

# STRUCTURES COMPANIES

Last updated: Feb 2017

What are the advantages and disadvantages?

What are the responsibilities of the director?



## COMPANIES

### Advantages:

- It is a separate legal entity from the owners, personal assets cannot be lost in case of legal action (unless fraud and directors negligence is proven);
- You can own property in the name of the company (but advisable to have an asset holding company separate to a trading company);
- There is usually limited liability for the shareholders (unless they have given a personal guarantee);
- You may be able to take advantage of tax minimisation schemes (legal ones, of course!);
- It can be owned and operated by only one shareholder and director;
- It may make it easier to attract capital investment because of shareholders' limited liability;
- Workcover on all wages/salaries is paid by the company (deductible);
- Superannuation on all wages/salaries, currently 9.5%, is paid by the company (deductible);
- Shareholders and directors can be employed by the company under normal salary and wage conditions, and their income taxed at personal rates;
- Shareholder's personal assets are not under threat if the company incurs financial loss and debts;
- Company taxation is at a fixed rate. A company's income tax is calculated as a percentage of the taxable income earned by the company during the financial year. The current rate is 30 percent (or 28.5% for small business entities); and
- Compared with other business structures, the transfer of company ownership can be relatively simple. The company does not have to be wound up in the event of the death, disability or retirement of any on the persons involved.

### Disadvantages:

- Cost of set up \$1,200-00 (upfront);
- Annual accounting fees in the range of \$1,500-00 to \$2,000-00 per year;
- Annual return to Australian Securities and Investment Commission (ASIC) lodgement fee of \$249-00 per year (increases each year);
- You will only be able to leave the shares in the company to your beneficiaries under your will, not the assets of the company separately;
- There are greater regulations to adhere to under the corporations act and through ASIC; and
- There is increased record keeping required.

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### Directors Responsibilities:

- To act in good faith;
- To act in the best interests of the company;
- To avoid conflicts between the interests of the company and the director's interests;
- To act honestly;
- To exercise care and diligence;
- To prevent the company trading while it is unable to pay its debts;
- If the company is being wound up, to report to and help the liquidator on the affairs of the company;
- Be fully up-to-date with what your company is doing;
- Get outside professional advice when you need more details to make an informed decision ;
- Find out for yourself how any proposed action will affect your company's business performance especially if it involves a lot of the company's money;
- Question managers and staff about how the business is going; and
- Take an active part in directors' meetings.

### Other:

Depreciation: is the decrease in the value of equipment from wear and tear and the passage of time. Depreciation on business equipment (including motor vehicle) is deductible for tax purposes.