

# Sole Trader

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## What is a Sole Trader?

An individual who wishes to go into business can simply trade under their own name.

### Advantages

- Lowest setup cost of all business structures.
- Simplest of all business structures.
- Less government regulation compared to a Company.
- The proprietor has total control of the business and its' assets.
- Business schedule forms part of the individual income tax return, so no need for a separate tax return, TFN, etc.
- 50% General Capital Gains Tax concession available to business owner.
- The Proprietor is not (and cannot be) an employee. So no compulsory workers' compensation insurance or superannuation payments are required to be paid on any profits made or drawings taken.
- Tax losses made by the business may be able to be used to offset set income tax payable on assessable income from other sources.
- No Fringe Benefits Tax on non-cash benefits provided by the business to the proprietor.
- Small business income is eligible for a tax discount worth up to \$1000/annum from FY 2016 under the small business tax offset.

### Disadvantages

- No legal separation between the business and its' owner – No Asset Protection.
- Any business names must be registered with ASIC (currently \$38/annum).
- The Proprietor is assessed on the entire profit of the business whether it is drawn out by them or not.
- Proprietor may find that due to uncertainty around the responsibility for paying superannuation guarantee or workers compensation insurance, principal contractors may be unwilling to deal with your business.
- The Proprietor is liable for the debts of the business. This means that creditors can make claims on non-business assets owned by the proprietor (eg, the family home.)
- The Proprietor gets taxed on the entire profit of the business at their individual tax rates.
- Suffers from lack of continual succession. If the Proprietor dies the business effectively ceases in most cases.

## **Compliance Requirements.**

- ABN registration.
- GST registration (if applicable).
- BAS – monthly or quarterly (if applicable)
- Income Tax Return – Yearly
- Fringe Benefits Tax Return – Yearly (if applicable)
- Financial Statements

## **General Comments**

Generally this type of structure is suited for someone with little or no assets and is starting out in business with little or no turnover.

Whilst a sole trader can commence business with just an ABN application, a trading name must be registered with the relevant body in each state that the business intends to operate in using that name.

The income tax on business profits is either paid at the end of the year after lodgement of individual income tax return. The Australian Taxation Office may require the Proprietor to make quarterly instalments towards their expected annual income tax bill via an Instalment Activity Statement (IAS).

Despite compulsory superannuation and workers compensation insurance being listed as advantages of this structure these are not necessarily good things. Proprietors need to be aware that failure to voluntarily make superannuation contributions while operating their business in lieu of superannuation guarantee payments will have a detrimental impact on their retirement income.

Likewise, Austax recommends that the Proprietor consider taking out some form of sickness & accident or income protection insurance policy. As public liability and/or other forms of indemnity insurance are also recommended for this business structure, we strongly recommend clients seek the services of an insurance broker to discuss their insurance requirements before the commencement of business.

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