



**PADGETT LAW, P.A.**  
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## **SOLE PROPRIETORSHIP**

### **Formation**

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A sole proprietorship is a business conducted in one owner's individual capacity and without the organization of a separate legal entity for holding and conducting that business. The business owner uses some of his or her assets for business purposes.

### **Operation & Management**

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Although no separate identity exists for federal income tax purposes, the proprietor may adopt a separate name under which the business is conducted. That business name may be required to be registered with state or local authorities under an "assumed name" or d/b/a or similar state law statute. The proprietor directly bears all business risks associated with the operation.

### **Taxation**

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Since no separate entity exists for federal income tax purposes, no separate income tax return is required for this business. Rather, the owner of a proprietorship separately reports the income from that activity on his or her federal income tax return. All profits are immediately taxed to the proprietor.

The income (or loss) is combined with the proprietor's other income to determine his or her adjusted gross income and, after personal deductions, taxable income, which is subject to the ordinary income tax rates applicable to individual taxpayers

### **Dissolution**

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For federal income tax purposes, the disposition of a sole proprietorship is not the disposition of a separate business entity. The sole proprietor merely sells the business assets to a third party. Those assets may include inventory, accounts receivable, machinery and equipment, customer lists, and goodwill. The sale of the various assets will be treated as separate property disposition transactions. Any gain or loss, and the character of the gain or loss, is measured by reference to each of the various specific assets being sold, rather than by reference to the sole proprietorship business as an entity.