

# How to set up a business in 7 positive steps

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 [investax.com.au/knowledge-base/how-to-set-up-a-business-in-7-steps](https://investax.com.au/knowledge-base/how-to-set-up-a-business-in-7-steps)

We are about to launch our small business series to assist prospective and new business owners with information and tips to help you, launch, run and grow your business (set up a business). Each fortnight, we will be new introducing content. This series is designed to assist you with key crucial steps in setting up your business. Starting a business requires a lot of effort and commitment. It's important to know what's involved and if you're suited to business and self-employment.

We recommend you take some time to critically evaluate yourself and the challenges of owning a business. People talk about 'taking the plunge' into a small business like it's an adrenalin sport. And there will be some heart-stopping moments, like when you take a loan, sign a lease, or greenlight your first order of supplies. But starting a business isn't one big decision. It's hundreds of small decisions. And if you want to succeed, you need to move through them systematically and with a cool head. You don't have to think of everything right now. There'll be hundreds of variables and numerous unknowns when you first consider starting a business. It's hard to unpick it all at once.

That's why you need a process. It allows you to deal with things in the right order and saves you from getting stuck on problems before you have to. The following guide is designed to assist you with preparing you to cover the most important factors when starting a business.

**We have flagged 7 key steps to start and set up a business.**

## STEP 1. Make key decisions

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The decisions you make early on can affect many areas of your business, including the licenses you need, how much tax you pay and the volume of paperwork required.

### Business Structure

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One of the key decisions you'll make when starting a business is its structure. Your choice of structure will depend on the size and type of business and how you want to run it. Each structure may have an impact on key areas such as tax you're liable to pay, asset protection and costs to set up.

There are several structures that you can choose from when starting or expanding your business including:

- sole trader – the simplest structure, gives you full control
- company – more complex, limits your liability because it's a separate legal entity

- partnership – made up of 2 or more people who distribute income or losses
- trust – where a trustee is responsible for business operations

***One of the most important considerations for business owners is Asset Protection.*** It is important that you discuss this with your accountant.

There are several myths and mistakes regarding asset protection – in particular, owning assets in individual names, the use of company ownership and the improper use of certain types of trusts in the absence of sound tax planning and estate planning advice.

The best way to protect your assets is to be aware of all the tax and legal ramifications of using particular types of trusts and structures and ensure you get personal tax advice.

## **Employee or contractor?**

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There are a range of factors that determine whether you're a contractor or not. This page will help you to understand the differences between employees and contractors. You'll also find out who to contact if you think your employer is incorrectly treating you as a contractor. Contractors run their own business and sell their services to others, unlike employees who work in someone else's business.

Contractors — sometimes called independent contractors, sub-contractors or subbies — generally use their own processes, tools and methods to complete the work. They usually negotiate their own fees and working arrangements and can work for more than one client at a time.

## **Choose your business location**

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Choosing the right location for your business can be vital to your success. Learn what to consider when looking for the right business location and premises. Unless you run a home-based business, you'll likely need to buy or lease business premises. Each business has different requirements. It's important to consider your business needs and priorities when deciding on the type and location for your business.

## **STEP 2. Plan your business**

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You've analyzed your idea and yourself. Next, you can plan your future and see how it all comes together. If you want to start, grow or manage your business effectively, you'll need a business plan. Learn how to develop a business plan with a business plan template to suit your planning needs.

## **Why you need a business plan**

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Whether you've just started out or have been running your business for years, business planning can be the key to your success. Having a business plan:

- helps you to prioritize – it gives your business direction, defines your objectives, maps out how you'll achieve your goals and helps you to manage possible bumps in the road
- gives you control over your business – the planning process helps you learn about the different things that could affect your success. If you're already in business, it helps you to step back and look at what's working and what you can improve on
- helps you seek finance – if you're seeking finance for your business, you'll need to show banks and investors why they should invest in your business.

## **Create your risk management plan**

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All businesses face risk. It's important to understand the risks to your business and find ways to minimise them. A risk management plan helps you to do this by detailing how you deal with risks to your business. By spending time and resources developing your strategy for managing risk, you'll provide a safe workplace and reduce the chances of negative impacts on your business.

Before you create a risk management plan, think about which areas of your business it will refer to.

Your risk management plan will be more specific and useful if you ask for feedback from the people, businesses or organizations you deal with.

Stakeholders can include:

- employees, contractors and sub-contractors
- clients, customers and suppliers
- business financiers, investors and insurers
- your local communities
- government agencies.

