Business Structures — Pros & Cons

Structure Type	Pros	Cons
Sole Trader	• Inexpensive, simple to set up and manage • Full control over the management and direction of your business. • You own all business's profits and assets. • There is less paperwork • No need to disclose financials to the public. • It is simple to run tax-wise (profits are taxed at the owner's personal income tax rate). • Disbanding is relatively easy. You keep any after-tax gains if you sell the business.	• You are fully liable for your business debts, so you risk losing personal assets (home, vehicles, etc.) if you cannot repay your debts. Similarly, any intellectual property may be at risk if the business fails. • Pay tax on profits at your marginal tax rate • You need to put money aside to pay tax • Few tax concessions are available. • The business structure limits opportunities for expansion.
Company	• Generally, shareholders can only lose the value of their shares and are not liable for the company's debts (i.e. limited liability). • Legal arrangements are in the company's name, not in the name of its directors and managers. • The business structure ensures continuity of management and ownership in the event of the death or disability of key people (because company shares may be transferred). • The tax rate for companies is less than the highest rate for individuals.	• Companies are more regulated than other business structures. • The rules for establishing and running a company are more complex and costly than other business structures. • Lessors, suppliers and lenders are reluctant to lend money without directors or shareholders personal guarantees. • If directors fail to meet their legal obligations, they may be held personally liable for the company's debts. • Profits distributed by companies to shareholders are taxable.
Partnership	• Easier and less expensive than Co to set up. • Partners may carry on business under a trading (business) name. • Partnerships combine the resources and expertise of people. • Partnerships are simple to administer. Profit and Loss are shared between partners according to his/her share. • Unlike companies, partnerships do not have to disclose their profits to the public. • Changing the legal structure is relatively simple (i.e. partnership into a company).	• All partners together are personally responsible for business debts. This is known as being 'jointly and severally' liable (i.e. unlimited liability). • All partners have a right to participate in the management of the partnership. • Tax is charged at the personal tax rate. • Partners cannot transfer their ownership to someone outside the partnership unless the other partner(s) agree. • Personal differences may interfere with business.

Trust	• A trust provides asset protection and limits liability in relation to the business. • Trusts separate the control of an asset from the owner of the asset and so may be useful for protecting the income or assets of a young person or a family unit. • Trusts are very flexible for tax purposes. A discretionary trust provides flexibility in the distribution of income and capital gains among beneficiaries. • Beneficiaries of a trust are generally not liable for the trust debts, unlike sole traders or partnerships. • Beneficiaries of a trust pay tax on income they receive from a trust at their own marginal rates.	• A trust provides asset protection and limits liability in relation to the business. • Establishing a trust cost significantly more than establishing sole traders and partnerships. • A trust is a complex legal structure, which must be set up by a solicitor or accountant. • The trustee has a strict obligation to hold and manage the property for the exclusive benefit of the beneficiaries. • Operation of the business is limited to the conditions outlined in the trust deed. • As with companies, there are extensive regulations that trusts must comply with. • Losses derived in a trust are not distributable and cannot be offset by beneficiaries against other income they may have. • Unlike a company, a trust cannot retain profits for expansion without being subject to penalty rates of tax.