Which Business Structure Is Right For You?

A plain-English guide to the five main entity types — what they mean, what they cost, and who they suit.

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Tax Effectiveness	Asset Protection	Business Efficiency
Pay as little as legally possible — the right structure is step one.	Keep your home and savings out of business risk.	Stay lean day-to-day without drowning in paperwork.

IMPORTANT — Personal Services Income (PSI): If your income is mainly a reward for your personal skills (doctors, lawyers, consultants, tradies), special tax rules can override your structure choice and limit tax-splitting options. Always seek advice first.

STRUCTURE 01 — Sole Trader

BENEFITS
+ Cheapest and easiest to set up
+ No separate tax return needed
+ Minimal admin and compliance

WATCH OUTS
- Your home and personal assets fully exposed to business debts
- Tax hits 32% above $45k and 47% above $190k — much higher than company rate
- Business ends when you do

BEST FOR:
Testing a new idea with one or two clients before committing — e.g. a bookkeeper just starting out.

STRUCTURE 02 — Partnership

BENEFITS
+ Simple to set up for two people
+ Low establishment cost
+ Possible income splitting between partners

WATCH OUTS
- Both partners personally liable for ALL debts — even those caused by the other
- No protection for your home or savings
- Complex and costly to exit or change partners

BEST FOR:
Two family members running a small trade business — but always get a written Partnership Agreement.

STRUCTURE 03 — Company

BENEFITS
+ Strong asset shield — limits risk to the company, not you personally
+ Flat 25% tax rate on profits retained in the business
+ Can retain earnings to fund growth without distributing
+ Easier to bring in investors or sell later

WATCH OUTS
- More expensive to run — ASIC fees and separate tax return
- Can't just take money freely — must be wages, dividends or loans
- Directors have legal responsibilities

BEST FOR:
A retail or trade business with employees, or any business worth over ~$300k where risk protection matters.

STRUCTURE 04 — Discretionary (Family) Trust

BENEFITS
+ Flexible — distribute income to family in lower tax brackets each year
+ Capital gains and dividends directed to best-suited beneficiaries
+ Asset protection if a company acts as trustee

WATCH OUTS
- All income must be distributed each year — can't retain like a company
- PSI rules may block income splitting
- More complex to set up and administer

BEST FOR:
A profitable business with a spouse or adult children — where distributing income saves significant tax each year.

STRUCTURE 05 — Unit Trust

BENEFITS
+ Ownership clearly split by fixed units — no disputes
+ Good for unrelated partners investing together
+ Retains general tax advantages of a trust

WATCH OUTS
- Less flexible — income split is fixed, not discretionary
- All income must still be distributed annually
- More complex and costly than a simple company

BEST FOR:
Two unrelated parties buying a property or business together with agreed, fixed ownership percentages.

MOST POPULAR STRUCTURE

Company + Family Trust — The Combined Structure

The Trust owns the company. The company runs the business and employs staff. You get the **asset protection of a company** PLUS the **income flexibility of a trust.** The gold standard for most established small businesses with a family to consider — and the cleanest exit strategy when the time comes to sell.

This guide is general information only and is not a substitute for professional advice. Tax rates are for the 2025–26 financial year as legislated at date of publication and are subject to change. Your best structure depends on your specific situation — please speak to us before making any decisions.

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