

Business Structures

Structuring your business correctly is one of the most important first steps in optimising future financial success. If you choose an appropriate business structure you may be able to place yourself in a better position to grow your business without having to deal with changes in legal structure, down the track. Changes to legal structure will involve legal fees and possibly capital gains tax implications.

The main structures used in Australia include sole trader, partnership, company and trust. Each of these structures have advantages and disadvantages.

1. A **sole trader** structure is simple, cost-effective and easy to set up. If you run a one person business then setting up as a sole trader can make a lot of sense. The two main issues with a sole trader structure are: the business revenue is personal income of the sole trader and thus taxed at individual personal tax rates; and the sole trader's personal legal liability is not limited.
2. A **partnership** structure can make sense if you are going into business with a trusted person(s). It is simple to set up, but generally each partner has unlimited personal liability for any debts or legal obligations incurred by the other partner(s). Most income tax matters are generally the concern for individual partners, rather than the partnership.
3. A **company** structure is a popular structure for businesses. It is flexible, cost-effective and easy to set up. Revenue is earned by the company, rather than the individual(s). Therefore, there may be company tax benefits, as well as personal liability is limited. However, it will be more expensive, as additional income tax compliance matters apply.
4. A **trust** structure is an option for a business looking to maximise the individual(s) asset protection as well as being able to potentially direct taxable income to related persons, for tax optimisation purposes. Setting up a unit or discretionary trust is not overly complex and can provide the appropriate solution for the right business. As with a company, it will be more expensive, as additional income tax compliance matters apply.

Still need help?

If you need help with any of these matters please feel free to contact us.

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