

Company – Limited by Shares

What is a Company?

A company is separate, legal entity and is administered by its directors. It is formed by people who own its shares and whose liability is linked to the amount (if any) unpaid on the shares respectively held by them.

Set up Procedures (estimated set up cost from \$1,750)

- Purchase a shelf company or establish a new company.
- Register for ABN.
- Register for GST (if applicable).
- Register for PAYG (if applicable).

Advantages

- Limited Liability
- Ability to dispose of the shares rather than the investment, reducing stamp duty and other costs.
- Corporate tax rate lower than the top individual marginal rate.
- Flexible in distribution of income, with some restrictions in case of Personal Services Income entities.
- No workers compensation on director's fees or dividends.
- **Imputation** credits can be passed to shareholders.
- Superannuation contributions deductible up to age base limits
- Retain earnings in the company effectively limits the tax rates to 30% (or 27.5% for small business entities from 1 July 2016).

Disadvantages

- Cost of establishing and maintaining is higher.
- Director's potential liability in case of negligence or insolvent trading or unpaid employee superannuation and PAYG withholding.
- Compulsory workers compensation on wages drawn. Two lots of insurance paid since most self employed people require income protection.
- Superannuation contributions are required on wages paid.
- Losses cannot be distributed to shareholders.
- More compliance issues Accounting standards and ASIC.
- Capital gains are not concessional taxed.

Compliance Requirements

- ABN registration
- Tax File Number application.
- GST registration (if applicable).
- BAS – monthly or quarterly
- Tax Return – Yearly
- Financial records – financial accounts balance sheet and profit and loss in required format.
- ASIC annual return yearly and other charges in directors shares holding etc.

Company

Estimated per annum costs – refer to price lists.

General Comments

This structure is a popular structure for people running a Business where there is a requirement for asset protection and tax minimisation. If the company is a Mum/Dad type arrangement and they require both asset protection and tax minimisation we often recommend a single director company with assets held by the non director. Public liability insurance is highly recommended and workers compensation insurance is mandatory. The tax rate is 30% (or 27.5% for small business entities from 1 July 2016) which is lower than the top individual marginal rate of 45%.

Please Note: Many of the comments in this publication are general in nature and anyone intending to apply the information to practical circumstances should seek professional advice to independently verify their interpretation and the information's applicability to their particular circumstances.

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