

Small Business Concessions - Investax

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Small Business Concessions: The Australian economy heavily relies on small businesses, which provide job opportunities and contribute to economic growth. To support these businesses, the Australian Government has put in place a range of concessions, incentives, and initiatives to reduce costs and streamline administrative processes. In this article, we will delve into some of Australia's crucial small business concessions.

Small Business Concessions: Small Business Entity

One of the most significant concessions available to small businesses in Australia is Small Business Entity (SBE) concessions.



An SBE is a business with an annual turnover of less than \$50 million and can access a range of benefits, including:

1. **Simplified depreciation:** Businesses can claim an immediate tax deduction for assets costing less than \$150,000. This deduction applies to new and second-hand assets, and it can be claimed in the year of purchase.
2. **Immediate tax deduction for prepaid expenses:** Businesses can claim an immediate tax deduction for certain prepaid expenses, such as rent, insurance, and subscriptions if the payment covers a period of 12 months or less.

3. **Simplified trading stock rules:** Businesses can choose to value their trading stock at the end of the income year at cost, market selling value, or replacement value.
4. **Capital gains tax concessions:** Businesses can access a range of capital gains tax (CGT) concessions, including the CGT 15-year exemption, the CGT retirement exemption, and the CGT small business rollover.
5. **Pay-as-you-go (PAYG) installment concessions:** Businesses can use the ATO's installment amount calculated for them to pay their PAYG installments.
6. **Simplified record-keeping:** Businesses can use simplified record-keeping methods to calculate their GST and income tax obligations.
7. **Small business income tax offset:** Businesses with a turnover of less than \$5 million can access a small business income tax offset of up to \$1,000.

What Are Capital Gains Tax Concessions?

Capital gains tax (CGT) is a tax levied on the profits that arise from the sale of an asset, such as shares, property, or a business. In Australia, businesses can access a range of CGT concessions designed to encourage entrepreneurship and significantly reduce the amount of CGT to be paid, including the CGT 15-year, CGT retirement, and CGT small business rollover concessions.



Capital gains tax (CGT) is a tax levied on the profits that arise from the sale of an asset

Capital gains concessions are designed to provide tax relief to small business owners who sell assets that have appreciated in value. Under the current rules, eligible businesses can claim a range of concessions, including a 50% reduction in capital gains tax (CGT) on the sale of certain assets, as well as the ability to roll over the proceeds from the sale of one asset into another.

What Is the CGT Small Business Rollover Concession?

The small business rollover exemption is a capital gains tax (CGT) concession designed to assist eligible small businesses in deferring CGT obligations when selling or disposing of an asset. This concession allows small businesses to defer the payment of CGT if they use the proceeds from the sale of an asset to purchase a replacement asset for the business.

How Does the CGT Small Business Rollover Help My Business?

One of the primary benefits of this concession is that it allows small businesses to reinvest in their business without incurring significant tax obligations, providing them with the opportunity to grow and expand. This concession also offers additional flexibility to small businesses, as they can choose when to pay the CGT on the sale of the original asset, deferring payment until the replacement asset is sold.

It is important to note that while the small business rollover defers the payment of CGT, it does not exempt the small business from paying the tax entirely. Instead, it provides a temporary deferral of the CGT liability, which will eventually become due when the replacement asset is sold. Furthermore, businesses should seek professional advice when accessing this concession to ensure they meet all eligibility criteria and correctly apply the rollover.

How Can I Get the Small Business Rollover Exemption?

To access this concession, businesses must meet certain eligibility criteria. To begin, the business must have an annual turnover of less than \$50 million, and the asset must have been active for use in the business for at least 12 months before the sale.

