



BUSINESS STRUCTURES KNOW YOUR OPTIONS

You might have heard of the different ways you can structure your business, or maybe you've gone to register for an Australian Business Number (ABN) and the first question you're asked relates to the structure of your entity (your business).

Sole Trader, Partnership, Trust, Company. What do they all mean, why does it matter and what is right for you?

Let's start at the end... we can't tell you which one is exactly right for you as we don't know your personal circumstances. But, we can share some points on each one to help you decide.

Your business structure matters because it can impact on the following areas of your business:

- how much tax you pay;
- your asset protection and potential personal liability;
- reporting requirements and costs; and
- your responsibilities as a business owner.

These may not seem significant when starting out, but they may be a big deal if something goes wrong or you have reporting requirements that you just can't meet (without paying big \$\$).



Now onto the nitty gritty, the different types of structures.

Sole Trader

This is the simplest and most popular structure.

Tax wise the income and expenses are taken up by the owner of the business, the person who registered for the ABN. So the net profit of the business is deemed as taxable income for the owner and the appropriate income tax rates are applied to that income.

The downside to a sole trader structure is that there is no legal separation between the owner and the business. This means that the owner is responsible 100% for all liabilities of the business. So in the event of creditors chasing money, or family break-ups, the owner's and business's assets are all up for grabs.

Partnership

As the name indicates, a Partnership is where two or more people collectively operate a business.

Owners need to decide and it's recommended they have an Agreement in place on the share of the profits and losses of the business, whether this be 50/50, 40/60, etc. Each partner then declares their share of the net profit as their taxable income and be taxed at the appropriate tax rate.

As with a Sole Trader, there is no legal separation between the owners and the business. So tread lightly with this one.



Trust

Things get a little more complicated here, but this is the second most popular business structure.

There are various types of Trusts, but in simple terms a trustee runs a business on behalf of its members, also known as beneficiaries.

Profits are distributed accordingly to the rules of the Trust or at the discretion of the trustee. Any profits distributed to beneficiaries become their taxable income.

The benefits of a Trust are that they enable business profits to be distributed to beneficiaries on lower tax rates and that there is a legal financial separation between the beneficiaries and the Trust. I.e. a beneficiary is not legally responsible for the liabilities of the Trust.

Company

You might think that a Company is not the right structure for your business and only for big businesses, but there are a lot of benefits to opting for a Company structure.

In simple terms a Company is owned by shareholders and operated by directors. Often in small to medium businesses these are usually the same people. Opting to structure your business as a Company does not mean that your business is listed on the Stock Exchange either - that is a whole different kettle of fish.

Profits of a Company can remain in the Company, directors can be paid wages and/or they can pay shareholders dividends. The Company pays its own tax and the appropriate income tax amount on the wages paid, however shareholders are required to pay the appropriate income tax rate on dividends.

As the Company is an independent legal entity for tax purposes, there is a company tax rate which is a set amount and may be lower than an individual's income tax rate. This also means that there is legal financial separation between the Company and the directors.

Companies and Trusts have different legal reporting requirements to Partnerships and Sole Traders.

This includes the Trust or Company needing to lodge their own tax returns, complete Business Activity Statements (BAS) and is additional to the beneficiaries or shareholders lodging their own tax returns.

We recommend that you seek advice from a qualified Accountant who can assist you with your personal financial circumstances and setting up the right structure for you.



If you don't have an Accountant yet, or would like a second opinion on your business structure, please contact Kingsley Smith at RWK Accountancy on (08) 9721 8218 and mention this article to receive a free consultation.