



TAX, STRUCTURE & COMPLIANCE

Trading Subsidiaries: Owning It Doesn't Make Transactions Any Less Related Party

A subsidiary you fully own is still a separate legal person. Every transaction with it needs the same documentation and approval discipline

An association running commercial activity, merchandise, paid publishing, a training arm, or consulting services, alongside its core member-facing work, frequently benefits from housing that activity in a separate trading entity. This is a common, legitimate Australian structure, and it introduces two specific governance obligations many associations underestimate once the structure is in place.

Which rules apply to your association?

The law depends on how your association is set up. A **company limited by guarantee** follows the Corporations Act 2001 (Cth) and its constitution. An **incorporated association** follows its state or territory associations Act and its rules. A **registered charity** also follows the ACNC Act and the ACNC Governance Standards, and some Corporations Act rules are replaced for charities that are companies. Check your own governing documents, and get advice before decisions with legal consequences.

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The Same Liability Principle, Now Applied To Your Own Commercial Arm

This connects directly to the liability ring-fencing principle discussed earlier in this series in the context of joint ventures and international expansion. A wholly owned trading subsidiary, typically structured as a proprietary limited company, allows the parent association to conduct commercial activity while limiting its own exposure to whatever liabilities that trading activity generates. This is why many associations considering a social enterprise arm, a paid education business, or significant merchandise operations choose to house it in a distinct legal entity rather than running it directly through the association itself.

The Related Party Discipline This Structure Actually Requires

Here is the specific point worth understanding. Every transaction between the parent association and its wholly owned trading subsidiary, a transfer of funds, a shared service arrangement, a loan, a distribution of profits, is a transaction between two separate legal entities. The Corporations Act related party rules in Chapter 2E do not, of themselves, treat a public company's own subsidiary as its related party, and they do not apply to incorporated associations at all. Where accounting standards apply, however, AASB 124 Related Party Disclosures treats a subsidiary as a related party for disclosure purposes, and the directors of each entity must act in the interests of their own entity. A board treating transactions between its own association and its own subsidiary as internal, informal matters has misunderstood the structure. A trading subsidiary you wholly own is still, in the law's eyes, a separate legal person. Every transaction between it and the parent association carries the same documentation and approval discipline as any transaction with a separate entity: a written agreement, arm's-length terms, board approval and accurate records, regardless of how informal or routine the arrangement feels internally.

The Tax Point Most Boards Assume Incorrectly

A common, mistaken assumption is that a trading subsidiary automatically inherits its parent's tax position, particularly where the parent is an income tax exempt charity. It does not. A for-profit proprietary limited company is generally taxable in its own right. Profits typically move to the parent by dividend or, where the parent is a deductible gift recipient, by gift, and the tax result of each depends on the parent's own tax status and endorsements (charity, another income tax exempt category, or taxable). Confirm the arrangement with a tax adviser before setting it up, rather than assuming the subsidiary pays no tax because of who owns it.

- Consider a separate trading subsidiary specifically for significant commercial activity, weighing the liability ring-fencing benefit against the added governance complexity it introduces.
- Document every transaction between the parent association and its trading subsidiary with a written agreement, arm's-length terms and board approval, and disclose it as a related party transaction where accounting standards require, regardless of how routine or informal these transactions feel internally.
- Confirm the trading subsidiary's actual tax position directly, rather than assuming it automatically shares the parent's tax position simply because of common ownership.
- Structure profit distribution from the subsidiary to the parent deliberately and correctly, with tax advice on how dividends or gifts will be treated given the parent's own tax status.
- Maintain separate governance, decision-making, and record-keeping for the subsidiary, since blurring the two entities' operations undermines the very liability separation the structure was created to provide.

A trading subsidiary can be a valuable structural tool for an association pursuing commercial activity alongside its core purpose. The liability protection it offers is real, but only where the parent and subsidiary are governed as the separate entities they are, with the transaction and tax discipline this article has identified applied consistently rather than assumed away. This is one of the practical governance topics built into our Board Director course, alongside the papers, tools and frameworks that turn the principle into your board's actual practice. [Explore the course](#)

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BOARDROOM ACTION WORKSHEET

Trading Subsidiaries: Owning It Doesn't Make Transactions Any Less Related Party

Turn the resource into evidence, a decision and an accountable next step. Keep the completed record in your association's approved board records system.

1 What is the issue or decision?

State the governance question in one clear sentence.

2 What evidence do we already have?

Record the facts, source documents and stakeholder evidence available now.

3 What evidence is still needed?

Identify the legal, regulatory, financial, member or operational information still required.

4 What is the agreed next action?

Capture the owner, timeframe and how the matter will return to the board.

Action owner	Review date	Board decision or resolution

General education, not legal, financial, tax, clinical or governance advice. Confirm specifics at the relevant primary source or with your own qualified adviser. Nexus Leadership is operated by Lipstick Consulting Pty Ltd · ABN 15 619 120 482.

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