4 guiding principles when choosing BUSINESS STRUCTURES

The right structure for you will depend on your personal situation and circumstances

This is stating the obvious, but there really is **no 'one size fits all' solution.**

Separate your business trading assets from your business wealth assets

This can be a suitable risk management strategy in some circumstances and means you may **trade in one entity** and **hold your wealth assets** (e.g. business real estate, trademarks etc.) **in another entity**.
If the business encounters financial difficulty, these **business wealth assets and your personal assets** (other than those secured by lenders) **may be better protected** if they are owned by a separate legal structure.

Retain sufficient profits in the business to finance future activities, but transfer any remaining profits out

Transfer remaining profits of the trading business to an external investment structure or structures, for example a discretionary trust or superannuation fund.
This is a risk management strategy and its effectiveness will vary – **some businesses have to retain more profits than others** to fund their expansion.
Have a policy on to what extent you will gear. This may enable you to use a mix of your own funds and borrowed funds to fund expansion.
Borrowing some funds may allow you to apply some retained earnings to other tax-effective and wealth-creating strategies.

Regard your employment in the business as separate to your ownership of the business

Think of yourself as two people in this regard (i.e. wearing two hats). This is important for a number of reasons:

- to maintain **equitable financial arrangements between owners** who work in the business and those who do not
- to ensure any **conflicts of interest** in decision making between 'employee owners' and 'non-employee owners' are transparent and managed having regard to the best interests of the business
- to **accurately calculate business maintainable earnings** and, therefore, the changing value of the business over time.