

Starting a Sole Proprietorship

Southeast Idaho Small Business Development Center

Benefits of Starting Business as a Sole Proprietorship

- Sole proprietorships are low cost to start and register, can be operated from home, have minimum legal requirements, and are easy to close.

Concerns About Starting a Sole Proprietorship

- Since a sole proprietorship has no legal protection, you (as the owner) are held personally liable for any and all financial obligations for your business. This includes fees and any successful lawsuits against the business – your personal assets, such as your house or savings, can be used to satisfy any liabilities incurred.
- You are subject to federal income tax, state income tax, and self-employment tax on the same profit. These taxes are in addition to any sales tax, employment taxes, or excise taxes incurred by the business.

How Do I Put Money or Assets into the Business?

- Use personal funds or personal credit until the business is established. **Establish a business bank account.** Accountants can help you understand how to manage this.
- Sole proprietorship itself may borrow from a financial institution or a government agency – the owner's personal assets may be required to be used as collateral.

How Do I Take Money or Profit Out of the Business?

- Profits can be taken as earned by transferring from the business account to the personal account. You will need a tax professional to help you with this.

How Do I Report the Business on a Tax Return?

- Sole proprietorships file a Form 1040 or 1040 SR to report the income and expenses to arrive at the profit. A Schedule SE is used to calculate the self-employment tax. You will need a tax professional to help you with this.

Can the Business Have Employees?

- Any business may have employees, including family members. Request SBDC “Hiring Employees” guide.

How Do I Start a Sole Proprietorship?

- 1) You can check to see if the name of your business has already been used on the [Idaho Secretary of State website](#).
- 2) If the business name is not registered with anyone else, you should file with the Idaho Secretary of State for a Certificate of Assumed Name (ABN), attaching the written agreement [here](#). The cost is \$25 and it allows you to have a unique name that cannot be used by anyone else.
- 3) You will need to obtain a free tax identification number (TIN or EIN) from the IRS by completing a SS-4 on the [IRS website](#).
- 4) Once you have the TIN, you will complete a free registration for Idaho. This registration is a one-stop shop where you can obtain a sales permit (if you are selling goods), an income tax withholding permit, state unemployment number, and any other permits needed to do business in the State of Idaho. The registration is called an IBR-1 and is found [here](#).

How Do I Close a Sole Proprietorship?

- Because the formation is so easy, it is also easy to close the business. You simply stop doing business. You file a Schedule C on your personal taxes or any employment, sales, or excise taxes indicating you closed or dissolved the business during the tax year.