

Choosing the right business structure

Your choice of business structure is a very important decision. You should be mindful of the fact that your business can effect:

- The safety of your personal assets
- Your tax position
- The continuity of the business upon change of ownership; and
- What registration process you will need to take

There are a number of business structures including:

- Sole trader
- Partnership
- Company
- Family Trust
- Unit trust

Here is a summary of the above structures:

Structure	Description	Tax Implications
Sole Trader	<ul style="list-style-type: none">• In business by yourself• Establishment costs are low• No legal separation between you and the business – your liability for business debt is unlimited and could extend to total personal assets• Relatively easy to cease operations and as the business grows you can progress to another type of structure	<ul style="list-style-type: none">• Profit from business is treated as owners personal income• Owner does not have to complete a separate Income Tax Return for business
Partnership	<ul style="list-style-type: none">• Two or more people start a business and share the costs, profit or loss• Liability for business debt is unlimited and could extend to the personal assets of the partners	<ul style="list-style-type: none">• A partnership is not a separate legal entity and does not pay income tax• Each partner pays tax on their share of net partnership profit.• Need to complete a partnership tax return

	<ul style="list-style-type: none"> • A formal partnership agreement should be drawn up by solicitors for two partners who are unrelated. 	<ul style="list-style-type: none"> • Must have its own tax file number
Company	<ul style="list-style-type: none"> • Shareholders own the company and Directors are appointed to run the business • Shareholders can also be Directors and employees • Allows you to distance yourself financially from the business and limits the liability for debts to the business assets – not your personal assets 	<ul style="list-style-type: none"> • Is a separate legal entity that pays income tax on its profits at 30% • Compliance costs are generally higher • Must have its own tax file number
Trust	<ul style="list-style-type: none"> • Business is transferred to a third party (trustee) who has legal control and duty to run the business for the benefit of beneficiaries • Holds property (capital) for specified beneficiaries • Trust deed sets out the Trust's powers and formalises its administration 	<ul style="list-style-type: none"> • Lodges its own tax return • Has its own tax file number • Beneficiaries are entitled to distributions of income and/or capital • Flexibility of income distributions