



BUSINESS SETUP GUIDE

Tax done differently





WELCOME

Within this guide, I'll first take you through the key aspects of each of the 4 main Australian business structures.

I'll list the pros and cons of each structure. What you'll soon learn is that there is no "one-size fits all" and that your ultimate structure decision will ideally be influenced by a combination of many factors including: the level of risk in your business activity, your anticipated net profit, and your future growth plans.

Once you've decided on the best business structure to go with, I'll then explain the next steps that you need to take including: ABN, TFN, ACN, GST, and PAYG withholding registrations.

Finally, I'll guide you through some key business bookkeeping tips and answer some frequently asked questions. At the end of this guide, I provide a list of various business activities in Australia that operate under each of the structures.

I do hope that you find this guide handy and informative!

BUSINESS COMPARISON CHART

Features	Sole Trader	Company	Partnership	Trust
Asset protection	No	Yes	No	Maybe
Complexity	No	Yes	No	Yes
Compliance costs	Low	High	Medium-high	High
Legal requirements	Low	High	Low-medium	Medium
Ability to add business partners later	None	High	None	None
Potential tax benefits	Low	Low-medium	Low-medium	Low-high
How to pay yourself	From net profits	Wage	Profit distribution	Profit distribution
Are you required to pay super?	No	Yes	No	No
Where tax is paid	Personal tax return	Company tax return	Personal tax returns	Personal tax returns
Treatment of losses	Offset against future profits	Offset against future profits	Distributed into personal returns	Offset against future profits



SOLE TRADER

About

This is the most straightforward business structure. A sole trader is an individual who owns, controls and manages a business. As a sole trader, even if you employ others to work for you, you are legally responsible for all aspects of the business. The business and the owner are considered the same entity, sharing the same tax file number (TFN) and Australian Business Number. (ABN). Additionally, responsibility for all profits, debts, or losses incurred while operating the business cannot be distributed to anyone other than the owner.

Advantages

- Low set-up costs (just your business name registration)
- Minimal paperwork/simple to set up and understand
- Easy tax filing (personal tax return only)
- Complete business control

Disadvantages

- Unlimited liability risks personal assets
- Limited tax planning opportunities
- Lack of continuity (can't add business partners later)
- It may be more difficult to source capital/investors

Suits

- A contractor/freelancer
- A side hustle or small/simple business
- A low-risk business activity with only one business owner
- A business that is unlikely to achieve long-term net profit of more than around \$150K.



COMPANY

About

Two main types of companies exist: private/proprietary limited companies and public limited companies (listed on the ASX). Companies are separate legal entities with distinct TFNs and ABNs, capable of incurring debts, filing lawsuits, and being sued. Shareholders own the company, and their personal liability is limited to their investment. Company owners aren't personally liable for company losses. Directors and secretaries appointed by shareholders manage company affairs, with directors requiring a director identification number (DIN).

Advantages

- Limited liability separates personal assets from business debts
- Efficient tax planning with a 25% company tax rate
- Enhanced continuity with appointed directors
- Easier capital raising through share offerings

Disadvantages

- Higher setup and ongoing costs i.e. Annual ASIC and accounting fees
- Extensive paperwork and compliance obligations
- Limited control due to shared ownership

Suits

- Situations where there is risk around the business activity meaning that personal assets should be safeguarded e.g.: providing critical advice or services, leasing a business premises, hiring staff, or buying goods on credit. In such cases, adopting a company structure can safeguard personal assets.
- A company structure is the best in terms of the ability to add business partners down the track. A company structure can provide various tax benefits to high-income earners. It also provides a separation between business and owners and it comes with a certain appearance of prestige.



PARTNERSHIP

About

A partnership involves a group of individuals sharing resources, skills, risks, tax obligations, profits and losses in a business venture. Though not mandatory, having a written partnership agreement is always advisable because all partners generally have a say in the management of the partnership (which can lead to disputes).

Liability

Like Sole Traders (and unlike companies), Partnerships are not separate legal entities. This means that partners are personally liable for the business's debts and obligations, even those incurred by other partners.

