

A CRUCIAL GUIDE

Essentials for setting up a successful business





INTRODUCTION

As a new business owner, you might find yourself feeling overwhelmed with the plethora of tasks that are required to keep your company running smoothly.

You don't need to spend all day long on this menial work when there's so much more potential ahead for what can be accomplished by focusing efforts in creative ways!

The truth is most people never get past their initial excitement about starting up and then end up stuck doing mundane things like bookkeeping or paying taxes without any enjoyment whatsoever because it becomes too difficult after a while due to the long process

The intention of this e-book is to provide you with a summary of the key tax, financial and administrative topics that every small business owner should be aware of to get started on the right foot.

The information in here isn't specific for your situation but it will help you when talking about these issues with an accountant or adviser because I hope we can all learn from each other's experiences!

Therefore, if you're ready to start down the road to entrepreneurship, read on!

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STRUCTURE OF A BUSINESS

One of the first decisions that must be made when starting a business is what structure the business will operate under.

Ultimately, the decision of which business structure to choose depends on a variety of factors, including the size and scope of the business, the level of risk involved, and the personal preferences of the owners.

Each has its own advantages and disadvantages, so it's important to understand the implications of each before making a decision.

The most common structures are:

- ▶ [Sole Trader](#)
- ▶ [Partnership](#)
- ▶ [Company](#)
- ▶ [Trust](#)



Sole Trader:

This type of business is owned and operated by a single individual. It is the simplest form of business structure. There are no restrictions on who can be a sole trader, meaning that anyone with an entrepreneurial spirit can take the plunge into self-employment.

Although, there are many benefits of this business structure, there are some downsides too. Let's get in details of both.

Advantages:

- No government paperwork or licenses required
- Complete flexibility and control over the business
- Low setup and maintenance costs
- Less expensive than other business structures
- Freedom of decision-making
- Run your business the way you want to
- Keep all the profits from your business after deducting tax

Disadvantages:

- Unlimited liability of the owner; personally liable for all debts
- No asset protection; personal assets at risk
- No potential for income splitting for tax advantage
- All profit taxed at individual marginal tax rate (up to 47%)
- Difficult to raise fundings
- Greater risk

If you're thinking of setting up your own business, it's important to weigh up the pros and cons of being a sole trader before making a decision.





Partnership:

A partnership is a business structure in which two or more people share ownership of the company. Partnerships can take many different forms, but all involve some form of joint ownership and management of the business.

They allow multiple people to share the risk and rewards of business ownership, and they can provide a way to pool resources and expertise.

There are many different benefits of this structure which includes:

- Easy to set up and less expensive
- Easy to dissolve
- Ability to split income
- Shared decision making and risk management
- Flexibility in sharing profits
- Increased capital base due to pooled resources
- Shared workload

However, there are also certain disadvantages associated to this structure:

- Conflict of opinion
- Potential disagreement in decision making
- Lack of consensus
- Personal liability of partners for business obligations
- Each partner jointly and severally liable for business debts

A partnership agreement should be prepared to ensure that all the legal aspects involved in this new business venture are taken care of.

- Rights and obligations of each partner
- Profit and loss sharing ratio
- Financial contributions of each partner
- Dispute resolution process
- Dissolution of partnership

Partnership can be a successful business structure, but it is important to be aware of the potential pitfalls before forming a partnership. Make an informed decision!

Company:

A company is a business structure whereby a group of individuals come together to form a legal entity separate from its owners. This legal entity then has the ability to enter into contracts, own property, and engage in other activities as a separate entity.

A company can be either privately owned or publicly traded.

The company profit is taxed at the company rate of 30%. However, if any company meets the ATO's criteria for "base rate entity", they are taxed at a lower rate of 25% for FY 2022.

A company is a base rate entity for an income year if:

- the company's aggregated turnover for that income year is less than the aggregated turnover threshold for that income year, and
- it has 80% or less of their assessable income in that income year that is base rate entity passive income – this replaces the requirement to be carrying on a business from the 2017–18 income year onwards.

