



# SOLE TRADER GUIDE



# CONGRATULATIONS!



Congratulations on your new sole trader business!

Starting a new business can be an exciting but also daunting and confusing time with so many aspects to consider and wrap your head around.

**We're here to help.**

Our team is here to make your life easier and prove that setting up a new business and keeping on top of your accounting, tax, and bookkeeping obligations is actually much easier than you'd think.

As such, please find below our handy list of key points that you should ensure you are across as a sole trader business owner.

*Sarah Clayton*

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Here are the 10 most important things that you must know and consider as a new sole trader.

- **You MUST obtain an ABN (Australian business number):** The ONLY place that you should obtain your ABN is from the ABR ([Australian Business Register](https://abr.gov.au)) website. It is free to obtain an ABN, however, be warned there are plenty of websites offering ABN setup services for a fee. As a sole trader, you can only ever have one ABN.
- **You should register a business name:** As a sole trader, you are able to simply link your ABN to your own name (as your trading name) if you wish. Having said this, we always recommend that you register a business name. Your business name identifies you to your customers and allows you to differentiate yourself from your competitors. A business name also helps your customers to make an emotional connection to your business and brand. In order to register a business name, you need to visit the [business.gov.au](https://business.gov.au) website. The cost to register a business name is \$39 for 1 year or \$92 for 3 years. You can link as many business names to your ABN as you like. (i.e. you can run as many business activities under your ABN as you like).
- **You should register a business bank account:** Though this is not legally required, it will certainly make things clearer and easier for your record keeping. We recommend that you set up your business bank account under your registered trading name. You'll be required to provide your ABN when setting up your business bank account.

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- **You should develop a clear, simple, and effective bookkeeping system:** If your business is small and simple with very few transactions, then a manual system of storing receipts and maintaining an excel schedule may well be all that you'll need. In most cases, it is best to be as prepared as possible for your business to take off and have an online bookkeeping system prepared and ready to roll. We always recommend Xero as the most user-friendly and easy-to-understand software for new business owners and we are currently offering Xero setups for no charge. If you would like a free setup, don't hesitate to get in touch with our team. The benefit of an online bookkeeping system is that you are effectively allocating your income and expenses in real time, meaning that you are able to view a snapshot of your business' performance at any given point in time. This is handy in order that you are able to make quick business decisions based on performance, and budget, and also to be able to know how much money to set aside for your various obligations including GST, tax, and Superannuation. The other benefit of an online bookkeeping system is the amount of time you will end up saving overall on tasks such as chasing your debtors (Xero will do this automatically for you) – or filing your receipts (Xero enables this functionality also)
- **As a sole trader, you do not technically pay yourself a wage:** You are free to transfer cash between your business and personal bank accounts as you wish and these transfers are simply recorded within your bookkeeping software as "transfers" (i.e. they are not an income nor an expense). Tax is payable on any net profits that your sole trader business makes during the financial year at your marginal rate of tax. Because you do not technically pay yourself a wage as a sole trader, there is also no legal requirement to pay yourself superannuation. You definitely can pay yourself superannuation if you would like to and we strongly encourage this.

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- **As a sole trader, you and your business are considered one and the same.** What this means is that your business is NOT a separate legal entity to you. You'll have one tax return each year – your personal tax return. Within your tax return, you have a business schedule that lists your business income and expenses, and tax is payable on any net profits. The information within the business schedule in your personal tax return is taken from your books, which is why it is so important to have an effective bookkeeping system. A sole trader is different from an alternative business structure such as a company, trust, or partnership – each of which requires its own separate tax return and from which funds are distributed to you personally in different ways.
- **You cannot generally offset sole trader losses against other taxable income (e.g. employment income) in order to improve your tax outcome.** What you can do, however, is carry forward any business losses to future income years, during which these can be offset against net profits in order to reduce any tax payable in a future year.
- **When your turnover exceeds A\$75K within the financial year (or you expect that it will), you are required to register for GST.** Once registered, you will need to charge an additional 10% to your clients, show this on your invoices and retain this in order to pay the ATO through a business activity statement (BAS) every quarter (most common), or month. If you need to be registered for GST (or you are not sure and wish to check with us), don't hesitate to get in touch. You can claim GST on all of your business expenses that have GST attached. These include items such as fuel, stationery, cost of goods sold (provided these were purchased within Australia), and much more. If you are registered for GST, you do NOT charge it to your overseas customers. The requirement to be registered for GST and thus prepare and lodge BAS is yet another reason why running an online bookkeeping software (such as Xero) can make your life so much easier.

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- **A sole trader is the simplest Australian business structure.** It is cheap and easy to set up and if you use the services of an accountant, you are only paying for one tax return each year (your personal tax return). A sole trader is best when your business activity is simple, risk-free, and small. There are many cases in which a new business owner will begin as a sole trader but eventually change to a company, trust, or partnership structure depending on the situation. There is no one size fits all structure and there are certainly many cases in which beginning as an alternative structure is far better. For more information on the most suitable structure for you, don't hesitate to get in touch with our team.
- **You should engage a skilled accountant and bookkeeper.** It is important that you ensure that the tax specialist you have engaged to assist you is an Australian registered Tax agent. You should also be looking to check that your accountant is registered as a CPA, CA, or IPA. If you're setting up a company, then ideally your accountant should also be a registered ASIC agent. You'll want to ensure that your accountant is well-versed in using all aspects of Xero. (Keep a lookout for the logos showing on the footer of our website). If you don't enjoy bookkeeping, we strongly advise that you make use of a virtual CFO service (like ours!) which will enable you to focus on growing your business while the financial side of your business along with ATO obligations are taken care of. Incorrect bookkeeping over long periods of time can ultimately result in surprise tax and GST bills!

# HANDY LINKS



## **Freshwater Virtual CFO Brochure**

Need help with your bookkeeping?



## **New Client Guide**

Proceed with your tax return request.



## **Sign up to our Newsletter**

Tax updates, due date reminders and more.



## **Follow us on Social Media**

Follow our instagram for tax info, reminders and handy tips.