

Business structures - Business basics

There are four main types of business structure commonly used by small business in Australia:

- sole trader
- partnership
- trust
- company.

The main features of these structures, including how each is assessed for income tax, are described in the following table:

Features of different business structures

Structure	Features	Tax rate
Sole trader	<p>A sole trader is a person who is trading on their own.</p> <p>That person controls and manages the business. The income of the business is treated as the person's individual income, and they are solely responsible for any tax payable by the business.</p> <p>A sole trader needs to apply for an Australian Business Number (ABN) and use this number for their business dealings.</p> <p>A sole trader uses their individual tax file number when they lodge their income tax return.</p>	<p>The income tax rate for individuals applies (that is, the person's marginal rate of tax according to the level of their income).</p>
Partnership	<p>For tax purposes a partnership is an association of people who carry on business as partners or receive income jointly.</p> <p>Partners contribute their time, talents and money towards the business and in return share in both the profits and responsibilities of the business.</p> <p>Partners need to apply for an ABN for the partnership and use this number for the partnership's business dealings.</p> <p>A partnership needs its own tax file number. This can be applied for on the ABN application form. The partnership's tax file number is used when it lodges its annual income tax return.</p>	<p>The partner's share of the partnership's net income is taxable. If a partner is a person the individual rates of tax apply and all earnings derived from the partnership must be declared on their individual tax return.</p>
Trust	<p>A trust is an obligation imposed on a person (or company) to hold property or income for the benefit of others (who are known as 'beneficiaries').</p> <p>The trust's tax file number is used when the annual income tax return for the trust is lodged. The entity that is trustee will need to register for an Australian Business Number in its capacity as trustee of the trust, and use this number for the trust's business dealings.</p>	<p>The net income of the trust is generally taxed in the hands of the beneficiaries to whom it is distributed. If the beneficiary is a person, individual rates of tax apply.</p>

<p>Company</p>	<p>A body or association, incorporated or unincorporated, that does not include any partnerships. A company is a legal entity separate from its shareholders.</p> <p>A company needs to apply for an ABN and use this number for business dealings.</p> <p>A company needs its own tax file number which is used when it lodges it's annual income tax return.</p> <p>Companies are regulated by the Australian Securities and Investments Commission.</p>	<p>The company's net taxable income (that is, its total income less business expenses such as wages and stock) is taxed at 30 per cent in the 2001-02 financial year.. There is no income tax free threshold with company tax.</p>
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[Bron: Australian Taxation Office 2002]