

“ENTITY CHOICE – SOLE PROPRIETORSHIPS”

by

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This is the first of a series of articles identifying, comparing and contrasting the different forms of business entities available to entrepreneurs. By virtue of their simplicity, sole proprietorships are the most popular form of business in our country. No particular official/formal governmental registration or filing is required at the Corporation Bureau for this form of business. A proprietorship, by definition, involves one exclusive owner. Proprietorships are therefore generally limited to the resources of the owner, both with respect to economic and human capital. Limited knowledge, expertise and/or skills in the many facets of management, finance, marketing and other critical areas necessary to run a successful business can hamper the success of sole proprietorships. Despite the single owner status, sole proprietor's can employ an unlimited number of employees and/or otherwise outsource any necessary areas of expertise.

Sole proprietors enjoy unilateral decision-making authority with respect to any and all questions, issues and/or concerns of the proprietorship. No one to argue or debate with – absolute dictatorial control. Likewise, to the extent that the proprietorship is successful, the sole proprietor enjoys 100% of the profits – i.e. no one to share the profit with.

On the other hand, the single greatest detriment to proprietorships as a form of business entity is the fact that there is unlimited personal liability for anything and everything the business does or fails to do. While insurance is critical, to the extent there are any operating losses, or in the event there is an insured loss or there are inadequate limits or an exclusion to coverage, it is the sole proprietor's personal and complete responsibility on an unlimited basis. The unlimited liability exposure is indeed overwhelming and fundamentally contrary to good business judgment. As such, this form of business should be ruled out in virtually all instances.

Next article will discuss the advantages and disadvantages of general partnerships.