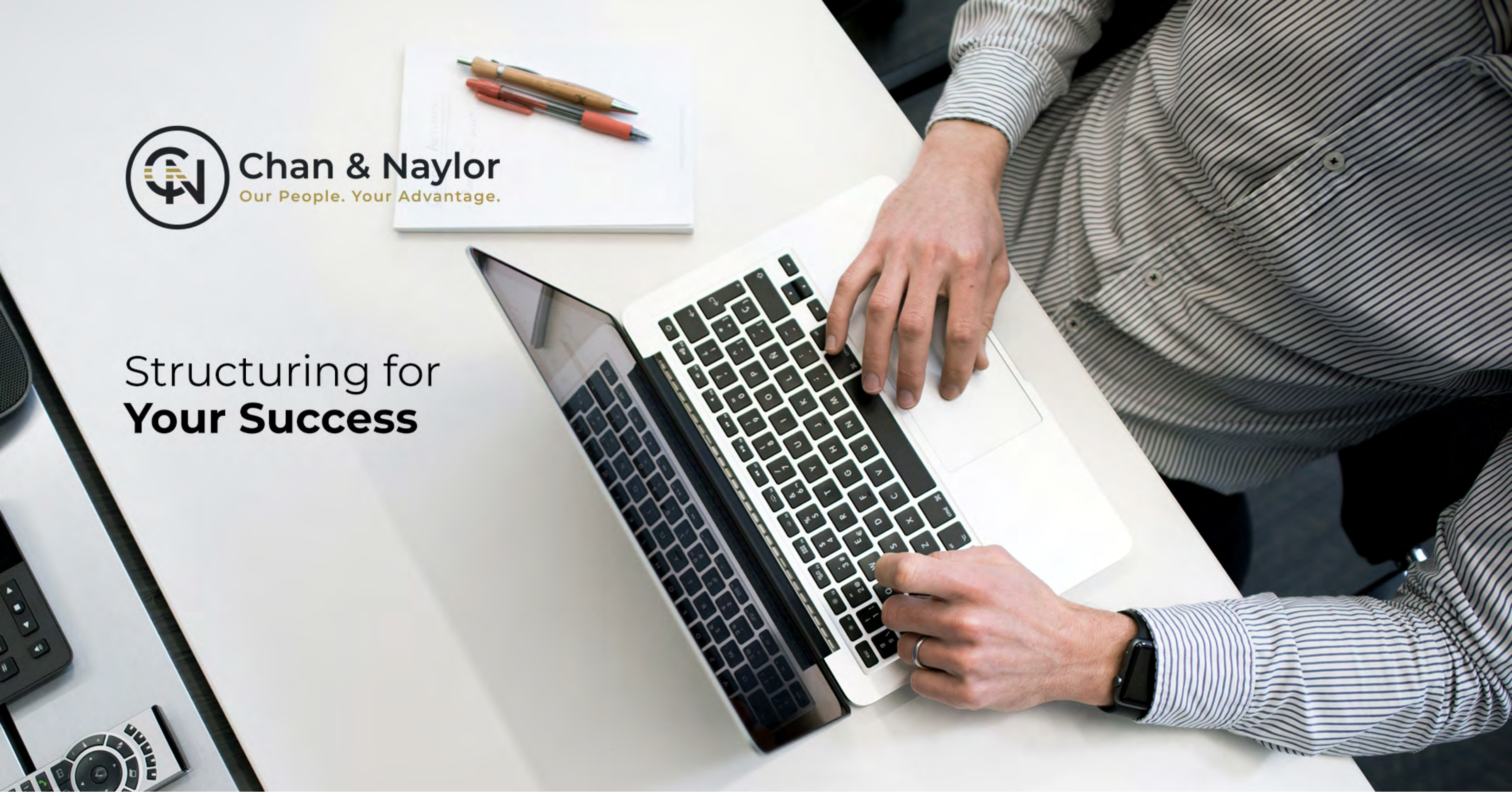


Structuring for **Your Success**

Starting a successful business takes more than just a good idea and hard work. There are bureaucratic, legal, administrative and financial considerations that you should consider, even before you commence.

If you're thinking of starting a business, it's also a must to consider which business structure best suits your needs.

When considering which structure is right for you, 2 major considerations are:

1. Legally minimising taxes – the business structure you choose will determine your tax obligations, including your tax rate, and
2. Protection of your assets – the business structure you choose will also affect your assets – whether they form part of your business or they are protected from others, for example, creditors.

An overview of the options available is always a good place to start, but there's definitely no substitute for a professional adviser (accountant) who can help you to work out the most appropriate structure.

Business Registration

One of the first things you need to find out when you're starting a business is what laws will apply to you. Having the correct registrations, licences and permits is fundamental when running your business. They allow you to operate without fear of closure from non-compliance or other legal concerns.

