**SOLE TRADER (PROPRIERTORSHIP)**

In a sole trading set-up, the owner owns and manages the business, assumes all the risks, and receives all the profits. (And carries any losses).

The owner acquires and organises the necessary resources, provides the management, and is responsible for the success or failure of the business as well as all the business debts.

In farming, the situation is more of a “Family Proprietorship”, as the husband, partner, and children may all be involved in providing labour, support and management. However, all profits and debts fall primarily on one individual.

A sole proprietorship is established simply by starting the business as such. The business can be of any size, with any maximum size governed purely by the owner’s ability to acquire and manage the necessary resources.

There can be any number of employees, additional management may be hired, and the sole trader does not necessarily need to own any assets at all.

# Advantages

* The main advantage of a sole trader, is the simplicity of the business structure, and the freedom the owner has in operating the business. All profits belong to the owner.
* Ease of information. There are no legal formalities involved in getting into business as a sole trader, and hence no legal costs.
* Being “one’s own boss”. A sole proprietorship is very flexible, with management decisions able to be based solely on the owner’s judgement, without consultation, with minimum effort, time and legal complications. The work a sole trader puts in is for himself, not for others, although success depends primarily on the competence of the owner. If a sole trader retires or sells the business, there are no legal complications, provided all debts are settled, and contracts are honoured.
* Compliance requirements are low due to the simple structure.

**Disadvantages**

* Owners are personally liable for any legal difficulties, and for any debts incurred by the business. Creditors have the right to not only the assets of the business, but also to any personal assets to fulfil any unpaid financial obligations.
* The size of the business is limited by the capital available to the single owner. Sole traders often find it difficult to get loans. Banks often require sole traders to mortgage private assets. Presenting winning credible business plans is essential in gaining the confidence of lenders.

As there is only one owner to contribute capital, and only one person’s skills available, growth in the business may be limited.

* Taxation disadvantages. If the business is a great success, high tax liabilities could result. If this is the case, other business structures may benefit.
* Poor business continuity; it is difficult to bring sons or daughters into the business on any basis other than as employees.

The death of the owner also terminates the business, which means that it may need to be reorganised under new ownership. This can be time consuming and costly.

* The impact of the Property Relationships Act (1976) can be significant if steps are not taken to contract out of the Act.

# Taxation

The owner of a sole proprietorship must pay tax on any business profit at the same tax rates in effect for any individual. Business income is added to any other taxable income earned by the individual to determine the total taxable income.