

Course: BBA Part I

Paper I

Topic: Sole Trader

Teacher's Name: Prof. (Dr.) Reyazuddin

School: Commerce and Management

Date: 20/06/2020

Sole Trader

A sole trader – also known as a sole proprietorship – is a simple business arrangement, in which one individual runs and owns the entire business. Although many people use the term to refer to businesses that have no other employees aside from the owner, the actual definition of ‘sole trader’ refers to the legal structure of the business, rather than the number of employees. As such, while a business registered as a sole trader might only consist of the owner, it might also consist of the owner and additional employees.

A sole trader is the simplest form of business structure and is relatively easy and inexpensive to set up. As a sole trader you will be legally responsible for all aspects of the business. You’ll generally make all the decisions about starting and running your business and you can employ people.

Advantages

Simple to set up and operate.

You retain complete control of your assets and business decisions.

Fewer reporting requirements.

Any losses incurred by your business activities may be offset against other income, such as your investment income or wages (subject to certain conditions).

Allows you to use your individual tax file number (TFN) to lodge tax returns.

You are not considered an employee of your own business and therefore don't pay payroll tax, superannuation or workers' compensation on income you draw from the business.

Relatively easy to change business structure if your business grows or if you wish to wind things up.

Disadvantages

Unlimited liability which means all your personal assets are at risk if things go wrong.

Little opportunity for tax planning – you can't split business profits or losses with family members and you are personally liable to pay tax on all the income from the business.