For more details on this, click here [Changes to company tax rates | Australian Taxation Office \(ato.gov.au\)](#).

The company has the option either to distribute the profits to shareholders as dividends or retain the profit in the company for future.

In case a company makes a loss, it can be carried forward and offset against profits made in future years.

In order to legally operate in Australia, a company must file an annual tax return and prepare financial statements (profit/loss statement and balance sheet).

Advantages of forming a company:

- Profits taxed at lower rates than other business structures
- Limited liability
- Greater Asset protection
- Perpetual succession
- Concessional rate of tax
- Ability to distribute company profits through franked dividends
- Increased scope to raise capital through shares
- More credible due to legal framework





Some major disadvantages:

- Increased paperwork and compliance requirements
- Additional reporting regulations
- High set up and maintenance cost
- Dilution of ownership
- Decision making slow and difficult due to complex structure

Overall, however, the advantages of forming a company usually outweigh the disadvantages for businesses that are looking for long-term success.



Trust:

When the legal ownership of an asset is separated from the beneficial or real ownership of that asset, a trust is formed. It is governed by state legislation.

Trusts can be useful for a variety of purposes, including managing assets, protecting property from creditors, and reducing tax liability. By placing assets in a trust, you can protect them from creditors and lawsuits.

Trusts can also help you to manage your taxes more efficiently, as income from trust assets can be distributed to the beneficiaries with lower tax brackets.

A trust cannot function on its own. It requires one or more trustees (either individual or corporate entity) to run its business and manage finances legally.

In order to create a trust, one must draw up and sign an original document called "the Trust Deed." This contains all rules regarding distribution of income or who beneficiaries are.

In Australia there are two most popular type of trusts:

- Discretionary trust - The trustee has the flexibility and authority to change the proportions of income and capital distributions that are distributed to beneficiaries and determine who receives money, when they receive, and how much.
- Unit trust - The trust property's beneficial ownership is split into several fixed units. The number and/or classes of units held determine the distribution of income from a unit trust.

The trustee will normally distribute income to beneficiaries if the trust has net distributable income. The beneficiaries will file their own individual income tax returns. Generally, beneficiaries are taxed on their respective shares of the net trust income.

Any tax loss incurred by a trust must be carried forward and used to lower future trust income.





Some advantages of creating a trust:

- Tax advantage/minimization
- Asset protection
- Flexibility
- Ability to distribute income
- Tax planning tool

Disadvantages could be:

- Comparatively high startup and maintenance cost
- Additional reporting requirements
- Increased paperwork and legal obligations

A trust needs to prepare tax returns and financial statements (profit and loss statement, balance sheet etc) every year.



Mandatory registrations

When you start your new business, it's important to think about the relevant registrations with Australian Taxation Office (ATO), ASIC and state Revenue office in each state.

At CleanSlate, we understand that these registrations could be time-consuming for you. Feel free to contact us for any of the below:

Australian Business Number (ABN):

If you're starting a business in Australia, one of the first things you'll need to do is register for an Australian Business Number (ABN). This is a unique 11-digit number that identifies your business to the government and allows you to transact with other businesses.

You can apply for an ABN online through the [Australian Business Register](#) website. The process is straightforward, free of cost and takes just a few minutes. You can then start using your ABN to transact with businesses and the government.

Tax File Number (TFN):

A Tax File Number (TFN) is a unique nine-digit number issued by the Australian Taxation Office. It is used to identify taxpayers and ensure that they pay the correct amount of tax.

TFN registration is compulsory for all Australian taxpayers. If you don't have a TFN, you will be taxed at the highest rate and may also be charged a penalty.

You can apply for a TFN online, by phone, or in person at a designated tax office. When applying for a TFN, you will need to provide proof of identity, such as your passport or driver's license.

[Apply for a TFN | Australian Taxation Office \(ato.gov.au\)](#)

Once you have been issued with a TFN, you should keep it safe and secure as it is an important piece of personal identification.

