**Business Structure Template**

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|  | Sole Trader | Company |
| Set up costs | Sole trader business structures have fewer set-up costs. Your costs may include:   * obtaining ab Australian Business Number (free) * registering a business name ($44 for 1 year or $102 for 3 years) * establishing separate business bank accounts (optional) – bank fees may apply. | Companies are more complex business structures and have higher set-up costs. These costs may include:   * obtaining ab Australian Business Number (free) * choosing and reserving a company name. (From $61) * registering a company ($597 for a proprietary limited company) * registering a business name ($44 for 1 year or $102 for 3 years) * establishing separate business bank accounts – bank fees may apply |
| Record keeping | A sole trader is a simple business structure, so it generally has less paperwork.    Business income and expenses go in your individual tax return using a separate business and professional items schedule – you don’t need to lodge a separate tax return for your business.  You need to keep your financial records, including tax returns, for 5 years.  You need to notify government agencies of any business changes within 28 days. | A company generally has more paperwork and potentially higher ongoing costs.  Companies must:   * lodge their own tax returns * keep tax records for at least five years * keep financial records for at least 7 years to comply with the Corporations Act 2001   Your financial records must:   * record and explain transactions and financial position and performance * enable true and fair financial statements to be prepared and audited.   Companies are subject to annual review by the Australian Securities and Investments Commission (ASIC).  You will also need to keep records that show your compliance with your other obligations and legal requirements of companies. These requirements include having:   * a registered officer * a principal place of business * regular company meetings * a written record of meetings and resolutions.   You need to notify government agencies of any business changes within 28 days. |
| Business income | The Australian Taxation Office (ATO) treats the money you earn in your sole trader business as your individual income. This means you are also responsible for any tax your business must pay.  You can claim deductions for costs incurred in running your business.  You can withdraw money from your business bank account | Money the company earns belongs to the company. Even if you own the company (you are a shareholder), the money belongs to the company.  A separate business bank account is mandatory for a company.  As a director, the company may pay you wages or directors’ fees, but you cannot draw money from the company as personal drawings.  If you receive funds from your company, then you must show the funds on your individual tax return. |
| Business debt liability | You are personally liable for financial or tax debts in a sole trader business structure.  There is no division between business assets or personal assets (including your share of joint assets such as houses or cars).  Assets in your name can be used to pay business debts. | The company is generally liable for all business debts. However, your personal assets can also be at risk if you’re a director of a company and the company can’t pay its debts.  As a director you are personally liable for pay as you go (PAYG) withholding and superannuation debts. Even when you cease as a director, you are liable for the period you were a director.  A company can own property or assets, and these belong to the company – not the directors nor the shareholders. The company may sell these assets to help pay its debts. |
| Control of business | In a sole trader structure, you will have full control over your business. This also means that you are personally liable and responsible for all aspects of running the business. | In a company structure, if you are the only director, you will have full control over your business, but certain decisions must still be recorded as resolutions of the company.  If there is more than one director, you will not have full control. All directors govern the internal management of the company and in line with certain rules, such as the company’s constitution or the replaceable rules.   * The most important obligations for directors include the duty to: * act in good faith * act in the best interests of the company exercise care and diligence * prevent the company trading while insolvent * report to and help the liquidator on the affairs of the company if the company is closing. |
| Employing people | Sole traders can employ staff. You will need to:   * provide workers’ compensation insurance * understand your tax and superannuation obligations * understand your employees’ entitlements. | Companies can employ staff. You will need to:   * provide workers’ compensation insurance understand your tax and superannuation obligations * understand your employees’ entitlements. * directors have a legal responsibility to ensure the company meets its pay as you go (PAYG) withholding and superannuation guarantee charge obligations. |
| Closing your business | You need to cancel your ABN and cancel your business name within 28 days of ceasing trading. | Closing a company is more complex than just ceasing trading.  A company needs to be formally deregistered so that it ceases to exist as a legal entity. |