizations (not-for-profit) are institutions that try to cover their operating costs. They usually offer a service that is considered beneficial to society. (The Red Cross, religious institutions, schools, food banks, etc.)

Franchises – individual business people buy a business, but a certain percentage goes back to the corporation. Franchises must adhere to the corporate regulations. (McDonalds, Krispy Cream, Starbucks)

Ways of financing businesses: (1) stocks; (2) line of credit from a bank; (3) bonds – long term loan. Annually you receive interest and the principal at the end of the term;

Ways of Growing

Types of Mergers

- (1) horizontal mergers – businesses in the same industry that combine for greater market share and production. Example: the merger of two car dealerships.
- (2) vertical mergers – businesses at different stages of production in the same industry that combine to become more efficient in a market. Example: cars manufacturer merges with a tire manufacturer.
- (3) conglomerate merger – different industries merge to broaden business opportunities. Example: a car dealership merges with a music company

Source: How to Own a Business

Updated: 5 May 2010

<http://www.genconnection.com/econ/chapter9.htm>

7/24/2010

About.com Small Business: Canada

Choosing a Form of Business Ownership

Part 1: The Sole Proprietorship

By Susan Ward

17 Mar. 2010 published

When you're considering the legal structure of your business, in Canada you basically have four forms of business ownership to choose from, a sole proprietorship, a partnership, a corporation, or a cooperative.

Each of these forms of business ownership has advantages and disadvantages that you will want to weigh before choosing a particular form of business for your new venture. First, let's look at the advantages and disadvantages of sole proprietorships, the most popular form of business ownership.

The Advantages of a Sole Proprietorship

The simplest form of business is the sole proprietorship¹, a business owned and operated by one individual. You can operate a sole proprietorship under your own name, or under another name you've chosen (as long as you don't add any of the legal designations of other forms of business, such as Ltd. or Inc.)

There are a lot of advantages to sole proprietorships.

One of the biggest advantages of a sole proprietorship is that setting up and administering the business is comparatively easy and inexpensive. For instance, in most provinces, if you choose the sole proprietor form of business ownership and operate it under your own name, you don't even have to register your business.

(Note that while the basic procedure for setting up a business is the same, no matter what part of Canada you live in, the details are different in each province and territory. For start up information for particular provinces, such as business registration procedures for each form of business, see the Business Registration² section of this website.

And even if you do have to register your sole proprietorship with your province or territory, it's a lot more inexpensive to register than a corporation. Nor do you have to make annual filings when you run a sole proprietorship (although in some provinces, such as Ontario, you have to renew your sole proprietorship business registration every five years).

Another of the big advantages of the sole proprietorship form of business ownership is the tax simplicity. As a sole proprietor, you declare your business income on your personal income tax form, rather than having to file a separate tax form, (as you would have to do if you chose the corporate form of business ownership).

To many small business owners, however, the best advantage of the sole proprietorship is that as a sole proprietor, you own 100% of your business. You're the one that runs your small business and no one else can tell you what to do or how to do it.

Disadvantages of Sole Proprietorships

What appears to be an advantage at first look can also be a serious disadvantage. When it comes to disadvantages of sole proprietorship, the sole ownership aspect can be disastrous if things go badly.