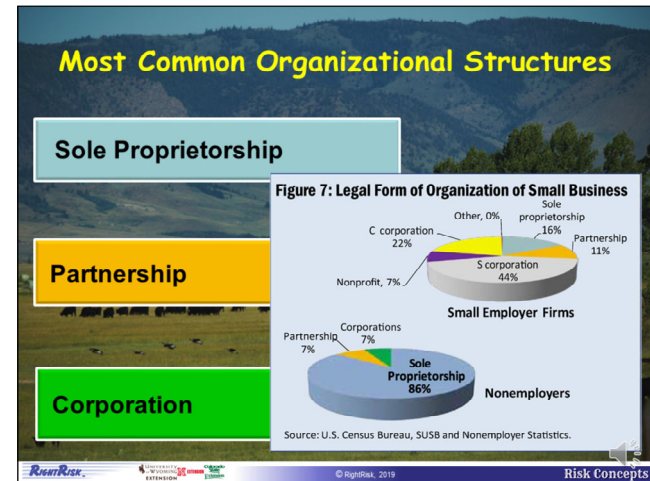




[click] Hello, and welcome to one in a series of RightRisk videos on business structures. There are a number of legal organizational structures available to entrepreneurs. Today, I want to spend a bit of time telling you about the sole proprietorship.

[click] I am Jeff Tranel, an agricultural and business management economist with Colorado State University. Joining me is [click] John Hewlett, a farm and ranch management specialist at the University of Wyoming and Doctor Jay Parsons, professor and extension specialist with the University of Nebraska – Lincoln. The three of us are also founding members of RightRisk.

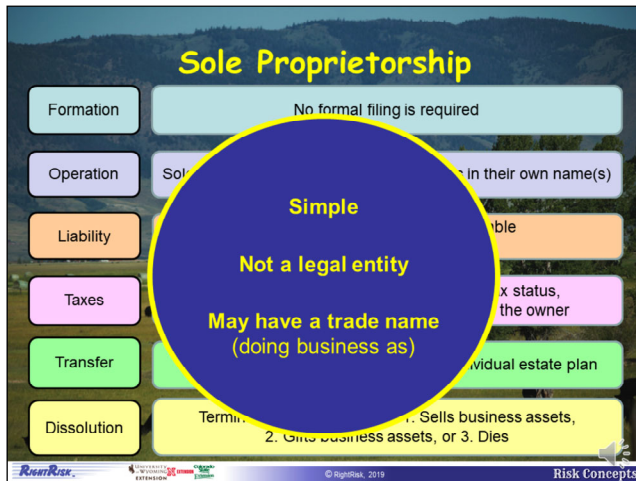
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[click] There are three basic types of business structures – sole proprietorships, partnerships, and corporations. Each structure has advantages and disadvantages, different tax ramifications, alternative impacts to estate and succession plans, etc.

[click] According to the Small Business Administration, 86 percent of all organizations are sole proprietorships. Partnerships and corporations each account for 7 percent of businesses.

[click] [click]



[click] The sole proprietorship is the simplest business form under which one can operate a business. The sole proprietorship is not a legal entity. It simply refers to a person who owns the business and is personally responsible for its debts. A sole proprietorship can operate under the name of its owner or it can do business under a fictitious name. The fictitious name is simply a trade name--it does not create a legal entity separate from the sole proprietorship owner.

[click] One of the great features of a sole proprietorship is the simplicity of formation. Little more than buying and selling goods or services is needed. In fact, no formal filing or event is required to form a sole proprietorship, and there are generally no annual filing requirements. In those cases where the owner has previously filed "doing business as" or "dba" papers, the status must be renewed annually. It must be noted that some states and local governments may require a business license or certificate.

[click] The owner of a sole proprietorship typically signs contracts in his or her own name and has customers make payments in the owner's name. Owners can, and often do, commingle personal and business property and funds. Sole proprietors need not observe formalities such as voting and meetings associated with the more complex business forms. The Social Security number of the owner of a sole proprietorship is used on many income tax and other business forms. However, a

federal employer tax identification number is needed for filing employer-employee forms, such as a Form W-2.