Tax

Although a partnership tax return is prepared to declare income and expenses; partners individually pay taxes on their share of business income at their personal tax rates. Partners can also benefit from a 50% capital gains tax discount.

Flexibility

Changes in partnership membership may require forming a new partnership, which can have tax implications. Partnerships are limited to 20 partners.

Suits

This structure is commonly used by family members (and sometimes close friends) in low-risk business ventures. A partnership is essentially a simple way to split profits between parties. A common example that we see regularly is sisters or friends starting a side hustle selling marketing material. In some professions (accounting, law, medicine); you can still be personally liable despite your business structure. For this reason, too, it is common to see these professions set up in a partnership structure.



TRUST

About

A trust is a framework under which a designated trustee (either individuals or a company) conducts business operations for the benefit of other individuals known as beneficiaries. The establishment of a trust involves the creation of a formal trust deed that outlines the operational guidelines for the trust.

Trust Types

Discretionary trusts allow the trustee to decide profit allocation, while unit trusts distribute profits based on units held.

Tax Efficiency & Establishment

Trusts offer tax flexibility though they can only distribute profits, not losses. Setting up and operating a trust can be costly. Trustees must perform annual administrative tasks including the preparation of annual trustee minutes (which we accountants can assist with). Trusts require their own TFN and ABN and each year an income tax return is prepared, declaring what income (if any) is distributed to beneficiaries.

Suits

Trust structures are suitable for various businesses and activities in Australia, offering flexibility in asset and income distribution, tax planning, and estate planning. Family businesses and businesses comfortable with a trustee distributing income may find this structure beneficial. This structure is common in businesses such as property development, family farms, and even high-income professionals such as entertainers, athletes, and artists, who use discretionary trusts to manage their income & assets while minimising tax liabilities. While more complex than the other structures, a Trust setup can offer huge tax advantages if correctly managed. If you're considering this structure, it's definitely best to chat with our team before proceeding in order that we can assess your situation in further detail.



Key considerations

Review each of the below aspects to ensure an informed decision.

- PERSONAL SERVICES INCOME
- NON COMMERCIAL LOSS RULES
- BUSINESS V HOBBY
- GST: WHEN TO REGISTER
- WHAT IS AN ASIC AGENT?
- BUSINESS INSURANCE
- GST FOR BEGINNERS
- COMPANY WAGES
- SOLE TRADER TIPS
- SMALL BIZ DEDUCTIONS
- FINANCIAL STATEMENT USE



SOLE TRADER

To get yourself set up as a sole trader, all you need to do is:

- Register your ABN via the Australian Business Register
- Register for GST (if applicable)*
- Register for wages (PAYG) (if you'll be hiring staff and paying them a wage)
- Register your business name for a fee (via the ASIC website)
- Set up your business bank account**
- Decide on, and set up your bookkeeping system (see below section)



* If you anticipate that you'll generate a turnover of more than \$75K during the financial year (\$150,000 for non-profit organisations), or if you offer taxi or limousine services, irrespective of your income., you should register for GST. You will have the option to do this at the same time as you apply for your ABN if you wish.

** Legally you don't have to set up a business bank account, however, it's a good idea to do so because you'll find it easier to track and control your business income and expenses, keep your business and personal finances separate, and easily obtain the information you require for your accountant to prepare your taxes. All of the main Australian banks currently offer fee-free business bank accounts.

COMPANIES

To set up your business in a company structure, we recommend you:

- Run through any queries with your accountant
- Apply for a Director ID (DIN)
- Register your company with ASIC
- Register your company ABN & TFN
- Register your company for wages (PAYG) and GST if applicable*
- Set up your company bank account (you'll need to supply your ABN
- Decide on, and setup your bookkeeping system**



* If you anticipate that you'll generate a turnover of more than \$75K during the financial year (\$150,000 for non-profit organisations), or if you offer taxi or limousine services, irrespective of your income., you should register for GST. You will have the option to do this at the same time as you apply for your ABN if you wish.

** Starting with online bookkeeping software like Xero from the outset is wise for its time-saving automation, real-time data access, enhanced security, and seamless integration with other business tools. It ensures efficient, accurate, and transparent financial management and simplifies tax compliance.

