

## **Is Sole Proprietorship right for me?**

By Liliana Parker

One of the most important decisions to make when starting a business is the selection of the type of entity that best fits your needs. Many small business entrepreneurs decide to be a sole proprietor simply because they think it takes less paperwork and is less expensive. Such misconceptions can keep you from taking the right step when deciding on the proper entity for your business.

Incorporating your business with the North Carolina Secretary of State takes no more than 15 minutes' worth of paperwork and costs only \$125, which in turn is tax deductible as a business expense.

Every entity has its pros and cons to take in consideration. I'm going to share these with you so you can make the right decision for you and your business. Today I'll talk about the sole proprietorship.

A disadvantage with sole proprietorship is that personal assets are not protected and will have unlimited liability in all court judgments and business debts. This means that a creditor can go after the sole proprietor's house, car and other any assets. If you decide to take this route, my suggestion would be to have a good liability insurance policy. This gives you some protection against personal liability.

Another disadvantage with sole proprietorships is their limitations on raising capital for a business.

Sole proprietors and their businesses are one entity for income tax purposes. The income and losses of the business should be reported on your federal tax return under Form 1040, Schedule C.

As a sole proprietor, if you want to retain earnings to build up a reserve to buy equipment or for emergencies, those "retained" profits would be taxed on your personal income tax return at your marginal tax rate. With other entities, you can have a separate entity and the tax rate will be much lower.

Also, as a sole proprietor you can't have a 401(k) plan as you can with a limited liability company (LLC) or corporation, but if you want to take away money for your retirement, a Keogh plan allows you to take away a substantial amount of income free of current taxes.

Your personal taxes as a sole proprietor are limited to deductions for medical expenses. You can deduct only amounts that exceed 7.5 percent. In the past, sole proprietors were able to deduct only a portion of their health insurance premiums for themselves and their family. Now, a self-employed person can deduct 100 percent.

In terms of day-to-day business expenses, a sole proprietor can deduct meals, entertainment, car, travel and other expenses just as LLCs and corporations.

If you would like to read the Spanish version of this article, visit [www.wcof.org](http://www.wcof.org). Liliana Parker is a Business Consultant with the Women's Center of Fayetteville and owner of Amiga Communications, Marketing & Consulting. You can contact her at: [lparker@wcof.org](mailto:lparker@wcof.org) or (910) 323-3377.