Goods & Service Tax (GST):

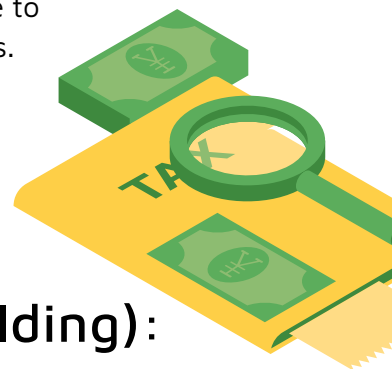
Australian businesses with a GST turnover of \$75,000 or more must register for GST. Businesses registered for GST will charge 10% GST on most of the goods and services they provide in Australia. They will also claim GST credits for the GST included in the price of business purchases.



After charging GST on a sale and paying GST on purchases, the business pays the difference (net GST) to the ATO.

If your business has a GST turnover below \$75,000, you can voluntarily choose to register for GST. If you are not registered for GST, you cannot claim GST credits.

[Registering for GST | Australian Taxation Office \(ato.gov.au\)](https://ato.gov.au/Registration-for-GST)



Pay as you go withholding (PAYG withholding):

PAYG withholding is a system designed to streamline the process of withholding PAYG from employee wages. It allows businesses to register with the ATO and set up PAYG withholding schedules online.

This means that businesses can automatically withhold PAYG from employee wages, and employees can see how much PAYG has been withheld from their pay packets.

PAYG withholding is a voluntary system, but many businesses choose to register for it because it makes PAYG withholding more efficient and less time-consuming.

If you're thinking about PAYG withholding registration for your business, you can find more information on the ATO website. [Pay as you go withholding | Australian Taxation Office \(ato.gov.au\)](https://ato.gov.au/Pay-as-you-go-withholding)

Fringe Benefit Tax (FBT):

FBT is a tax that is levied on certain benefits that an employer provides to their employees. These benefits can include things like cars for personal use, accommodation, loan to employees, and health insurance etc.

The FBT year runs from 1 April to 31 March. Employers must register for FBT if they provide taxable fringe benefits to their employees or other service providers. FBT is payable at a rate of 47% on the taxable value of the fringe benefit.

FBT is a self-assessing tax, which means that employers are responsible for calculating and reporting their own FBT liability. The ATO may review an employer's FBT return and may adjust the amount of tax payable. If an employer does not comply with their obligations, they may be liable for penalties.

[Registering for FBT | Australian Taxation Office \(ato.gov.au\)](https://ato.gov.au/Registration-for-FBT)



Payroll Tax:

Every business in Australia that pays salaries, wages, commissions or bonuses to employees must register for payroll tax. Payroll tax is a state tax, which means that each state has different rates and thresholds.

Businesses can register for payroll tax online through [Register for payroll tax | Revenue NSW website.](#)

Once registered, businesses will need to lodge regular returns and make payments to the ATO. Failure to comply with payroll tax obligations can result in significant penalties.

In NSW, a business must register for this within 7 days after the end of the month in which they commence paying wages at \$23,013 per week.

From 1 July 2022, the payroll tax rate in New South Wales will increase from 4.85% to 5.45% of the wage amount above the annual threshold of \$1.2m.

Registering a business name:

In Australia, registering a business name is a simple and straightforward process. You can do it online through the Australian Securities and Investments Commission (ASIC) website.

The whole process takes less than an hour, and you'll need to provide your contact details, business address and ABN.

Once your application is approved, your business name will be listed on the ASIC Register. This will give you legal protection against others using your business name without your consent.

[Registering a business name | ASIC - Australian Securities and Investments Commission](#)



Tax implications of employing staff

Wages:

If you are running your own business, there is a need and desire for employees who can assist with running and managing day-to-day operations of the business.

Sole Traders and Partnerships pay wages to their employees while companies and trust pay wages to the directors and beneficiaries.

