

Tax Structures Comparison

Advantages

1. **Inexpensive to establish and run**
2. Easy to understand
3. Business losses can be offset against other income, subject to certain tests

Advantages

1. Inexpensive to establish and run
2. Easy to understand
3. **Profit distribution between partners can be flexible (subject to PSI rules)**

Advantages

1. Personal assets of shareholders protected, except where suppliers/banks are given personal guarantees
2. Can employ owners and salary package
3. Undistributed profits taxed at 30%
4. Dividends distributed with tax imputation credits
5. **Can have different Classes of Shares for distribution to different shareholders.**
6. Restrictions apply on "Loans" from the company to directors/shareholders

Advantages

1. Asset protection
2. **Less regulation than a company**
3. Trust can employ principals and salary packaging and superannuation

Advantages

1. **Ultimate asset protection when corporate trustee, with both trust and principals are protected from each other's creditors**
2. Can save on super & workers comp insurance by keeping principal's wages down
3. Flexible profit distribution options, no need to justify wages paid to spouse or children (see PSI below)
4. Tax free distributions can be made (eg church tithes made from pre-tax income)
5. Profits distributed to children with low income can save substantial tax – over 18years no restrictions, under 18 maximum \$3,333 (2011 year)

Index

- PSI Personal Services Income - if 80% or more of business income earned is from one business entity (and associates) and is primarily from one individuals work (and the business has little value in equipment etc), there are restrictions on income splitting. If this applies then it is applicable to partnerships, companies and trusts.
- CGT Capital Gains Tax – increase in sale price of assets over their purchase price, which in certain circumstances can be discounted to reduce income tax liability.

Sole Trader

Disadvantages

1. **No asset protection for personal assets**
2. **No income splitting**
3. Cannot refinance working capital to take capital out of the business
4. May be tax implications upon divorce or death
5. Tax implications if a partner is admitted

Partnership

Disadvantages

1. **Partners jointly and severally liable**
2. Basically no asset protection
3. PSI rules may attribute all income to one
4. Income assessed at personal tax rates
5. Complex PAYG instalment calculations

Company

Disadvantages

1. Complex to administer, activities & administration are regulated
2. Losses are trapped in the company
3. Establishment costs upfront (\$2,200)
4. Costly to run due to legislation
5. **Cannot pass tax-free (CGT discount) amounts to shareholders without liquidating the company.**
6. Need to Pay Workers Comp and Super on Directors Wages

Unit Trust

Disadvantages

1. **Complex trust loss rules**
2. Losses are trapped in the Trust
3. Establishment costs upfront (\$3,300 plus \$510 stamp duty)

Discretionary Trust

Disadvantages

1. Establishment costs upfront (\$3,300 plus \$510 stamp duty)
2. Losses are trapped in the Trust
3. Stamp Duty implications for changes to beneficiaries
4. Land Tax payable at top rate from first dollar
5. **Very difficult to satisfy CGT rollover exemptions on retirement due to \$6m assets of all possible relationships**