

Tax differences between a Sole Trader and a Company

Sole Traders and Companies have different legal, tax and reporting obligations. We explain the differences to help you decide which business structure best suits your business needs.

	Sole Trader	Company
 Set up costs	Fewer set up costs	Higher set up costs
 Record keeping	Less paperwork	More paperwork
 Business income	You are personally liable for financial or tax debts in a sole business structure. There is no division between assets or personal assets.	The company is generally liable for all business debts. However, your personal assets can be at risk if you're a director of a company and the company can't pay its debts.
 Accessing money from your bank	As a sole trader you can take money out of your business account as personal drawings.	A separate business bank account is mandatory for a company.
 Employing people	Both sole trader and company business structures can employ staff.	
 Tax-free threshold	The tax-free threshold for individuals is \$18,200 in the 2020-21 financial year. A sole trader business structure is taxed as part of your own personal income.	There is no tax-free threshold for companies - you pay tax on every dollar the company earns.
 Tax rates	Sole traders pay tax at the <u>individual income rate</u> .	The full company tax rate is 30%.

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Tax differences between a Sole Trader and a Company continued...

	Sole Trader	Company
 Lodging tax returns	An individual tax return needs to be lodged each year if you operate as a sole trader business.	A company tax return needs to be lodged each year if you operate with a company business structure.
 Small business entity concessions	<p>Small business tax concessions are available to any business structure type. For tax purposes, you are a small business entity if you:</p> <ul style="list-style-type: none"> operate a business for all or part of the income year have less than \$10 million aggregated turnover. <p>Some of the concessions available to you include:</p> <ul style="list-style-type: none"> income tax concessions goods and services tax (GST) and excise concessions pay as you go (PAYG) instalments concessions fringe benefits tax (FBT) concessions. 	
 Payroll tax	As a sole trader or a company, you can employ people. If you do, you may have a payroll tax obligation.	If your company employs people, the company must comply with its payroll tax obligations.
 Taxes and superannuation	<p>If you employ people as a sole trader, you must comply with your payroll tax obligations.</p> <p>You need to register for goods and services tax (GST) if you have a GST turnover of \$75,000 or more (\$150,000 for a non-profit body).</p> <p>You may also need to pay your income tax through pay as you go (PAYG) instalments.</p> <p>If you have employees, you will also need to:</p> <ul style="list-style-type: none"> collect PAYG withholding amounts from payments you make to them, and give and report the withheld amounts to the ATO pay superannuation contributions for your eligible employees. 	

Book your free consultation.

*Information provided by www.business.gov.au

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