## **Find about assistance for your business**

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Understand where you can get help, build a network of peers and find a program that can help you start and grow your business. There are many ways you can find and get help for your business. Talk to your accountant and solicitor. It is also important to reach out to your peer networks. Attending network events can assist you to:

- stay up-to-date on industry and local information
- promote your business
- learn key skills from other businesses

## **STEP 3. Find grants and financial help**

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While the government generally doesn't offer funding to start a business, there may be other forms of assistance available to help you. You can access a range of state and federal government grant programs that may assist you. Find out more here: <https://business.gov.au/grants-and-programs>

## **Talk to a business adviser**

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You don't have to do it alone — working with an experienced business adviser/ accountant or expert can help solve business problems, connect you to funding and grow your industry networks.

## **STEP 4. Register your business**

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To make it official, you'll need to register. This makes sure your business gets taxed at the right rate, avoids penalties and protects your brand and ideas.

### **Register for an Australian business number (ABN)**

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An ABN is a number that identifies your business. It doesn't replace your tax file number. An ABN is a unique 11 digit number that identifies your business to the government and community. You can use an ABN to:

- identify your business to others when ordering and invoicing
- avoid pay as you go (PAYG) tax on payments you get
- claim goods and services tax (GST) credits
- claim energy grants credits
- get an Australian domain name

### **Register your business name**

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A business name is the name your business operates under. Your business name identifies you to your customers and allows you to differentiate yourself from your competitors. A business name helps your customers to make an emotional connection to your business and brand.

Before you register, make sure you have:

- identified your business structure
- an Australian business number (ABN) or ready to apply for one
- checked your business name is available

You can register your business at <https://register.business.gov.au/>

## **Tax registration for your business**

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When you start a business, there are tax responsibilities you need to know. Understand which taxes apply to your business type, and how to register for them. Some taxes apply and are compulsory depending on your business size and type. Others are optional but can make life easier if you have them.

## **Tax file number (TFN) – (Required)**

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You must have a TFN regardless of the type of business you're starting. If you plan on running your business as a sole trader, you can keep your individual TFN. If you're operating as a partnership, company or trust, you'll need to register a separate TFN for the business- an external site.

## **Australian business number (ABN) – (Recommended)**

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It is not compulsory for businesses to register for an ABN, however getting an ABN is free and makes running your business easier, particularly if you have to register for other taxes. For example, if you need to register for goods and services tax (GST) now or in the future, you'll need to apply for an ABN first. Without an ABN, other businesses must withhold 47% from payments they make to you for tax purposes.

## **Register licenses and permits**

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Licenses and permits either:

- give your business approval to do an activity, or
- help protect your business and employees

## **Types of licenses and permits**

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Licensing and permit requirements to vary by state, local laws and by industry. The licenses and permits you'll need depend on your:

- business type
- business activities
- location

## **Register a company**

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A company is an entity that has its own legal obligations. If you've decided a company structure is right for your business, you'll need to register it as a company. A company is a type of business structure. When you set up a company, you create a legal entity that's separate from you.

A company has different legal, financial and record-keeping responsibilities compared to other business structures, so it's important you know what's involved.

## **STEP 5. Prepare your finances**

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It's essential to take charge of your business finances and know how to manage your cash flow. It could make or break your business. If you need help, consider speaking to a financial adviser.

When starting a business, there are things you'll need to consider to organize your finances, such as bookkeeping, payments and your budget.

### **Set up a business bank account**

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If you operate as a sole trader you don't legally have to have a separate bank account for your business – you can use your personal account. However, to easily track your business income and expenses, consider opening a separate business account. If your business operates as a partnership, company or trust then you must have a separate business bank account for tax purpose.

### **Set up a bookkeeping system**

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There are many manual and electronic bookkeeping products that could suit your business. If you've employed a financial professional, have a chat to them about the products that will best work with their systems.

### **Prepare a budget**

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Preparing a budget outlining your forecast income and expenses helps you manage your cash flow when starting and running your business.

### **Payment types and invoicing templates**

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You'll need to decide on your payment terms and payment types your customers can use. You may also need to set up an invoicing template and receipts to give your customers when selling goods and services. It's important to provide a correct invoice for your goods and services. Make sure to include a clear due date and follow up on payments that fall behind. If your business provides subscriptions or memberships, consider setting up an automatic payment system or direct debit. This will save you the hassle of chasing payments.

### **Options for seeking finance**

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There are different options for finance depending on what you want it for.

#### Cash flow fluctuations

Needing assistance with cash flow is one of the most common reasons businesses seek finance. Before you go ahead, make sure to carefully analyse your business finances so you know how much you need.

Some of the finance options to help with cash flow include:

- overdraft facility
- line of credit
- fully drawn advance
- factoring
- invoice financing
- loan/cash flow lending
- trade credit from suppliers
- credit card (be careful – they should only be used to fund very short-term working capital needs).

