



## Key Investment Concepts

# CGT concessions for small business

Aon Hewitt Financial Education Series

The Government introduced a number of concessions to small businesses in relation to the sale of assets used in their businesses, as they recognised that many business owners invest in their businesses and aim to sell them or the assets to fund their retirement. However, as they have often worked in the business for a long time, large capital gains may have accrued.

## CGT Concessions for Small Business

There are four small business concessions. You are able to apply as many concessions as you are entitled to, which in some cases will result in no capital gains tax (CGT) being payable.

In some cases, you are also able to apply the general 50% CGT discount available to individuals who have held an asset for more than twelve months.

There are rules about the order you apply the CGT small business concessions, any current year or prior year capital losses and the CGT discount.

You must first satisfy the basic conditions that apply to all the CGT concessions for small business. You must then satisfy any additional conditions that apply specifically to the individual concessions.

## Small business 15-year exemption

If you are aged 55 years or more, and are retiring (or if you are permanently incapacitated), and your business has owned an asset for 15 years or more, then the capital gain on the sale of that asset is disregarded.

You are able to contribute up to the lifetime limit of \$1,445,000 of the sale proceeds into super as a CGT contribution cap. This will not count against your personal concessional or non-concessional contributions caps.

The \$1,445,000 lifetime limit does not have to be used all at once. You may sell a number of assets over a period of years before you reach the \$1,445,000 lifetime limit.

## Small business 50% active asset reduction

You can reduce the capital gain on a business (active) asset by 50%.

## Small business retirement exemption

If you sell a business asset then the capital gain will be exempt up to a lifetime limit of \$500,000. If you are under 55 years of age then the exempt amount must be paid into a complying super fund in order to obtain the exemption.

The \$500,000 lifetime limit does not have to be used all at once. You may sell a number of assets over a period of years before you reach the \$500,000 lifetime limit.

Any amount contributed under this exemption also counts towards your lifetime limit of \$1,445,000.

## Small business roll-over

If you sell a small business asset, you can defer your capital gain until a later year. The purpose behind this exemption is that you use the sale proceeds to purchase another asset for your business. When you eventually sell the replacement asset then all or part of the gain that you deferred becomes assessable.

If you don't purchase a replacement asset within the required period then all or part of the gain that you deferred becomes assessable.

For more information, please refer to the tax office website at <http://www.ato.gov.au>. In particular, you may find the Guide to Capital Gains Tax Concessions for Small Business helpful which can be found on the ATO website.

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This document, including all tax and super calculations, has been prepared using legislation in place as at 1 July 2018.