

# Sole Trader, Partnership or Company

There are real advantages in choosing the structure best suited to the way you want to operate your business. It's important you understand these advantages and responsibilities as they may affect:

- the way tax applies to your business
- protection of your assets
- your operating costs
- how other businesses deal with you.

## Sole traders

If you operate your business as a sole trader, although you may decide to have employees, you trade, control and manage all aspects of your business.

### Advantages:

- There are few legal and tax formalities involved setting up the business
- The structure is inexpensive to set up
- You have full control of the business
- You receive the full benefit of profits made by the business
- You keep all the after-tax gains if the business is sold

### Things to consider:

- Your access to finances is usually limited to your own resources
- If you have no employees, you have to do all the work
- You are legally responsible for all aspects of the business
- Debts and losses cannot be shared
- You can lose private assets such as your home if the business goes into debt

### Paying super:

- You are responsible for your own super arrangements and may be able to claim a deduction for personal super contributions you make.
- You must also make super contributions for any eligible workers you employ through SuperStream.

## Partnerships

If you operate your business as a partnership, you're carrying on your business with one or more other people as partners and receiving your income jointly.

### Advantages:

- Partnerships are inexpensive to set up
- Greater access to finances from the resources of all partners
- There are more people to share the work load
- There are more people to share losses and legal responsibilities

### Things to consider:

- You must share the profits with the other partners

# Langton

A C C O U N T A N T S

ABN 39 572 394 212

"Gow House", 15 Brabyn Street, Windsor NSW 2756

Tel: 02 4587 9100 Fax 02 4587 9155

greg@langton-accountants.com.au

# Langton

ACCOUNTANTS

ABN 39 572 394 212

"Gow House", 15 Brabyn Street, Windsor NSW 2756  
Tel: 02 4587 9100 Fax 02 4587 9155  
greg@langton-accountants.com.au

- You and your partners are responsible for the debts of the partnership, even if you do not directly incur or cause the debt
- You can lose private assets such as your home to settle debts of the partnership.

#### Reporting and paying income tax:

- Although your business does not pay tax, you need to lodge an annual partnership income tax return on behalf of the business to show the total income earned and deductions claimed by the business. The tax return also shows each partner's share of net partnership income.
- As a partner, you must pay tax on your share of the partnership income you earn.
- Under a partnership, each partner is personally liable for the tax debts of the partnership.

#### Paying super:

- As a member of the partnership, you're responsible for your own super arrangements as you're not an employee of the business. You may be able to claim a deduction for any personal super contributions you make, and
- The partnership must make super contributions for any eligible workers they employ through SuperStream.

## Companies

If you operate your business as an incorporated company, the business is a distinct legal entity that is regulated by the Australian Securities & Investments Commission. A company is a more complex business structure. Usually, the set-up and administrative costs for a company are higher than for other business structures.

#### Advantages:

- A company has far greater access to capital for the running of the business
- A company pays tax on its own profits
- Shareholders are not liable for the debts of the business
- Increased asset protection

#### Things to consider:

- A company is more expensive to establish
- The tax reporting requirements for companies are far greater than for other entities.
- Shareholders have little say in the running of the business

#### Reporting and paying income tax:

- Your company must lodge an annual company tax return to report its income and deductions, and pay the income tax it is liable to pay (generally at 25% flat rate)

If you receive wages or director's fees from your company, you need to:

- include them in your individual tax return
- pay tax on them at the individuals tax rates.

#### Paying super:

- Your company must make super contributions for any eligible workers it employs, including you.

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JUNE 2024