The most common types of business structures in Australia are:

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

1. Sole trader

A sole trader business structure is a person trading as the individual legally responsible for all aspects of the business. This includes any debts and losses, which can't be shared with others.

Operating as a sole trader is the simplest, and relatively inexpensive business structure that you can choose when starting a business in Australia. As a sole trader, you'll generally make all the decisions about starting and running your business, although you can employ people to help you.

Key aspects of a sole trader structure

- Is simple to set up and operate,
- Gives you full control of your assets and business decisions.
- Requires fewer reporting requirements and is generally a low-cost structure,
- Allows you to use your individual Tax File Number (TFN) to lodge tax returns,
- Has unlimited liability - all your personal assets are at risk if things go wrong. Your assets can be seized to recover a debt,
- Any losses incurred by your business activities may be offset against other income earned (such as your investment income or wages), subject to certain conditions,
- Doesn't require a separate business bank account, unlike a company structure. You can use your personal bank account but must keep financial records for at least 5 years,

As the business owner, you're not considered an 'employee' of the business. You should pay yourself, which is usually a distribution of your profit, but this is not considered 'wages' for tax purposes,

If you're a business owner without employees, there's no obligation to pay payroll tax, superannuation contributions or workers' compensation insurance on income you draw from the business. You can choose to make voluntary superannuation contributions to yourself though, to help you build up your superannuation,

- You can employ people to help you run your business. There are compulsory obligations that you must comply with, such as workers' compensation insurance & superannuation contributions,
- It's relatively easy to change your business structure if the business grows or if you wish to wind things up and close your business,
- You can't split business profits or losses made with family members and you're personally liable to pay tax on all the income derived.
- You must be registered for GST if the annual income turnover is $75,000 or more.

2. Partnership

A partnership is a business structure that involves a number of people who carry on a business together. You may choose a partnership over a sole trader structure for example, if you'll be jointly running the business with another person or a number of people (up to 20).

There are two types of partnerships - general and limited.
Partnerships are generally governed by the relevant law, depending on your state or territory.

Key aspects of a partnership structure

- It's relatively easy and inexpensive to set up,
- It requires a separate Tax File Number (TFN),
- If you are carrying on an enterprise, you can apply for an Australian Business Number (ABN), but this is not compulsory,
- It's not a separate entity - like a sole trader, you and your business partners are personally liable for the debts of the business,
- You have shared control and management of the business with your partners,
- The partnership doesn't pay income tax on the income earned. You and each of your partners pay tax on the share of the net partnership income you each receive,
- Requires a partnership tax return to be lodged with the Australian Taxation Office (ATO) each year,
- Each partner is responsible for their own superannuation arrangements - you are not an employee of the partnership,
- You must be registered for GST if the annual income turnover is $75,000 or more.

3. Company

A company is a type of business structure. You may consider a company structure when starting or growing your business.

A company is a separate legal entity, unlike a sole trader or a partnership structure. This means the company has the same rights as a natural person and can incur debt, sue and be sued. The company's owners (the shareholders) can limit their personal liability and are generally not liable for company debts.

A company is a complex business structure, with higher set-up and administrative costs because of additional reporting requirements. You need to register a company with the Australian Securities and Investments Commission (ASIC). Company officers and directors must comply with legal obligations under the Corporations Act 2001.

Key aspects of a company structure

- Is a separate legal entity,
- Has limited liability compared to other structures,
- Is a more complex business structure to start and run,
- Involves higher set up and running costs than other structures,
- Requires you to understand and comply with all obligations under the Corporations Act 2001,
- Means that business operations are controlled by directors and owned by the shareholders,

· Must be registered for GST if the annual GST turnover is $75,000 or more,

· Means the money the business earns belongs to the company,

· Requires an annual company tax return to be lodged with the ATO.

4. Trust

A trust is an obligation imposed on a person - a trustee - to hold property or assets (such as business assets) for the benefit of others; known as beneficiaries.

Key aspects of a Trust

· Can be expensive to set-up and operate,

· Allows the ability to share profits to others, known as beneficiaries,

· Requires a formal trust deed that outlines how the trust operates,

· Requires the trustee to undertake formal yearly administrative tasks,

· If you operate your business as a trust, the trustee is legally responsible for its operations. A trustee of a trust can be a company, providing some asset protection,

· Must be registered for GST if the annual GST turnover is $75,000 or more,

· Requires an annual trust tax return to be lodged with the ATO.

Knowing the main features of a trust business structure may help you decide if this structure is best for your business.

Change business structure

Abusinessrestructurereferstoreorganising your business affairs. It is generally done to be more profitable, improve processes and adapt to the changing needs of the business. A restructure may include changing ownership, adding partners or changing the legal, operational or other aspects of the business.

A business structure is often the first thing to change when your business grows,nparticularly if you start as a sole trader and then want to take on a partner or even register as a company.

As your business changes and grows, you need to ensure that you manage these changes successfully. Growth can lead to significant changes that affect your business structure and tax requirements.

