

Tax implications of a sole trader

A sole trader is an individual who runs the business without partners or a company structure.

The matrix below illustrates the tax implications of a sole trader as at 30 June 2006:

Asset protection benefit	Capital Gains Tax (CGT)	Rate of income tax	Flexibility of distribution of income and capital	Establishment and ongoing costs
Personal ownership of a business provides no asset protection - all of your assets are exposed to your business creditors.	Generally speaking, the eventual sale of any capital assets by a sole trader (such as your business premises) will attract CGT on any positive difference between the cost of the asset and the amount received on disposal. However, sole traders are entitled to a 50% discount of the amount of CGT payable in respect of CGT assets which have been held for more than 12 months.	A sole trader will pay tax on all income received from operating the business at his or her personal marginal tax rate. Income earned or capital gains or losses realised in relation to the business would be reported in your personal income tax returns. There are very few tax concessions available to sole traders because a sole trader is simply a self-employed individual taxpayer, they are not a particular business structure such as a company.	A sole trader will pay no flexibility in relation to the distribution of income earned or capital received in relation to the disposal of the business to a spouse or family member.	There are no establishment costs.

Further information

The above is only a general list of the general tax implication of a sole trader. There will be other tax implications and will depend on the specific nature of your business and other aspects of your financial affairs. For more personalised guidance about what structure is the best structure for your business, we recommend that you consult with your legal and taxation advisors.

The Australian Taxation Office www.ato.gov.au has further information related to tax implications for business.

The following fact sheets provide further information on these issues:

- Business name registration
- Legal aspects of succession planning
- Set up as a sole trader