



## **ISSUES & ANSWERS**

### **FINANCIAL STRUCTURES**

Business is conducted in one of four structures:

1. Sole Trader
2. Partnership
3. Company
4. Trust

#### **1. Sole Trader**

This is the simplest structure. It refers to an individual operating a business.

The individual is personally liable for any debts incurred.

Personal assets are at risk to creditors.

All Profit belongs to the Sole Trader.

#### **2. Partnership**

Two or more individuals carry on a business together with a predetermined allocation of profits and losses.

Each partner is personally responsible for all debt incurred by the partnership.

Each partner receives Profit or Loss and records the distribution in their individual tax return.

#### **3. Company**

A company is a legal entity owned by either one (1) or more shareholders. The directors (at least one) are responsible for the conduct of the company.

Generally the company is liable for debts, but at times the directors can be held responsible.

A company pays taxation on every dollar of profit at 30%. Dividends are paid to shareholders from profits earned. The dividends usually are Franked to 30% (see number 8 in the series)

A company costs approximately \$1,860 to establish with several registrations.

#### **4. Trust**

A trustee is responsible to operate a Trust for the benefit of beneficiaries according to the terms of a Trust Deed. A Trust can be a Unit Trust or a Discretionary Trust. Profits are distributed according to the number of Units issued in a Unit Trust and at the discretion of the Trustee in a Discretionary Trust.

A Trustee can be either an individual, individuals or a company. The Trustee is liable for all debts incurred.

The use of a Trust provides great flexibility for family tax planning.

A Trust costs approximately \$2,050 to establish with several registrations.