



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, $\frac{1}{4}$ 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).

PO Box 432
Gymea NSW 2227

T: 0418 286-750
E: kirsty@accountingtoolshed.com.au
W: www.accountingtoolshed.com.au



3. COMPANY

- A company is an entity in its own right, and can own assets and borrow monies.
- 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 25% 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. A company can also be a beneficiary. 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