PARTNERSHIPS

To set up your business in a partnership structure we recommend the following:

- Run through any queries with your accountant
- Register your partnership ABN (& GST) on the ABR website*
- Register your partnership TFN (usually you can do this at the same time)
- Speak to our recommended lawyer to have a partnership agreement drafted
- Set up your partnership bank account (you'll need to supply your ABN)
- Decide on, and set up your bookkeeping system**



* If you anticipate that you'll generate turnover of more than \$75K during the financial year (\$150,000 for non-profit organisations), or if you offer taxi or limousine services, irrespective of your income, you should register for GST. You will have the option to do this at the same time as you apply for your ABN if you wish.

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TRUSTS

To set up your business in a trust structure we recommend the following:

- Chat with your accountant (trust setups can become quite complex)
- Register your trust & create your trust deed and establish your trustee
- Arrange for your trust deed to be stamped
- Apply for your trust ABN (with TFN & GST registration)*
- Set up your trust bank account (you'll need to supply the ABN)
- Decide on, and set up your bookkeeping system**



* If you anticipate that you'll generate turnover of more than \$75K during the financial year (\$150,000 for non-profit organisations), or if you offer taxi or limousine services, irrespective of your income, you should register for GST. You will have the option to do this at the same time as you apply for your ABN if you wish.

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FAQ'S



If my business grows and changes, is it possible to change structures?

As your business expands, it may become necessary to contemplate a different business framework.

Common scenarios where restructuring can prove advantageous for your business include:

- **A sole trader transitioning to a company**, where you possess an ABN as a sole trader and you're seeking to scale your operations or safeguard your assets. (Most common).
- **A sole trader converting into a partnership**, a move typically made when a sole trader decides to bring in a business partner. When this partnership shift occurs, you will need to apply for a new ABN. (Less common).
- **A partnership evolving into a company**, a restructuring decision that can arise when partners identify the advantages of operating as a company. During this restructuring, you'll need to dissolve the existing partnership before establishing the company. (Moderately common).

Business restructures carry implications for your legal, financial, and regulatory responsibilities, potentially impacting your personal liability. It's crucial to seek professional guidance, both legal and financial, to fully comprehend how these changes will affect you.

FAQ'S



What are some other considerations when changing business structures?

Exemptions for small business restructures

If you are a small business proprietor reorganising your structure from sole trader, partnership, or discretionary trust to a company, you may be eligible for a transfer duty exemption.

Transferring your business name

In certain cases, a restructuring process may necessitate the transfer of your business name. You'll need to transfer the name to a new holder under the following circumstances:

When your business is sold

- When you wish to pass on your business name to a family member or friend
- When you are forming a partnership with an existing business
- When one or more of your business partners has departed.

This transfer of your business name can be facilitated through ASIC.

What are some other considerations when changing business structures?

Certainly! If you have the intention of managing two distinct businesses, you can do so by employing different business structures. In fact, many business owners efficiently run multiple businesses, each with its unique structure. For instance, you can work as a freelancer under the sole trader structure while also being a business owner with a registered company structure.

However, if you plan to oversee multiple businesses with similar characteristics, you can register several business names with similar structures under a single Australian Business Name (ABN). To put it simply, you can concurrently operate various business structures under different ABNs. Conversely, if your businesses share similar structures, they can be managed under the same ABN.

FAQ'S



What is the best way to maintain my business bookkeeping?

Opting for online bookkeeping software over manual record-keeping (such as using Excel) offers numerous advantages.

Firstly, software automates repetitive tasks, reducing human errors and saving valuable time. It provides real-time insights into financial data, enabling better decision-making and financial planning. Moreover, it enhances data security and facilitates collaboration by allowing multiple users to work simultaneously from different locations. Softwares such as Xero also simplify tax compliance through automated calculations and reports.

In contrast, manual record-keeping can be time-consuming, error-prone, and lacks the data accessibility, security, and collaboration features that modern businesses need for efficient financial management.

At Freshwater Taxation, we are huge advocates of Xero as the most user-friendly, and advanced bookkeeping software currently on the market. If you'd like our assistance with a free Xero setup (with a one month free trial), don't hesitate to get in touch with our team.