The ATO requires businesses to withholding tax on the gross payments made to their staff. The amounts are determined by them and depends upon the amount and frequency of payments.

To help the Australian Tax Office keep track of the employees, you should ask them for certain information when someone starts employment with you. This includes details like tax file number and date of birth, etc. so that everything is recorded correctly in both systems!

The ATO is making a major shift to single-touch payroll (STP) in the past few years.

STP or Single Touch Payroll is a new way of reporting tax and super information to the ATO. Under STP, your employer will send your tax and super information to the ATO each time you get paid. This will usually happen through your payroll software.

This means that you, as an employer, will no longer need to provide a separate end-of-year report.

You don't need to do anything differently - STP will happen automatically through your payroll processes. If you have any questions about STP, visit [Single Touch Payroll | Australian Taxation Office \(ato.gov.au\)](https://www.ato.gov.au/Single-Touch-Payroll/).

Superannuation is a retirement savings plan that is compulsory for most employees in Australia. Superannuation guarantee contributions are deducted from your salary and paid into your super fund, where they are invested to provide you with an income in retirement.

There are many different types of super funds for employees to choose from. The employers are required to make contributions on behalf of their employees in the chosen super fund.

The rate of superannuation is 10% of the employees' gross wages.

Get your superannuation filed easily at [cleanslate](https://cleanslate.com.au/)



Salary sacrificing:

Salary sacrificing is an arrangement where an employee agrees to forego a portion of their salary in order to receive benefits of a similar value.

Salary packaging is a popular way to maximize your salary and minimize your tax burden in Australia.

There are three types of benefits commonly provided in salary sacrifice arrangements:

- **Fringe Benefits:**

Fringe benefits tax (FBT) is an employers responsibility to pay on the deemed taxable value of their employee's fringe benefit packages.

This may include car for personal use, loans to employees, gym memberships, etc.

A separate return needs prepare for each year that runs from 1 April to 31 March. The rate of FBT is 47%

- **Exempt benefits:**

Certain benefits are exempt from FBT which includes:

- Work related benefits such as computers, software, mobile, laptop, protective clothing and tools provide to employees.
- Minor and infrequent benefits costing less than \$300
- Car parking benefits provided by small businesses having annual turnover of less than \$50m

- **Superannuation:**

Superannuation is a long-term savings plan designed to help Australians save for their retirement. One way to boost your superannuation savings is to salary sacrifice into your super fund.

Salary sacrificing is an arrangement where you agree to forgo part of your pre-tax salary in exchange for making additional contributions to your super fund.

The main advantage of salary sacrificing is that it can help you boost your retirement savings while reducing your overall tax bill.

Employees can now contribute more than the compulsory 10% guarantee. This extra amount goes into a superannuation fund and is taxed at no cost. The maximum concessional contribution cap is \$27,500.

Your tax obligations

To avoid a stressful situation, it is important for businesses to keep enough cash on hand so they can pay their taxes when due.

At the end of each month (or at least every quarter), you should review with your accountant or adviser how much money will be left over after paying bills and wages in order that there are sufficient funds available to cover tax obligations such as GST payments, Pay-as You Go withholding responsibility.



GST:

The ATO will receive 1/11th of your business's income, so it is important to claim all the GST you've paid on purchases and expenses. This way you can reduce what remains due at tax time!

[For a quick GST calculation, see our easy-to-use calculator now. Link to GST calculator.](#)

PAYGW:

When you employ staff members, the net wages will be paid to them weekly or fortnightly. The law requires that this money is tax-free and must go straight into their hands after being electronically transferred from your account as an employer.

Income tax:

The ATO requires you to pay taxes on your business profits made in a year. You will need to be aware of your potential annual tax liability when running a business.

You should ensure that there's cash left aside for this to avoid any unwanted surprises when you lodge your business' income tax return.

The Australian Tax Office (ATO) will require you to pay tax in quarterly instalments once your first income return is lodged. The ATO assesses the business's profit for that financial year and then requests payments of taxes accordingly, based on its estimated liability from last year's return.

