One Owner Farrier Business Structures:
Sole Proprietorship vs. Limited Liability Company
by Esco Buff, PhD, APF, CF

There are many different types of business structures and much confusion over which one is best. There are basically two types of one owner business structures; Sole Proprietorship and Limited Liability Company (LLC).

We will simply define and discuss basic pros and cons for both of these structures in order to help you understand and choose the best business structure for your farrier business.

Sole Proprietorship (SP) (The most common form of farrier business structure)

A Sole Proprietorship (SP) is a business that is owned by one individual or married couple. Sole proprietorships are the most common form of business structure, especially in the farrier business and is considered a legitimate business entity structure.

Many small businesses begin as sole proprietorships and after operating for a period of time change their business to a more recognized organizational form. There is no requirement that forces a sole proprietor to make this change; it is a matter of preference when considering numerous factors.

To form a SP, all you have to do is offer goods or services for sale. There is no governmental formation filings required to form your sole proprietorship. If you plan to operate under a fictitious name such as “Pain Free Farrier Services”, you will be required to register your fictitious business name, or DBA (Doing Business As), with your county and pay the small filing fee. If you plan to operate under your own surname such as Esco Buff’s Farrier Service or Buff’s Farrier Services, you do not need to register your fictitious business name.

A SP business is simple to form and operate. They generally have greater flexibility of management, fewer legal controls, the least government rules and regulations affecting it, fewer taxes, and the owner have complete control over all the aspects of the business.

As a SP, you are not required to file yearly information statements with the state, hold meetings and maintain a book of the minutes, elect a board of directors or maintain a record of an agent for service of process with the state.

No requirement forces you to open a separate bank account. Customers make payments to you, in your name (or your DBA), and you deposit the funds into your own bank account. Although for accounting and tax purposes you will want to keep track of your earnings and your business expenses, and a business checking account can help with that, there is no general requirement that you open such an account.

A SP is taxed at the individual level, and therefore, the concern about double taxation that comes with some other organizational forms, such as corporations, is not at issue with a SP. This result can also be achieved in other forms of business organizations, such as partnerships, LLCs and S corporations

The business owner is personally liable for all debts incurred by the business and can have their personal assets taken away. Judgments and tax liabilities from business related lawsuits and operations are also the personal responsibility of the owner, and again the owner's personal assets are at risk. As the business becomes more successful, the risks accompanying the business tend to grow also. To help limit your risk of exposure to potential liability, obtain business insurance. The insurance is not a shield against personal liability and the owner will still be liable for anything the insurance fails to cover. The business ceases to exist upon the owner's death as the business is the same legal entity as the owner. If your business will have more than a small risk of liability exposure, a SP may not be right for you and you may want to consider forming a Limited Liability Company (LLC).

Limited liability Company (LLC)

A Limited Liability Company (LLC) can be formed by 1 or more individuals or entities through a special written agreement. The agreement details the organization of the LLC, including provisions for management, assignability of interests, and distribution of profits and losses. LLCs are permitted to engage in any lawful, for-profit business or activity other than banking or insurance.

An LLC is a business structure allowed by state statute. Owner of an LLC are called Members. Each state may use different regulations, and you should check with your state if you are interested in starting a LLC. Most states allow single-member/owner LLCs. Governmental filing is required.

LLC's can be as simple or complicated as the owners want it to be. There is no legal requirement for an annual meeting but there does need to be some type of Operating Agreement or the LLC can be considered a sham. Simple Operating Agreements can be downloaded from the internet. There are very few mandatory requirements for LLCs.

LLC's with one member/owner is considered to be a sole proprietorship for tax purposes, while an LLC with more than one member is automatically considered to be a partnership. For a Single-Member LLC, this means that the LLC doesn't even have to file its own tax return: the profits and losses are reported on the owner's personal federal tax returns. A Single-Member LLC is taxed at the individual level, and the concern about double taxation is also not an issue.

Limited liability, means that the owner (s) of the LLC, are protected from some or all liability for acts and debts of the LLC depending on each individual state shield laws.

Many States such as Alabama, California, Kentucky, New York, Pennsylvania, Tennessee, and Texas; levy a franchise, margin or capital value tax on LLCs. In essence, this is a business privilege tax that the LLC pays the state for the benefit of limited liability. The tax can be an amount based on revenue, an amount based on profits, or an amount based on the number of owners, or some combination of those factors, or simply a flat fee. In most states, however, the fee is nominal and only a handful of states charge a tax comparable to the tax imposed on corporations.

Certain states, such as New York, impose a publication requirement upon formation of the LLC which requires that the members of the LLC publish a notice in newspapers in the geographic region that the LLC will be located that it is being formed.

Deciding on the best entity formation for your business will depend on your personal circumstances, what you have to personally and financially loose and the way you want to run your farrier business.

References:

http://www.irs.gov/Businesses/Small-Businesses-&-Self-Employed/Sole-Proprietorships

http://www.irs.gov/Businesses/Small-Businesses-&-Self-Employed/Limited-Liability-Company-(LLC)

Comparison Chart of One-Owner Business Types (Sole Proprietorship vs. LLC)

	Limited Liability Company (LLC)	**Sole Proprietorship**
Best Used For	Owners wanting less formal structure than a Corporation but more than a Sole Proprietorship.	Simplest and most common business type. Easy to set up.
Not Good For	Owners wanting professional venture capital. Non-US residents. Owners looking for a simple business type.	Owners looking for limited liability. Owners wanting to hire employees.
Advantages	Some or all limited liability protection for the owners. Easy to maintain business. Extremely flexible for legal and tax purposes. Flexible allocations of profits/loses among the members. Can opt to be taxed at individual rate.	Easy to start or end. Fast, easy and cheapest way to start into business. No governmental filings required. Least governmental rules. Less taxes. No separate bank accounts required. Taxed at individual rate.
Disadvantages	Setting up properly can be a challenge. Members are subject to self-employment and unincorporated business taxes. Legal consequences if proper Operating Agreement not filed.	Owner has no liability protection. Personal assets at risk. Personally responsible for debts and lawsuits. Business ceases to exist upon owners death.
Legal Filings	File with state government.	File with local county government.