

Selling your business? Don't forget CGT

Every business owner should be aware of CGT issues long before they decide to sell their business and seek professional guidance early.

Anna is 51 years old and owns her business premises from where she has been running a giftware shop. Deciding to sell the property asset, she explores options to reduce or eliminate her Capital Gains Tax (CGT) liability.

The following CGT strategies exist but Anna may not find them suitable for her needs. Anna bought the premises 10 years ago and has been operating her business there for the past eight years.

Small business 15-year exemption

Qualifying business assets do not incur CGT. To be eligible, Anna would need to keep her premises for a further five years to bring her continuous ownership to 15 years. Her business would need to have used the asset for at least half that time.

As Anna has operated her shop from the premises for eight years, in five years she will meet the criteria and its sale will be CGT exempt.

Small business 50% active asset reduction

Eligible business assets may claim a 50% reduction in CGT. To qualify, Anna's business premises must be:

- used by the business for at least 7.5 years if owned longer than 15 years, or



- if owned less than 15 years, used by the business for at least half that time.

Anna bought the premises 10 years ago but, given that the business has operated there for more than half of that time (eight years), she qualifies for a 50% reduction on realised capital gains.

Small business retirement exemption

As Anna is under 55, she is exempt from paying CGT if she contributes the proceeds of the sale of her business asset to a complying superannuation fund. Issues to consider for this option include:

- she cannot access the money until she retires,
- she must not exceed the capital gains lifetime limit of \$500,000 – the maximum amount of capital gains exemption an individual is entitled to over a lifetime.

To receive the exemption, Anna must notify her super fund at the time she makes the contribution that she is electing to contribute under the small business retirement exemption.

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Other considerations

- Anna may defer all or part of the CGT for two years or more if she acquires a replacement business asset.
- Anna can offset capital losses against the capital gain.
- Other CGT discounts may apply.

Combining exemptions

It may be possible for Anna to claim a combination of exemptions, but a particular order must be followed. This chart shows the order in which Anna may claim exemptions.

Each option Anna considered came with conditions. However after speaking with a tax agent and her financial planner, she was able to arrive at a decision that suited both her current and future needs.