For example, suppose your business has a taxable profit of \$150,000 for the year ended 30 June 2022. The tax payable will be \$37,500. For the FY 2023, the ATO will assume that the business will have a similar profit in that year and request prepayment of tax in four quarterly instalments of \$9,375 per quarter.

ATO Activity statements

There are three types of activity statements that businesses can lodge on a monthly, quarterly, or annual basis.

BAS:

The Business Activity Statement (BAS) is a report that businesses in Australia must lodge with the Australian Taxation Office (ATO) on a regular basis, either monthly or quarterly.

The BAS provides information on a businesses' GST liability, PAYG instalments and other taxes.

Lodging a BAS is compulsory for businesses that are registered for GST, and failure to do so can result in significant penalties.

Businesses can lodge their BAS online, through a registered tax agent. The BAS can be a complex document, so it is important to seek professional advice if you are unsure of how to complete it.

[CleanSlate](#) can sort this for you!

IAS:

Installment activity statements are only required for businesses that do not have to register GST but pay wages.

They must report any withholding taxes on these payments. They can also include amounts from future tax instalments, if any.

Pay as you go instalment notices:

The government has announced that Pay as you go instalment notices will only apply to businesses that are not registered for GST and pay no wages but require tax payments in instalments.

Office use only

☐ ☐ ☐ ☐

41950110

Business activity statement

Document ID

ABN

Form due on

Payment due on

GST accounting method

Contact phone number

Contact person who completed the form

☐ Option 3: Pay GST instalment amount quarterly

G21 \$

Write this amount at 1A in the Summary section over the page (leave 1B blank)

Taking profits out of your business

You could be missing out on big profits if you don't take a look at your business from an accountant's perspective. If there are some taxes or other things that need attention, now is the time for them!

The tax that you pay on your profits is determined by the type of business structure that you have set up. If it's a sole trader, partnership, trust or a company then the following should apply:

- **Sole Trader:** The ATO requires that you pay taxes at your individual marginal tax rates each year.
- **Partnership:** The profit from this business is split between the partners. It is then to be included in their individual assessable taxable income each year. The tax is paid by each partner at their applicable marginal rate.
- **Trust:** The profits are distributed to the trusts beneficiaries who then pay tax on their received amounts at either marginal rates for individual trustees or company tax rate for corporate trustees, depending upon what they were designated as when filing taxes.
- **Company:** Company tax rates in Australia are lower than most individual ones. The main benefits for companies come from not having pay additional taxes on their profits until they're paid out as dividends or held by the company itself, which has its advantages depending upon your situation.

**If you have any questions about your own situation,
please [consult with one of our expert accountants!](#)**

There are three ways to take money out of a company:

1. Top up your salary or pay a director's fee. Make sure you have paid tax and super on the amount too!
2. The company can pay a dividend from the retained profits of its business. This is beneficial as it will allow shareholders to claim franking credits on their tax returns, which they might not otherwise receive if there were no dividends paid or only partly franked ones available in previous years
3. The company can issue loans to shareholders, but they have to be paid back at the end of each financial year. If you borrow money from your business and not repaid at the end of the year, then it will not be deemed as unfranked dividend if following requirements [\(as per Division 7A loan agreement\) are met:](#)
 - There is a written loan agreement in place
 - The maximum term for unsecured loan is 7 years and for secured loan is 25 years
 - The interest is applied to repayments at the minimum rate as determined by the ATO each year
 - The minimum repayments of loan are duly met.

