Miltons Matsemela Inc

The Conveyancers

March 2016

STARTING A BUSINESS? THE "FLYING SOLO" OPTION

"A lot of people have ideas, but there are few who decide to do something about them now. Not tomorrow. Not next week. But today. The true entrepreneur is a doer, not a dreamer" (Nolan Bushnell, founder of Atari)

Step 3 in starting your own business is, you will recall from our last article, picking the correct trading vehicle upfront.

Let's start off our analysis of the various choices open to you with the **sole proprietorship** (or "sole trader") option – could it be the best fit for your particular needs and those of your new business?

What exactly is a sole proprietorship?

In a nutshell, <u>you are the business</u>. You are the only proprietor, owner and operator; you run the business at your own personal risk and for your own personal profit. Although sole proprietorship is a legitimate trading vehicle it is not a separate legal entity, nor is any trading name you may use in the business – so for example "Joe Bloggs trading as Joe's Perfect Plumbers" has no existence separate to Joe, everything is done in Joe's own name, Joe must pay all taxes personally and all business income is included in his own personal income tax return.

Like all your options, this one has both advantages and disadvantages. Let's explore some of them -

4 advantages …..

1. It's simple – of all your options this is the easiest to set up, operate and close down. There's no need for company or trust registration, your administrative burden is low, and you make all management decisions independently.
2. It's quick – you can start trading immediately.
3. Profits are yours and yours alone.
4. You are taxed at personal rates, which can sometimes (but not always – see below) be to your advantage.

….. and 4 disadvantages

1. Risk – you are 100% personally liable for all the debts and obligations of the business. All sales and contracts are in your name. Remember that your potential liabilities extend far beyond your regular trade creditors – think for example of product/service liability, labour law compensation claims, and your landlord. Creditors of your business can (and will if you run into financial difficulty) attach <u>all</u> your assets, both "business" and "personal". Sleepless nights await you if any important assets (like your house) are in your name.
2. Access to funding can be problematic for a sole trader, and not only is starting off with insufficient capital a common cause of business failure, but down the line it can stop you from expanding the business to its true potential. For example, you can't as an individual sell shares in your business to raise new venture capital. As a rule of thumb therefore, sole proprietorship is a poor choice if you plan to grow your business significantly.
3. Tax and estate planning – as mentioned above, being taxed at your personal income tax rate may be a plus in some cases, but in others you will benefit far more from a tax-efficient structure incorporating one or more corporate entities or trusts as well.
4. It's lonely! Confirmed lone wolves will always be happiest on their own but for most of us having a partner or two not only both brings new skills to the business, it also eases the stresses and strains of management and decision-making.

Remember to take full professional advice on the legal and tax implications of using each type of entity before choosing.

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