

Sole Proprietorship Document Checklist

The business entity information on the Business Knowledge Center website is intended to provide you with background organizational information on the structure of various business entity types. To ensure legal and accounting compliance, you should review and verify your specific organizational documentation with your lawyer and your accountant.

One of the Entity Structure choices you may choose for your business is a Sole Proprietorship. A Sole Proprietorship is one individual or married couple in a business alone. They are the most common form of business structure. They are simple to form and operate. In most states, there is no legal requirement to file any sort of documentation with the Secretary of State to start the business or maintain its good standing.

The Owner can operate the business under an assumed name or designated business name – DBA. The assumed name is not the same as the legal name of the owner. Typically, they must also have a business license issued by the municipality where the business is located.

Sole Proprietorships make up most small businesses in the country. The business owner is personally liable for all the debts incurred by the business and the business liability exposure is unlimited. Business operational continuity is also vulnerable to the sickness, disability, or death of the business owner.

Reasons why business owners choose a Sole Proprietorship Structure:

Easy to Form – Sole Proprietorships are inexpensive and easy to form. They don't have the ongoing organizational formalities faced by Partnerships, Corporations and Limited Liability Companies.

Ownership Control – A Sole Proprietorship has only one owner. The owner has complete management control of the business.

Assumed Name Certificate – As a Sole Proprietor, unless you file a DBA, your business name will be your personal name. To operate as a Sole Proprietorship under an assumed name, the business owner must complete, notarize and file an Assumed Name Certificate with the County Clerk or with the licensing department of the city or municipality where the business is located. With a registered DBA, you can accept payments, advertise, and conduct your business under that name.

Treated for Tax Purposes as a Pass-Through Tax Entity – Sole Proprietorships do not have to make their own federal income tax filing. Taxable income generated by a Sole Proprietorship is passed through the business entity to the business owner individually. Taxable income generated by the business will be included in the owner's personal Federal Tax Return – IRS Form -1040. The Income Statement summary for the business will be listed on Schedule C of the 1040 if it is a typical operating business or on Schedule F of the 1040 if the business is an agricultural farming type of business. The amount of taxes paid will be dependent on the overall taxable income reported by the owner.

Important Documents

(Check off after you have filed, recorded, copied and stored each item)

- Business License**
The business must obtain a business license. Typically, these licenses are linked to the physical location of the business and are usually issued by a local city, municipality, or county government jurisdiction.

- Assumed Name Certificate - Designated Business Name**
Reserves a unique name for the business.

- IRS Employer ID Number = EIN**
Required for any business that has employees.