

Knowing when to change your business structure

For successful businesses, simple business structures often do **not** work. They leave you

- risk exposed,
- are ineffective for tax purposes, and
- are not efficient for succession or sale.

In the early stages of business life the philosophy often is; keep it simple and low cost. This may mean trading as a sole trader, in partnership, or through a simple company structure. Where the business stays small this can be entirely appropriate and may serve you well for the lifetime of the business.

However, if your expectations are greater than this, or if you can see that your business is **likely** to grow in a significant way, then you will need to change structure at some stage. Successful **fast growth** businesses typically operate through **a mix of company and trust structures**. These structures are not for show. **They create separation, tax efficiency, help to risk manage your business interests and allow for orderly transfer at the appropriate time.**

The challenge is; **when** is the right time to put in place a more efficient structure? The answer is **the earlier the better.**

Change comes with a cost. You can be exposed to capital gains tax and stamp duty, and this can be expensive and a distraction from the main focus of your business growth. If you have a very clear vision for your business and it is going to grow to a significant size then there is a lot of merit in putting the basic structure in place at the beginning.

Equally, if your plan is to maintain a **micro-business**, keep it simple and don't be seduced by advice that over complicates what you need. Your structure should be appropriate and consistent with your expectations for the business – be they large or small.

If you have a clear vision at the beginning then the question of how to get your structure right can be an easier question to answer. For many business operators though, the reality is that you are not sure. You may start off small and the business booms with growth exceeding your expectations. Or, you may have hopes for something significant, but also know that it might not work. So, if you're in this situation, what are the signs that it is time to make the change?

The first should be when you can identify that there is significant value building in your business. This might be reflected by the assets held in the business or the development of goodwill or intellectual property. The existence of these assets means that you should be considering risk protection and ways to protect against the unexpected. **Ideally, significant capital assets of the business should be separated from the operating structure.**

The second sign is where you can see a material increase in your tax exposure. As your business grows, so too should your profits and your earnings from the business. And, in some cases profits and cash will not mirror each other. Typically cash lags profits, so you might be dealing with the tax on profits that are not readily available to you. Apart from the fact that you don't want to pay any more tax than necessary, the right structure can help to manage tax impacts and the timing differences between profits and cash.

Finally, if you are expecting to sell your business or to introduce other partners or shareholders, then the right structure can make a huge difference. To maximise your access to tax concessions and in particular the CGT **small business concessions**, you need to have your structure right in advance of any changes.

There are some ways to manage the tax costs associated with a change in structure. The first thing to do is to identify the structure that is right for your business. From there, quantify the cost of any change and the best way to put it into effect.

We look forward to being of Service – helping you towards Prosperity & Peace of Mind

Please do not hesitate to contact us if you would like to review & discuss your current property & tax situation, your asset protection strategy, structuring your next investment property, planning to legally minimise your tax position or just to prepare your next tax return.

We look forward to being of service. We also look forward to your referrals.

To improve our service we welcome all constructive comments on this newsletter and other materials.

For help contact **Shukri Barbara** at Property Tax Specialists at Shukri@propertytaxspecialists.com.au

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The material and contents provided in this publication are informative in nature only. It is not intended to be advice and you should not act specifically on the basis of this information alone. If expert assistance is required, professional advice should be obtained.

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Kind Regards
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