Loan options can include:

- a fully drawn advance
- venture capital
- leasing
- government grants
- venture capital
- private investors such as business angels
- the R&D Tax Incentive
- crowdfunding

## **STEP 6. Know the law**

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Finding out your business isn't entirely above board can cost you time and money. Start off strong by setting up and protecting your business legally. Consider speaking to an accountant who is usually the first point of contact with small business owners. If there are complex legal issues, your accountant will refer you to a solicitor. When you start a business, you need to understand what laws apply to your new business.

### **Business registrations**

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If you conduct a business, you may need to comply with tax obligations. These could require you to register for:

- Australian business number (ABN)
- goods and Services Tax (GST)
- tax file number (TFN)
- pay as you go (PAYG) withholding

**Business name** – if you want to trade under a particular name, you may need to register it.

**Trade marks** – if you want exclusive rights to a business name, you need to register a trade mark.

**Website domains** – if you set up a website, you need to register a domain name.

## **Fair trading**

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Fair trading laws ensure your business operates fairly and competitively. These laws also ensure that you inform and protect your customers. To make sure your business meets fair trading regulations, you need to consider:

- Fair trading laws
- Australian Consumer Law and your business
- Competition and Consumer Act- external site
- Australian standards- external site
- Codes of Conduct

## **Contracts**

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When you agree to do a job in exchange for money or some other benefit, you're probably entering a commercial contract. This contract is legally enforceable regardless of whether it is a 'handshake deal' or written agreement. Make sure you understand the contract before signing.

## **Privacy laws**

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If you collect and store your customers' personal information, you must comply with privacy laws- external site. These laws detail how a business must handle personal information, especially as it relates to direct marketing purposes. Use the Office of the Australian Information Commissioner checklist- external site to help you determine whether you need to comply with the Australian Privacy Principles.

## **Employment laws**

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- You have legal obligations when you employ people. Your obligations require you to:
  - pay your employees correct wages
  - abide by work health and safety (WHS) regulations and codes of practice
  - ensure you have workers' compensation insurance for each employee
  - not act in a way that may seriously damage an employee's reputation or cause mental distress or humiliation
  - comply with any working with vulnerable people or children requirements
- Check your obligations when hiring employees.



Harassment and bullying- external site in the workplace has legal risks. If you employ people, be aware of the steps you can take to minimise your potential liability.

## **Unfair dismissal**

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The Small Business Fair Dismissal Code- provides small businesses with a process to follow if they need to dismiss an employee. The Code applies to your business if you have less than 15 employees.

## **Contractors**

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You need to comply with different legal obligations when hiring a contractor or an employee. Make sure you understand the difference between a contractor and an employee.

## **STEP 7. Prepare for tax | Working with an Accountant**

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Getting on top of your taxes now can make things easier in the long run. It can help you avoid penalties and make sure your business is taxed at the correct rate. Accountants have been trained in BAS and Tax compliance. Your accountant will know what expenses include GST and help you with your record keeping. Many accountants provide business owners with record keeping software which will assist with ATO record keeping rules. Accountants ensure that your lodgement details are compliant and that you are able to maximise your deductions. In many cases an Accountants can get you a lodgement and payment extension.

In the case of BAS lodgements ,if you lodge your BAS yourself, you will need to lodge and pay by the 28th of April for the March Quarter. However, if a registered BAS agent lodges your BAS, you can lodge and usually pay 4 weeks after this. Effectively, you have almost two months to gather data together, lodge and pay, which is more money in your bank account, earning interest, than in the ATO's.

## **Record keeping**

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Running a business can be unpredictable, but a good record-keeping system can make things easier.

There are many benefits to keeping good records. It can help you to:

- keep track of your business' health, so you're able to make good business decisions
- meet your tax and superannuation obligations
- manage your cash flow
- demonstrate your financial position to banks or other lenders

You must keep records of all transactions related to your business's tax and superannuation affairs, including records that support the information you include in your tax returns and reports- external site. The records you need to keep depend on the tax and superannuation obligations of your business and the structure of your business (sole trader, partnership, company or trust).

### **The Australian Taxation Office (ATO) requires that:**

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- Your records must not be changed and must be stored in a way that restricts the information from being changed or the record damaged
- You need to keep most records for five years, starting from when you prepared or obtained the records, or completed the transactions (or acts they relate to), whichever is the later
- You need to be able to show the ATO your records if they ask for them
- Your records must be in English or able to be easily converted to English

Your tax obligations will vary according to your business type, number of employees and the fringe benefits you offer your employees. Make sure you understand the requirements for:

- different types of tax that could apply to your business
- tax registrations
- paying taxes
- keeping business records

### **Types of taxation**

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Make sure you understand the different types of tax that could apply to your business. Some taxes are administered federally by the Australian Taxation Office (ATO) and others are state based taxes.

