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Higgins Tonna & Co

Are you thinking of starting a business? Below is more information on what business structure may be best for you..

Let's look at the pros and cons of each business structure

Sole Trader

This is the simplest business structure, where an individual is legally responsible for all aspects of the business. If you choose to start as a sole trader you'll typically make and be accountable for all the decisions, although you can hire people to help you make the best choices.

Key Points

- You can use your tax file number (TFN) to lodge tax
- returns
- Any losses incurred by your business can be offset
- against other income earnedYou'll need to pay yourself, usually out of a

distribution of the business profits

- You are responsible for your own superannuation

Pros

- Simple and inexpensive to set up and run
- Complete control
- Little ongoing red tape or paperwork
- No need to register a business name as you can use

your own

- Relatively easy to change your business structure

if you want to expand or stop operating

Cons

- Complete responsibility for the business'

liabilities like debts or employee claims – your personal assets are at risk if things go wrong

- Can be difficult to take time off
- Can be harder to get finance

Partnership

A partnership means that a number of people (up to 20) are responsible for the running of the business. Decision making and financial investment are often shared, potentially lessening some of the workload and risk, but compromises may have to be made to keep all partners happy.

Key points

- Made up of 2-20 partners
- Requires a separate TFN
- Each partner will pay tax on the share of the net partnership income they receive
- Partners can offset their share of business losses against other income earned
- Each partner is responsible for their own superannuation

Pros

- Simple and inexpensive to run
- Responsibility is shared
- Can be easier to get finance as you have the resources of at least two people
- Little ongoing red tape or paperwork

Cons

- Each partner shares responsibility for the business' liabilities, regardless of how much of the partnership they own
- There can be disagreements among partners when working so closely together

Company

Unlike a sole trader or partnership structured businesses, a business with a company structure is a separate legal entity. This means it has its own legal rights, and personal liability is limited.

Key points

- Is a separate legal entity
- Money earned belongs to the company
- Corporate tax rates apply; check the latest details on the Australian Taxation Office (ATO) website
- Business operations are controlled by directors and owned by shareholders

Pros

- Reduced personal responsibility for any business debts and liabilities
- Flexibility in distributing profits to shareholders
- Dividends can come with franking credits – credits for the tax already paid by the company
- Easy to pass on or sell ownership

Cons

- More complex to start and run
- More paperwork
- Higher levels of compliance and setup costs

Trust

A trust is an organisation run by a trustee to benefit listed beneficiaries.
The trustee can be either an individual or a company, and is responsible for any debts and liabilities.

Key points

- Profits are distributed annually to beneficiaries

who pay tax individually

- Trusts typically do not pay tax, provided they

distribute all the profits

- Requires a formal trust deed that outlines how the trust will operate

Pros

- Reduced personal responsibility for any business
- debts and liabilities if the trustee is a company
- Flexibility in distributing profits to
- beneficiaries
- Easy to pass on or sell ownership

Cons

- More paperwork
- Higher levels of compliance
- Higher setup and ongoing costs
- Limited lifespan (usually 99 years)
- Other considerations
- Before you set up a business, make sure you also under stand you obligations when it comes to registering for an Australian Business Number (ABN), business name and tax and superannuation.