

- ◆ A corporation can deduct cost of benefits provided to employers or owners\*.

## Things to Consider

- ◆ Complex to set up and maintain.
- ◆ Difficult to dissolve.
- ◆ Span of control is greatly reduced or limited. Shareholders have little say in the running of the business.
- ◆ Stricter rules for operations than partnerships.
- ◆ The tax reporting requirements for corporations are far greater than for sole traders and partnerships.

The Corporation must submit an annual tax return to report its income and deductions, and the income tax it is liable to pay. Taxes are payable on net profit at a rate of 30%.

## Reporting and Paying Income Tax

The Company must submit an annual tax return to report its income and deductions, and the income tax it is liable to pay. Taxes are payable on net profit at a rate of 30%.

If wages or director's fees are received from the company, you are required to:

- ◆ Include this income in your individual tax return.
- ◆ Pay taxes at the individual tax rate i.e. 30% on the income in excess of \$60,000 per annum.

**Please refer to the following brochures for further information**

- Am I an Entrepreneur?
- Looking for an Idea? Here's How to Find One
- Think You have a Business Idea? What's Next?
- From Idea to Planning. Developing Your Business Plan
- Presenting a Winning Business Plan
- What is in a Name? Choosing the Right Business Name
- Location, Location, Location. It's All About the Location
- Jane, Jim or Jack? Who is The Right Employee for You?
- Record Keeping Basics

## LIMITED LIABILITY COMPANY

A form of business where the business entity is considered separate from its owners, who are usually referred to as members/partners.

## Advantages

- ◆ The owners can only lose the amount invested in the company.
- ◆ The formal structure may attract investors.
- ◆ Partners can divide profits not proportional to their investment in the company.

## Things to Consider

- ◆ Similar to a partnership, a member/partner has the authority to bind the partnership to a contract.

SHOULD I DO THIS ON MY OWN?

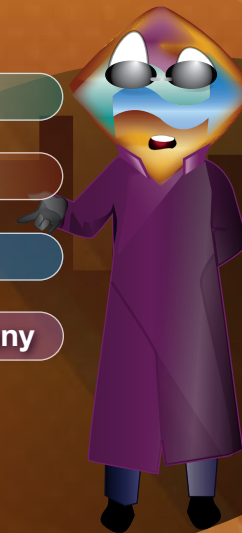
# Choosing the Right Business Structure

Sole Proprietorship

Partnership

Corporation

Limited Liability Company



**T**here are real advantages in choosing a structure best suited to the way you want to operate your business, and it is important for you to understand these advantages and responsibilities as they may affect: the way tax applies to your business, protection of your assets, your operating costs and how other businesses establish relationships with you.

## SOLE PROPRIETORSHIP

This form of business is owned and operated by **YOU**. You will be solely responsible for the management of employees, operations and all aspects of the business.

### Advantages

- ◆ Very few legal and tax formalities for setting up.
- ◆ Structure is inexpensive to set up.
- ◆ You maintain full control of the business.
- ◆ You receive the full benefits of profits made by the business.
- ◆ Requires little working capital.

### Things to Consider

- ◆ Access to finances is usually limited to your own resources; difficulties in raising capital may be experienced.
- ◆ All responsibilities and decisions fall on the shoulders of the sole proprietor.
- ◆ You are required to do all the work, if no employees are hired.
- ◆ You are legally responsible for the debts and obligations of the business. These cannot be shared.

- ◆ Increased likelihood of loss of private assets such as your home, contents and vehicles if the business goes into debt.

### Reporting and Paying Income Tax

As a sole proprietor, you pay personal income tax on earnings. You are entitled to the tax-free threshold (the first \$60,000 earned in an income year) after which 30% becomes payable on the excess.

## PARTNERSHIP

A partnership is usually formed with two or more people sharing the ownership and income of a single business.

### Advantages

- ◆ Inexpensive set-up cost.
- ◆ Greater access to finances from the resources of all partners.
- ◆ The ability to raise funds may increase.
- ◆ There are more persons to share the workload.
- ◆ The business may benefit from the complementary skills of partners.
- ◆ Losses and legal responsibilities are shared.
- ◆ This structure can be legally dissolved by mutual consent of the partners, or in accordance with an established contract.

### Things to Consider

- ◆ Profits must be shared among all partners.
- ◆ Since decisions are shared, disagreements can occur.
- ◆ Each partner is equally responsible for the debts of the partnership.

- ◆ Difficulties may be experienced in finding a suitable partner(s).
- ◆ The partnership may have a limited life i.e may dissolve on the withdrawal or death of a partner.
- ◆ Loss of private assets such as your home, contents and vehicles to settle debts of the partnership can occur.

### Reporting and Paying Income Tax

As a partner, you are required to pay tax on your share of the partnership income (less expenses) earned. You are entitled to the tax-free threshold (the first \$60,000 earned in an income year), after which 30% becomes payable on the excess. Under a partnership, each partner is personally liable for the tax debts of the partnership.

## CORPORATION

A corporation is defined as a legal entity or structure consisting of a group of persons who become shareholders.

### Advantages

- ◆ Owner's liability is limited to the investment made.
- ◆ Easier access to capital.
- ◆ Increased ability to attract investors.
- ◆ Corporate Tax is paid only on profits.
- ◆ Shareholders are not liable for the debts of the business.
- ◆ Increased asset protection.