- Income tax for business
- Capital gains tax (CGT)
- Fringe benefits tax (FBT)
- Pay as you go (PAYG) withholding
- Pay as you go (PAYG) instalments
- Goods and Services Tax (GST)
- Fuel tax credits
- Wine equalisation tax- external site
- Luxury car tax- external site
- Payroll tax
- Land tax

### **Lodging and paying your tax to the ATO**

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You need to lodge an income tax return each year. Most businesses also need to lodge business activity statements. You may also need to lodge other reports or returns. It's important to lodge and pay your tax on time. Lodging and paying online is the fast, convenient and secure way to do business. The Australian Taxation Office (ATO) provides a range of online services for lodging and paying your tax. To protect your privacy, you'll need an authenticated login service (such as AUSkey or Manage ABN Connections) to access most of these services. If you're a sole trader, you can use your myGov account linked to the ATO.

## **Check the tax return requirements for your business type**

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Your business needs to lodge a tax return each year, even if you record a loss or don't meet the tax threshold.

When lodging your return, make sure you know the rules that apply to your business structure:

**Sole trader** – Lodge an individual tax return. Include all your business income on your tax return using a separate business schedule. You don't need to lodge a separate tax return for your business.

**Partnership** – Your partnership has its own tax file number (TFN) but doesn't pay income tax on the profit it earns. Each partner reports their share of the partnership income in their own tax return. Your partnership must also lodge a separate partnership return under its own TFN.

**Company** – A company is a separate legal entity. You must lodge a company tax return and pay tax on the company's income. If you're a director, you'll still need to lodge your own personal return as well.

**Trust** – A trust has its own TFN and must lodge a trust income tax return.

## **Understand business activity statements requirements**

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When you register for an Australian business number (ABN) and GST, the ATO will automatically send you a business activity statement (BAS) when it is time to lodge. Your BAS allows you to report and pay for certain taxes including:

- goods and services tax (GST)
- luxury car tax- external site
- wine equalisation tax- external site
- pay as you go (PAYG) withholding
- Pay as you go (PAYG) instalments
- fringe benefits tax (FBT) instalments.

You have several options for lodging your BAS however most businesses that lodge their own BAS choose an online option.

## **Single Touch Payroll**

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If you have employees or other payees you may be required to use Single Touch Payroll (STP) reporting. STP is a new way of reporting tax and superannuation information to the ATO. It sends your tax and super information from your payroll or accounting software to the ATO as you run your payroll.

## **Lodge your tax return or BAS**

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Depending on how complex your business and taxes are, you may lodge your own return or get a professional to lodge it for you. You can lodge your tax return:

- with a registered tax agent
- online with myTax- external site if you're a sole trader
- with standard business reporting enabled software if you're a company, trust or partnership
- by paper.

If you want to discover more about setting up your business, finding the correct structure then call our office to set up an appointment to discuss your options.

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**Prepare for Tax |  
Work with an Accountant**

**Starting a Business**

Your business idea is clearly inspired. Otherwise you wouldn't have emailed it to yourself late last night. So what do you do now? Let's take a look at the next steps.



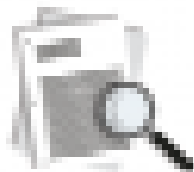
**Know the law**

When you start a business, you need to understand what laws apply to your new business.



**Register your business**

- ABN
- TFN
- Business name
- Arrange Business & Domestic



**Plan your business**

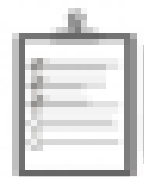
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**Find about assistance for your business**

- Attend networking events
- Stay up-to-date on industry and local information
- Promote your business
- Learn key skills from other businesses



**Make Key decisions**

The decisions you make early on can affect many areas of your business, including the licenses you need, how much tax you pay and (equipment required)



**"A new Australian business opens every 38 minutes."  
Getting up is a national pastime.  
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## EXCLUSIVE OFFER

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If you are thinking about changing your accountant or your are at the stage where your business has grown, why not take up our exclusive free 15 -minute complementary consultation service. If you have a question, you would like answered, reach out to us today. Our team is looking forward to hearing from you

We are offering an exclusive \$150 Investax Group credit to small business owners if you decide to bring your small business accounting services to us. \*\*

**\*\* Note this offer excludes the preparation of Individual Tax Returns and is valid for 2 months. Offer expires on 1 June 2022**

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