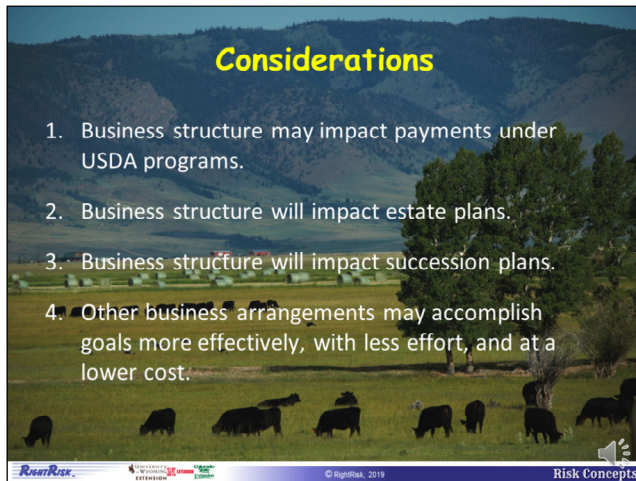
[click] The owner of a sole proprietorship is personally liable for all debts of the business. Further, the owner is personally liable for any legal issues and lawsuits brought against the business.

[click] A sole proprietorship is recognized by the Internal Revenue Service as an extension of the owner. Consequently, the business has no tax status separate from the owner.

[click] A sole proprietorship provides no special allowances regarding estate and succession planning. A sole proprietor simply includes all property and obligations in his or her individual estate plan.

[click] A sole proprietorship is terminated (1) when the owner sells the business-related assets, (2) when the owner gifts the business related assets to another person, or (3) upon the individual's death.

[click] [click]



[click] A person forming a business should consider all the factors which will impact the business and help him or her reach the desired goals.

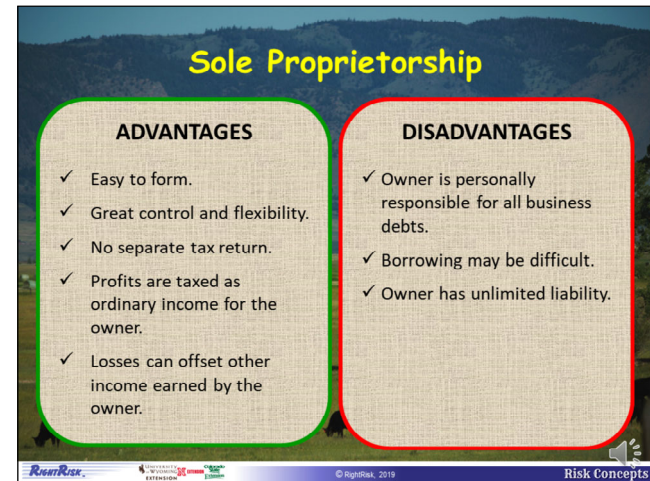
[click] For example, a selected business structure may impact eligibility for and payments under various USDA programs.

[click] Likewise, a selected business structure will impact the owner's estate and succession plans. Each organizational structure allows one to implement certain strategies, but the impacts of those strategies may differ.

[click] Other business arrangements such as labor sharing agreements, livestock production contracts, and strategic alliances may allow a business owner to accomplish his or her goals more effectively, with less effort, and at a lower costs.

Entrepreneurs are strongly advised to identify business goals and then seek appropriate counsel.

[click] [click]



A sole proprietorship has advantages and disadvantages to other forms of business structure.

[click] Advantages include it being easy to form and that the owner has great control of and flexibility with the business. Also, a sole proprietorship does not file a tax return. All profits and losses are combined with other income earned by the owner and then reported to the I.R.S.

[click] One disadvantage of a sole proprietorship is that the owner is personally responsible for all business debts. Yet, borrowing may be difficult. Another disadvantage pertains to liability in that the owner of a sole proprietorship has unlimited legal liability.

[click] [click]



[click] RightRisk has a plethora of resources available on its web site. Specifically, under the resources tab are written and other materials pertaining to organizational structures [click] under the title Risk Concepts. You will find several 4-page fact sheets describing selected organizational structures and [click] a 2-page table comparing the attributes of seven most common organizational structures.

[click] [click]



In summary, there are a number of organizational structures available to business owners. Each structure has advantages and disadvantages, ramifications, and impacts for the business and the owners.

The sole proprietorship is the simplest business form under which one can operate a business. The sole proprietorship is not a legal entity. It simply refers to a person who owns the business and is personally responsible for its financial and other liabilities.

[click] A person should seek appropriate professional counsel BEFORE forming a business.

[click] Please look for information about organizational structures and additional educational resources at the RightRisk web site – rightrisk.org. Thank you. Have a great day. [click]