

TYPES OF BUSINESS STRUCTURES

There are 4 types of entities for your business, and you should consider the implications for tax, asset protection and costs:

1. Sole Trader
2. Partnership
3. Company
4. Trust

1. SOLE TRADER

- A sole trader is the easiest and cheapest to set-up and operate.
- You are the only owner, so all decisions regarding the business are yours.
- All income earned is taxed on your marginal income tax rates
- You are personally liable for all aspects of the business – ie you are responsible for all debts and losses, and have no protection over your personal assets.
- Superannuation is up to you to contribute (although you do have a choice of super fund)

2. PARTNERSHIP

- A partnership is relatively inexpensive to set up and operate.
- The profit is distributed between the partners on a proportional rate – ie 50/50 for 2 partners, ¼ each for 4 partners, unless you have a partnership agreement.
- A partnership agreement is recommended (but not essential), to outline how income or losses will be distributed to the partners and how the business will be controlled.
- The partnership has its own tax file number, and must lodge an annual income tax return – each partner will then be distributed their share of the profit, which is taxed at their marginal rates.
- Like a sole trader, you are personally liable for all aspects of the business – ie you are responsible for all debts and losses, and have no protection over your personal assets.
- Superannuation is up to you to contribute (although you do have a choice of super fund).

3. COMPANY

- A company is an entity in its own right, and can own assets and borrow monies.

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- A company is run by its directors and is owned by its shareholders.
- While a company provides some asset protection, in some cases the directors can be legally liable for their actions and, in some cases, the debts of the company.
- Companies are regulated by ASIC, and must complete an Annual Return and a Resolution of Insolvency.
- The income of the company remains in the company, and is taxed at company rates (currently 27.5% for a small business entity and 30% for all other businesses)¹
- Monies taken out by shareholders are treated as wages or as a dividend.
- Superannuation must be paid on employee wages, it is payable quarterly and has to be reported to the ATO (refer to the Small Business Superannuation Clearing House [here](#)).
- Single Touch Payroll is now in effect and payroll must be reported via this.

4. TRUSTS

- A trust needs a formal trust deed, and a trustee (which may be an individual or a company).
- Income is distributed to beneficiaries, who pay tax on it in their personal income tax returns. If the income is not distributed, the trustee is liable for the tax at their income tax rates.
- Superannuation must be paid on employee wages, it is payable quarterly and has to be reported to the ATO (refer to the Small Business Superannuation Clearing House [here](#)).
- Single Touch Payroll is now in effect and payroll must be reported via this.

¹ Please refer to your accountant or tax agent for more information