

GETTING INTO SMALL BUSINESS

What structure is right for you?

Entering into a small business requires careful consideration of a number of factors to determine what structure is right for you. From the type of business, you are operating, to your personal and financial goals, to your succession planning and estate requirements, the right structure is crucial to succeeding in an increasingly complex business environment. With so much to consider, we highlight five of the most common questions and concerns we receive from clients entering into a small business.

1. What is the best structure for tax purposes?

Depending on the business structure, the Australian Taxation Office (ATO) has different rules on how your income is taxed, how you can take your money out of the business and specific rules you need to comply with (refer to below). Tax structuring is a complex area and we recommend a discussion with an adviser to make sure you are getting the right advice.

| | Sole Trader | Company | Trust | Partnership |
|-----------------|---|---|---|---|
| Tax Rate | Your personal tax rate | 27.5% with a decrease to 25% by the 2022 financial year | The personal tax rates of the beneficiaries | The personal tax rate of the partners |
| Paying Yourself | Your business income is your own income | Wages, dividends, drawings | Wages, trust distributions | Wages, partnership distributions |
| Compliance | Less compliance requirements, GST registration if income over \$75k | Separate entity for tax purposes, GST registration if income over \$75k | Separate entity for tax purposes, GST registration if income over \$75k | Separate entity for tax purposes, GST registration if income over \$75k |

2. Do I need to have insurance?

You are required to look into your Public Liability and Professional Indemnity Insurance cover requirements to ensure you have protection against claims for damages or personal injury from third parties to whom you are providing services.


Depending on how you will pay yourself an income and whether the business will employ any others, you may also need to consider Workers Compensation and Income Protection Insurance to make sure your business can stay afloat in the face of unanticipated circumstances.

3. How do I protect my personal assets?

Asset protection is a major factor to consider on deciding your business structure. With structures such as sole traders and partnerships, it is more complex to separate the business assets from those of your own. In contrast, utilising a company structure can afford greater asset protection as it provides clarity on the separate assets of the business from your personal assets. This is particularly important if the business becomes unable to pay its creditors in ensuring your personal assets are not at risk.

4. Should I be using an accounting system?

Aside from ensuring your business is set up using the correct structure, it is also important to consider how you will manage your business day to day, from management of customers and suppliers, invoicing and collecting payments. The right accounting system can make a world of difference in tracking the performance of your business. Many popular accounting systems such as Xero, MYOB and Quickbooks are able to integrate with other systems that make real-time tracking of where your money is coming from, when it's coming in and where it's going, simple to see.



Another benefit of having the right accounting system is providing ease in meeting your reporting requirements i.e. for income tax return purposes and activity statement lodgements. The ATO is becoming increasingly more vigilant, with the introduction of Single Touch Payroll (for business with employees) and proposed changes to penalties for non-compliance directly applied to Directors of companies, making it even more crucial to ensure your business is set up in a way that makes your compliance obligations easy to be met.

5. What about succession planning?

A final consideration is what happens to your business in the event of your death. Sole trader businesses end on the death of the sole trader, whereas companies and family trusts can be factored into your Wills and Estate Planning to be passed onto the nominated beneficiaries of your Estate. If you are looking to grow your business or bring on additional partners, you may also need to consider if your surviving partner/s will take over the business solely on your death or whether an option needs to exist for your ownership to be transferred to a family member.

The establishment and management of the small business are complex and consulting an adviser is always a good place to start. AustAsia Group offers a range of financial, business and investment solutions and can assist you from structural advice, to set up and management of your business.

You can contact our office by email at clientservices@austasiagroup.com on phone (08) 9227 6300 or fax (08) 9227 6400 to set up a free 30-minute consultation to find out how we can help you.

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How can we help you?



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