

WHY YOUR STRUCTURE IS IMPORTANT - GET IT WRONG AT YOUR PERIL

Deciding what structure is best for your business can get complex but this simple example highlights the two primary reasons you need to get it right.

The most important thing to consider is risk. Every business carries with it a level of risk, some of it can be insured but insurance does not always cover every single possibility. Let me give you an (extreme) example to demonstrate our point:

Bob operates a photography business. Low risk, right? While taking a photo of a \$300,000 Ferrari he accidentally left the brake off. Although his shots of the car rolling off the cliff went viral, the owner was less than impressed and sued Bob's business. As a result Bob's business was ordered to pay \$300,000 in damages.

How Would Structure Affect This Outcome?

Sole Trader: All Bob's expensive business equipment is sold and Bob has to sell his house to meet the claim. His family are forced to move into rented accommodation and Bob can no longer run his business.

Company: Bob is forced to pay his \$100 in unpaid share capital to his company. The company bank accounts containing \$1,000 are closed to pay the business debt. The company has no other assets. The company is liquidated and the matter is at an end.

The Bonus Outcomes for Bob:

Bob owns his own camera gear personally so gets to keep it and can continue trading his business tomorrow under a new company.


As an employee of the company Bob is not personally liable for his error so his family stays in their lovely family home.

This is a fictitious scenario and is very much simplified but the outcome is clear: the right structure can save you a lot of time and grief.

The second consideration is tax. Here is a simplified example to show the different tax outcomes for three common business structures earning \$80,000.

	Sole Trader	Company	Trust
Taxable Income	\$80,000	\$80,000	\$80,000
Tax Payable	\$ 17,547	\$24,000	\$ 8,824
Effective Tax Rate	22%	30%	11%
Income Streaming Flexibility	None	Some	Complete

We have made a few assumptions above but the outcome is clear: the right structure can save thousands of dollars in tax.

We know it is never this simple but the critical message is clear - get your structure right when you establish your business and you can maximise your outcomes. 



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