Chan & Naylor Tip

Before deciding on your business structure, it is important to seek professional advice from an accountant to ensure the structure you choose meets your personal circumstances and business objectives.

Business Name

The most important thing to know is that a business name (also known as a trading name) has no legal status: it doesn't make your business a legal entity and it doesn't give it the privileges of a company.

If you're running a business as a sole trader or partnership, and you're conducting it under your name/s, you don't even have to register your business name. If you carry on business under another name, you need to register it with the relevant authority in your state or territory.

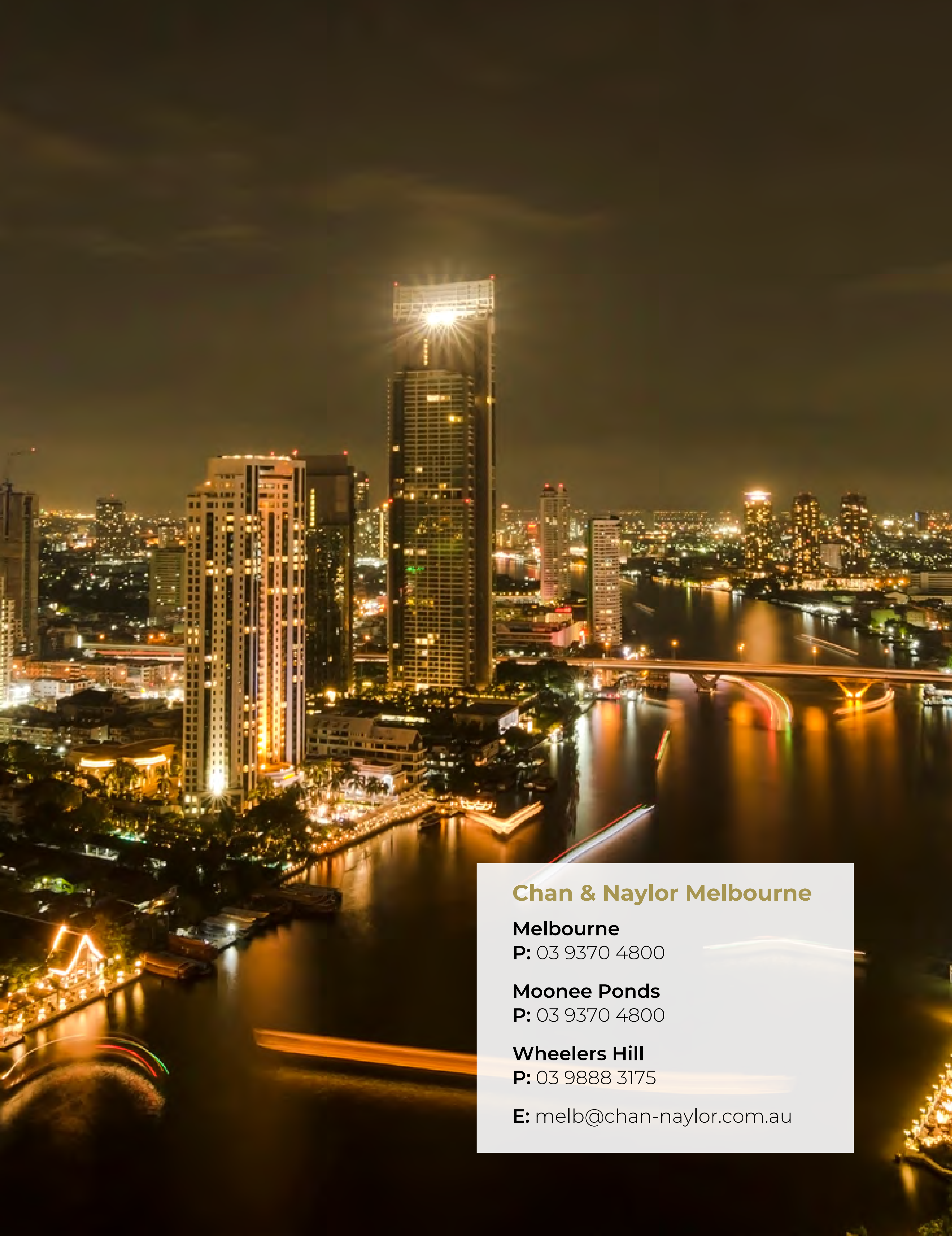
A company can conduct business in a name that's different to its company name, but must also register that business/ trading name as above. Don't forget – while your business name doesn't give you a right to act against anyone using the same name, your business name could infringe someone else's trade mark so it's important to check the trade mark register before you register a business name.

Being Financially Sorted

Structuring your business and yourself is extremely important to consider from the outset. It can make a difference to the success of your business.

Being financially sorted is important for us all and structuring your business for success is one important element of being financially sorted.

We hope that this summary gives you guidance on choosing the right structure for your success.



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