



Monthly Information Newsletter – Tax & Super

July 2023

Time for a restructure?

The new financial year can be a time where business owners look at their operating structure and consider whether it still meets their needs. Choosing a structure is not simply about minimising tax, rather a range of factors should be considered as such as asset protection, establishment and ongoing compliance costs, succession planning, and your understanding of each structure etc.

Most small businesses operate as a sole trader, company, trust, or partnership. The following table is a comparative snapshot of each of the four structures:

Factors to Consider	Sole trader	Company	Trust	Partnership
Cheap to set up and administer?	Yes	No	No	Yes
Limited record keeping and reporting?	Yes	No	No	Yes
Minimal legal requirements?	Yes	No	No	Yes
Protection from personal liability?	No	Yes	Yes	No
Profits are added to your personal income?	Yes	No*	No*	Yes
Easy to understand?	Yes	No	No	Yes
Ability to admit business partners/successional-planning friendly?	No	Yes	No	Yes
CGT friendly?	Yes	No	Yes	Yes

**subject to the Personal Services Income (PSI) rules*

You may find that, as your business grows or as your priorities change, your chosen structure no longer serves your needs. For example, a number of people commence businesses as sole traders (often for reasons of simplicity as well as keeping start-up costs to a minimum) but later find that this structure is no longer appropriate. From an income tax perspective, a drawback with sole traders is that income from the business is assessed personally to you at your marginal tax rates. As your business grows and the revenue generated increases, your tax rate also increases.

The take-home message is that you should periodically review your structure to ensure it continues to serve your needs. Be mindful however that changing structures can have CGT and stamp duty consequences – these one-off costs need to be taken into account when making the decision whether to change. Also note that under the small business rollover provisions, it may be possible for you to change your structure without incurring CGT.

Talk to us if you are contemplating changing your business operating structure.

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