Some important concepts:

Division 7A loan agreement:

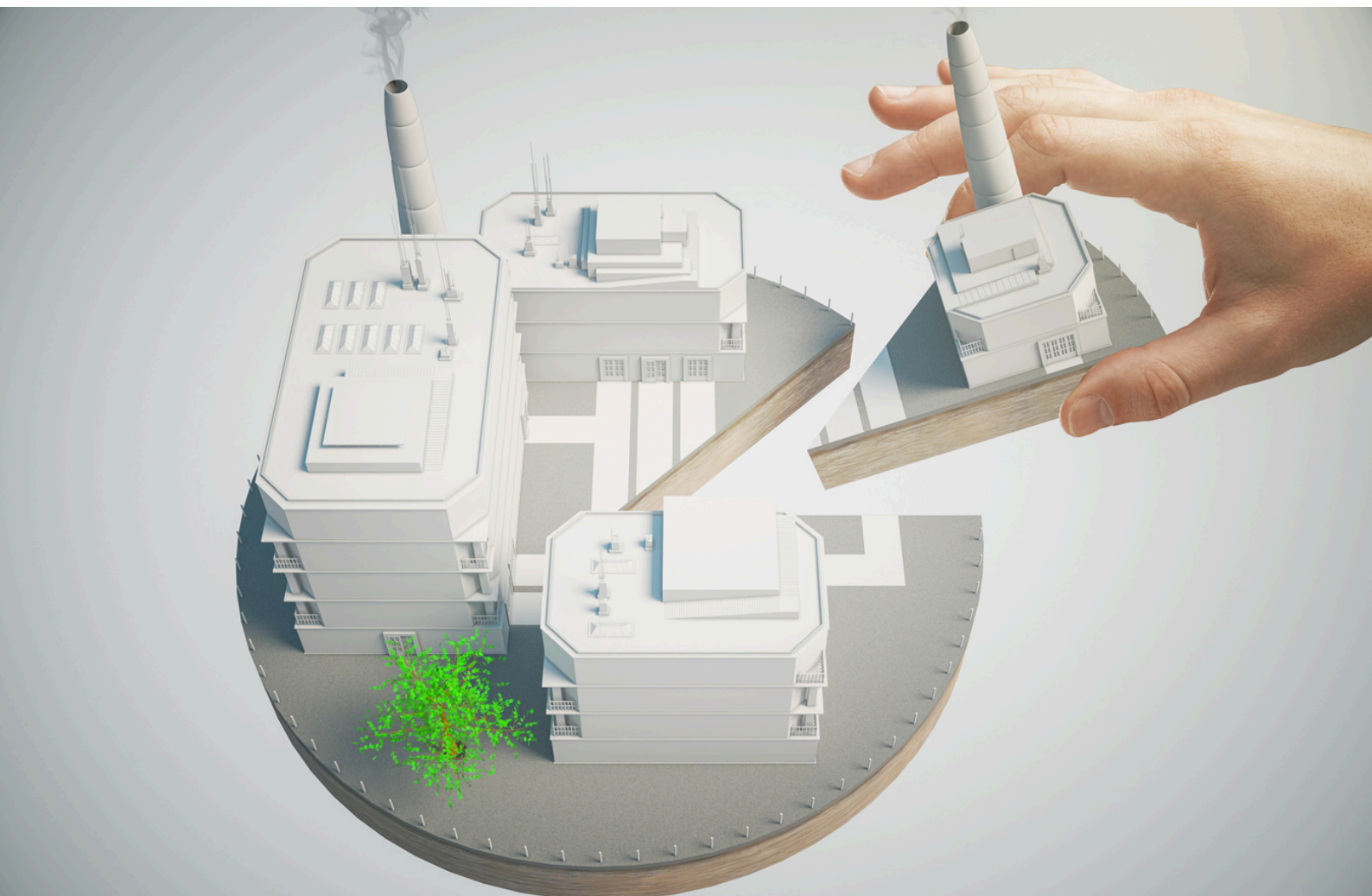
The ATO is concerned about shareholders (or their associates) taking money out of a company and using it for personal purposes where the only tax paid on these loans is the company tax. The individuals receive this money but do not pay tax on this treating this as loan from the company.

The Australian Tax Office is seeking to prevent companies from using loans as an easy way out by deeming them dividends to shareholders.

Example:

Let's say a shareholder renovates their room and decides to take cash, \$70k, from their company bank account as loan. They fail to report this as income in their personal tax return and the ATO notices this.