SOLE TRADER

Examples

- Self-employed owners of new small businesses (e.g., trade person, consultant, massage therapist)
- Small franchisee where the start-up business wants to benefit from an established business model and brand (e.g., mowing franchise)
- Independent contractors who have left employment and want the flexibility of conducting business with one or more employers (e.g., an IT professional or tradesperson).
- Freelancers
- Consultants
- Tradespeople
- Hairdressers and beauticians
- Cafes and food trucks
- Personal trainers
- Cleaning services
- Handyman services
- Lawn care and gardening
- Tutors
- Photographers
- Online sellers
- Mobile mechanics
- Event planners
- Home-based businesses
- Artists and crafters
- Courier and delivery services
- Pet services
- Accountants and bookkeepers
- Wedding and event services



COMPANY

Examples

- SMEs (small to medium-sized enterprises): Often choose proprietary limited companies for limited liability and attracting investors.
- Start-ups: Favor company structures for share issuance, investor attraction, and growth framework.
- High-growth businesses: Prefer companies for rapid scalability, equity financing, and mergers/acquisitions.
- Import/export businesses: Opt for corporate structures for cross-border trade and international compliance.
- Technology and innovation firms: Use companies for investor funding, IP protection, and employee share schemes.
- Professional services: Adopt company structures in fields like legal, accounting, consulting, and engineering for liability limits.
- Franchises: Employ companies for brand consistency and intellectual property protection.
- Manufacturing and production: Choose corporate structures for managing complex supply chains.
- Retail businesses: Select companies to separate assets, legal protection, and expansion.
- Real estate and property development: Utilize companies for property management, investments, and attracting investors.
- Mining and resources: Operate as companies to navigate regulatory and financial complexities.
- Agribusiness: Adopt company structures to manage farming operations and investments.
- Social Enterprises: Use companies to combine social missions with commercial activities, attracting investors for social causes.

PARTNERSHIP

Examples

- Legal services: Lawyers in partnerships offer legal expertise.
- Accounting and finance: CPAs collaborate for financial services.
- Healthcare: Medical professionals share resources.
- Design and engineering: Architects and engineers partner for projects.
- Consulting: Experts provide advisory services.
- Real estate: Agents team up for market presence.
- Finance and investment: Planners and advisers join forces.
- Marketing and advertising: Professionals offer marketing solutions.
- Hospitality: Chefs and investors collaborate in restaurants.
- Technology innovation: Tech co-founders create innovations.
- Construction: Firms partner for large projects.
- Retail: Small stores operate with shared ownership.
- Creative arts: Artists collaborate on creative works.
- Agriculture: Farmers combine resources.
- Tourism and travel: Agencies offer travel services together.
- Franchises: Franchisees jointly run multiple locations.
- International trade: Businesses navigate global markets.
- Sustainability: Organizations promote green initiatives.
- Event planning: Planners coordinate various events.
- Education: Institutions expand offerings through partnerships.

TRUST

Examples

- Family trusts: For businesses and asset protection.
- Property investment Trusts: Manage real estate investments.
- Asset protection trusts: Safeguard high-net-worth assets.
- Investment funds: Diversify investments for investors.
- Estate planning trusts: Distribute assets as per will.
- Charitable trusts: Support charities and offer tax benefits.
- Education funds: Manage educational resources.
- Resource trusts: Hold mineral rights and manage mining.
- Holding company trusts: Own shares for protection.
- Professional service trusts: Allocate income among partners.
- Childcare and education trusts: Reinvest income.
- Healthcare trusts: Distribute earnings and add practitioners.
- Not-for-profit trusts: Manage charitable funds.
- Agribusiness trusts: Efficiently manage farms.
- Sports club trusts: Support sports and youth.
- Tech start-up trusts: Manage IP and attract investors.
- Hospitality and tourism trusts: Handle assets in tourism.
- Environmental trusts: Support conservation efforts.
- Arts and culture trusts: Promote arts and manage donations.
- Community housing trusts: Facilitate housing projects.

