

# SMALL BUSINESS CGT CONCESSIONS

MAXIMIZE YOUR SMALL BUSINESS GAINS

RIVKIN  
WEALTH ADVISORS

When a small business taxpayer sells eligible business assets, they may access various small business CGT concessions to reduce or defer CGT liabilities and could be eligible to make 'CGT cap contributions' to their superannuation. These CGT cap contributions do not count towards the taxpayer's non-concessional contributions (NCC) cap. The Small Business CGT concessions available are as follows:

<b>15-Year Exemption</b>	If the taxpayer is 55 or older and retiring, or is permanently incapacitated, and has owned the asset for at least 15 years, they may be exempt from CGT.
<b>50% Active Asset Reduction</b>	A 50% reduction on the capital gain is available if the asset meets the active asset test. This is in addition to the general 50% CGT discount for assets held for more than 12 months.
<b>Retirement Exemption</b>	Up to \$500,000 of capital gains can be exempted from tax, provided the amount is used for retirement. If under 55, the exempt amount must be paid into a superannuation fund.
<b>Rollover Relief</b>	If the proceeds from the sale are used to purchase a replacement asset or make capital improvements to an existing asset, the capital gain can be deferred until the new asset is sold.

Being eligible for the small business CGT concessions may also allow you to take advantage of the superannuation contribution concessions available on the proceeds from the sale of a small business asset. This can allow up to \$1.78M to be contributed to superannuation without impacting your non-concessional contributions cap.

Applying these concessions effectively to maximise your financial position relies on the following:

1. Determination of concessional eligibility
2. Consideration of which concessions should be claimed and in what order for the appropriate application of the concessions.
3. Considering other financial strategies and investments opportunities available when directing funds strategies whether it is beneficial to direct funds to super to qualify for the concessions.

## Eligibility

The eligibility criteria for being able to apply the Small Business CGT concessions are complex and should involve conversations with you, your financial adviser and a registered tax agent to consider your eligibility. Requirements on the features of the asset and entities involved need to be considered to ensure you are eligible to apply the relevant rules.



## Application

The concessions available can be applied in different manners to give the best possible outcome for your greater financial position and goals. It is important to consider your personal circumstance when choosing how to apply these concessions.

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## Example 1: 50% Active Asset

Susan, aged 61, sold an active asset (shares in her company) for \$1.7 million that she owned for 9 years and made a capital gain of \$1,000,000. She can reduce her assessable capital gain as follows:

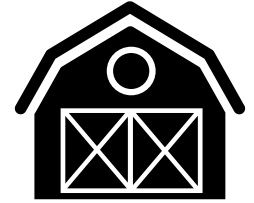
Capital Gain of \$1M, Reduced by:	Remaining Capital Gain:
Less: 50% General Discount (\$500,000)	\$500,000
Less: 50% Active Assets Reduction (\$250,000)	\$250,000
Less: CGT Retirement Exemption (\$250,000)	Nil

Susan could make a CGT cap contribution of \$250,000 (the disregarded capital gain) under the retirement exemption.

Alternatively, Susan may choose to ignore the 50% active asset reduction to allow a \$500,000 contribution to superannuation be made. This contribution will not be attributed to the non-concessional contribution cap meaning it could still be utilised to get funds into superannuation.

## Example 2: Sale of the Family Farm

Paul and Sally are looking to sell their \$3 million family farm which has been owned for a period of 20 years.



As this property meets the active asset requirements and the ownership requirement of the 15-year rule, the total capital gain of \$1.5 million can be disregarded.

Following purchasing a new home, Paul and Sally use the net sale proceeds to each make a \$600k contribution to superannuation using the small business CGT exempt contribution rules.

These funds are then able to be used to commence a retirement pension resulting in the tax-free earnings on the funds within the superannuation.



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## Other Strategies and Investment Opportunities

Utilising the available small business CGT concessions becomes even more effective when they are coupled with a financial plan considering your broader financial position. It is important to consider how the sale of your small business impacts the following:

### Investment Allocation

Receiving a large amount of net asset sale proceeds enables opportunities for investment. Ensuring your investment structure and allocation is a necessity.

### Estate Planning

After the wind up of your business exercise your asset holdings will be materially different. Does your current will account for this and are there new strategies to better pass on your new assets.

### Superannuation Concessions

With an increased balance held in superannuation, it is important to ensure you are taking full advantage of the tax concessions available to funds held in superannuation.

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