This income of \$70k is then added to the shareholder's assessable taxable income for that year and tax is paid at their marginal rate.



Franking Credits:

In Australia, a franking credit is a tax offset that a company can pass on to its shareholders via dividends. Franking credits are based on the amount of tax that the company has already paid on its profits.

This system provides a tax benefit for shareholders, as they only pay tax on the net dividend amount after the franking credit has been taken into account.

To illustrate, let's say if a company has a corporate tax rate of 30%, and it distributes \$100 in dividends, each shareholder will receive a \$30 franking credit. In total, the shareholders would receive \$130 (\$100 + \$30), and they would only pay income tax on the \$100 dividend.

Franked credits are recorded in a company's franking account.

Let us take another example to understand this in detail.

Suppose a company makes a profit of \$2,000 in FY21. It is a single shareholder company. The company pays tax at the rate of 30% which is \$600. The company will pay \$600 to ATO when lodging the tax return and will keep the rest \$1,400 in cash.

Now, in FY22, the shareholder wants to take the leftover cash (\$1,400) from the company so a franked dividend is declared. Franking credits of \$600 (tax paid in FY21) is attached to the dividend.

The shareholder will include an income of \$2,000 (\$1,400 cash dividend + \$600 franking credit)

Let's say the marginal rate of tax for the shareholder is 32.5% + 2% Medicare levy i.e. 34.5%

So, the total tax for the individual will be 34.5% of \$2000 which is \$690. This amount will be reduced by the franking credit of \$600. Therefore, tax payable on franked dividend will be \$90.



Personal Service Income:

Personal Services Income (PSI) is a type of income earned by individuals who provide personal services to clients. In Australia, PSI is subject to special tax rules.

The main rule is that the individual must reasonably expect that 80% or more of their income will be derived from the personal services they provide. This includes professionals such as doctor, lawyer or consultant. If an individual does not meet the 80% rule, their PSI will be taxed at their marginal tax rate.

Many consultants and contractors operate their business through a company, partnership, or trust. The income received for the work they do may be classified as PSI.

To determine if a business is receiving PSI, it is necessary to look at the income from each completed contract, and work out what percentage of the payment is for:

- The skill, knowledge, expertise or efforts of those who performed the services
- The materials supplied and/or tools and equipment used to complete the job.

If the above is more than 50%, then it is PSI income.

To determine the PSI income, there are certain tests. It is important to seek professional advice if you are earning PSI. Contact us now!



JUNE

WEEK	I	II	III	IV	V	VI	VII
22			1	2	3	4	5
23	6	7	8	9	10	11	12
24	13	14	15	16	17	18	19
25	20	21	22	23	24	25	26
26	27	28	29	30			

Other Considerations:

Year-end tax planning:

You should get expert tax advice before 30 June every year to make sure you are protected from any potential penalties or other unpleasant surprises. This discussion with your accountant should include:

- Estimated tax position for the year
- Strategies enhancing tax minimization
- Staff wages, Superannuation and GST reconciliations
- In case of company, outstanding shareholder's loan treatment
- In case of trusts, distribution of profits to beneficiaries and trustees

Financial advise:

The world is changing, and so are your financial needs. A professional planner can help you make the best decisions for both now and in the future. They can advise you on:

- Wealth Creation
- Investment of surplus income
- Superannuation
- Protection with appropriate risk insurance



Entrepreneurship sounds difficult?

[CleanSlate](#) is here to help. Come to us if you're looking for an easier way!

As an entrepreneur, one thing is certain: there will always arise some form of challenge or another. To handle these challenges successfully requires knowledge and experience in the field of accounting and taxation.

That's why we're here for you. We are a team of experienced professionals with deep knowledge in the field. We offer you best advice for your business management and taxation matters.

We will help you keep your business up-to date with the latest tax laws, so that nothing can get overlooked or left unpatched!

[Book an appointment now!](#)



Get in touch with us to get started

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