HOW'S YOUR STRUCTURE?

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Small business tax structures need to be tailored to fit your business for a few different reasons including: reducing tax, asset protection, flexibility and succession planning. This means making the right choice between: sole trader, partnership, company or trust. Many clients know what structure they control (or think they control), but may not be aware of the structure's advantages and disadvantages.

Sole trader

Pretty straight forward – you are your business. There is no separation from a tax or legal sense when trading in your own name. Very cheap from an administration point of view.

Partnerships

Depending on your type of business, a simple partnership can fit circumstances nicely. Cheap in terms of administration costs and some ability to reduce tax compared to sole traders as each partner is taxed separately on their share of the partnership income.

Drawing up a partnership

Agreement can avoid potential disagreements or if necessary deal with the fallout from unavoidable conflict between partners. Keep in mind partners can be "jointly and severally liable" – this means if the partnership gets into financial difficulties and one partner has no assets to meet creditors then the other partner may have to meet the entire amounts owing.

Companies

Most taxpayers form a company structure for two reasons: tax and legal issues. Companies pay a flat rate of 30%, unlike partnerships which don't pay tax. (Partnerships distribute income and partners pay tax in their own names.)

Companies are also separate legal entities. They operate separately from their shareholders and directors. Keep in mind directors can still be accountable for company debts in some circumstances. Directors should be aware of what "directors guarantees" they have signed and if there is any unpaid employee superannuation.

Accessing cash from companies is another risk area. Why, you ask? It's all our money anyway? No, it's not - it's the company's money. They only way to access cash from a company without falling afoul of the ATO, is: have a documented loan drawn up between yourself and your company, pay wages and superannuation or pay a dividend.

Trusts

While arguably the most flexible structure to trade in, the ATO is making it harder and harder to operate in a trust structure. Trusts usually do not pay tax in their own right, rather they distribute income to beneficiaries who pay tax in their own names. Trusts can be very effective at reducing tax for business with large family groups involved in the business. Trusts also enable taxpayers to access generous Capital Gains Tax concessions on sale of assets.

Both companies and trusts can be effectively utilised for succession planning.

For more information on how you can better manage your finances, contact **Whitson Dawson Accountants on (07) 4957 2985 or by email business@whitsondawson.com.au**

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