

TAKING THE NEXT STEP IN YOUR BUSINESS

Changing from a sole trader to a private company

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Are you ready to upgrade your business from a sole trader to a company?

As businesses mature, its often a good idea to consider whether the current business structure is appropriate for long term growth. Many small businesses start life as a "sole trader" (that is, owned by the business operator in their personal name) but want to graduate to a company structure when the time is right.

Setting up the company is easy – the harder part comes in transferring the business over to the new structure. There are many things to consider. The checklist on the next page is a guidelines on things to remember. Some are obvious, some not so much.

Ultimately, a successful business transition from sole trader to company relies on planning and not forgetting the little things.

We hope you find this useful. Please contact me directly at james@jdscott.co if you have any feedback.

Cheers

James

Managing Director

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Checklist for moving from sole trader to company structure

FINANCE

- Apply for a new bank account on the company name and inform any third parties of new details
- Set up new company in your accounting software
- Transfer or cancel existing direct debits
- Transfer or cancel existing subscriptions
- Ensure outstanding creditors are paid in full and those accounts are closed
- Ensure all customer accounts are collected in full or written off

LEGAL

- Transfer ownership of business name to company (unless the company uses the registered business name)
- Assign lease for the business premises (or prepare new lease)
- Set up and execute agreements with all customers and suppliers (e.g. utilities)
- Set up new insurance policies (business insurance, public liability insurance, professional indemnity insurance, product liability insurance etc)
- Update all documents and templates such as invoices, letterheads, email signatures to include new company details and ABN
- Update Terms & Conditions in your documents

TAX

- Cancel ABN, GST and PAYG registration for sole trader business
- Apply for TFN, ABN, GST and PAYG (if necessary) registration for new company
- Enroll for Payroll tax (if necessary)
- Ensure you maintain tax records for the old business – you'll need these come tax time
- If the business has fixed assets, are these transferred at the correct value? Identify tax outcomes for write off and depreciation.
- You may be liable for Capital Gains Tax on the transfer of the business. Tax law provides various exemptions and rollovers. Make sure you speak to your tax advisor about correctly documenting these changes to avoid tax risks down the track.

EMPLOYEES

- Set up a new Workcover policy. Ensure you're correctly registered with the relevant state authority.
- Update employment documentation such as including employment contract, TFN declaration, superannuation details.
- Transfer staff and leave entitlements.

FUNDING

- Ensure your company has sufficient capital to operate effectively
- Have a business loan? You will need to enter into a new loan agreement with your bank or financial institution. Don't forget to pay out the old loan!
- Prepare a budget / forecast. While the operations of the business may not have changed, your cashflows and ability to draw income from the business

ASSETS

- Motor vehicle registrations – transfer to the new company (if company owned). Note there are FBT consequences of a company owning vehicles.
- Intangible assets (e.g. IP, business names, trade marks etc)
- Domain name registration
- Record your fixed assets in the fixed asset register. Ensure you correctly record the tax base of the assets in the new company

Note that transferring any existing assets to the new company may have some tax implications. Speak to your accountant for more information.