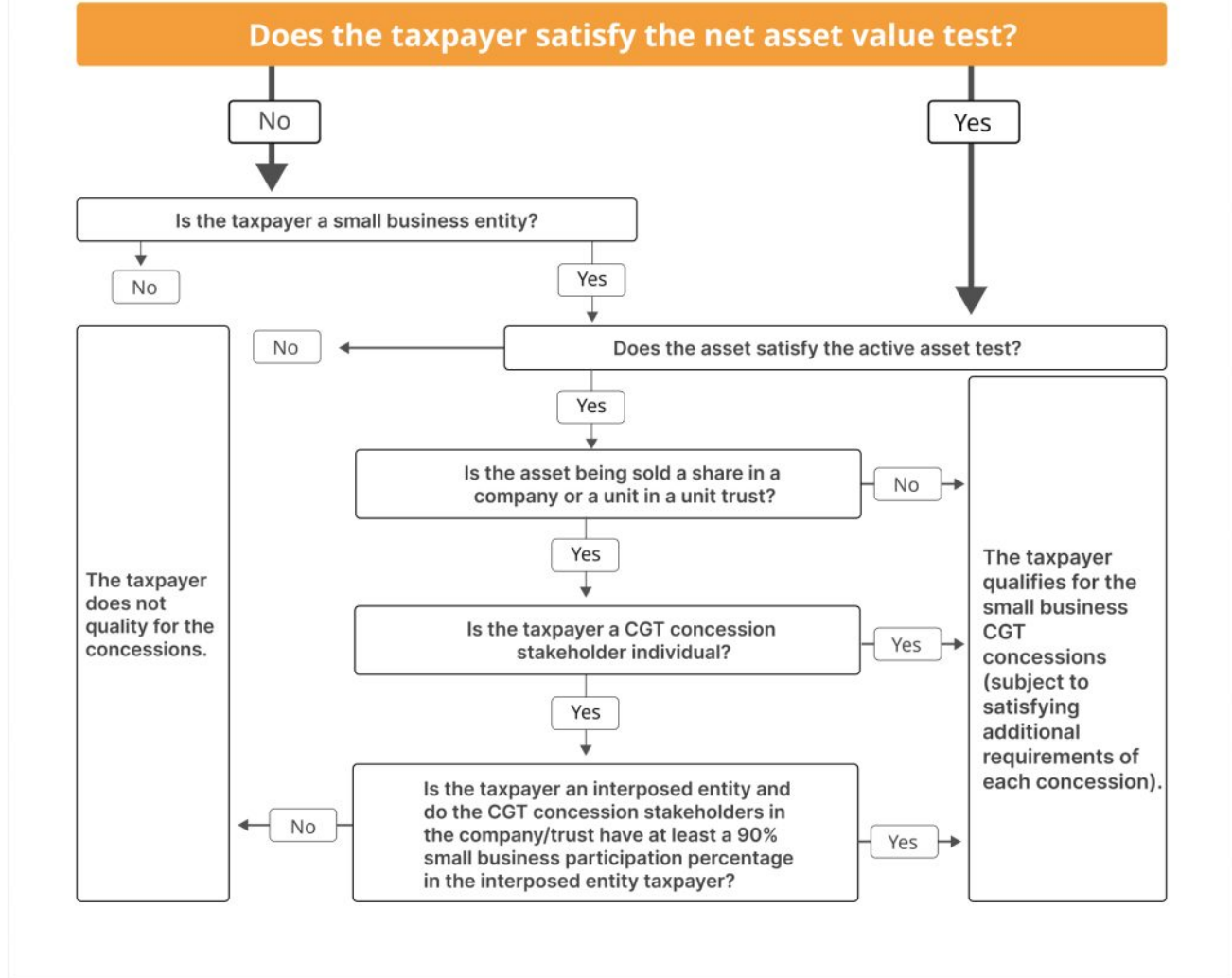


The asset must have been active for use in the business for at least 12 months

Furthermore, the proceeds from the asset's sale must be used to purchase a replacement asset within two years of the sale. The replacement asset must also be used for the same or similar business activity as the original asset. The CGT small business rollover is flexible and can apply to most assets, including shares, property, and businesses.

What are the eligibility criteria for CGT Concession?

A business must meet basic eligibility conditions common to all 4 concessions.



Eligibility criteria for CGT concessions

Step 1: You must be one of the following:

- a small business entity with an aggregated turnover of less than \$2 million
- not carrying on a business (other than as a partner) but your asset is used in a closely connected small business (passively-held assets)
- a partner in a partnership that is a small business entity, and the asset is either
 - o an interest in a partnership asset (partnership assets)
 - o an asset you own that is not an interest in a partnership asset (partner’s assets) but is used in the business of the partnership
- you satisfy the maximum net asset value test.

Step 2: The asset satisfies the active asset test.

Step 3: If the asset is a share in a company or an interest in a trust, it must meet additional conditions.

Step 4: The eligibility condition in this step applies to a CGT event happening after 7.30pm AEDT on 8 May 2018 that involves the creation, transfer, variation or ending of your right or interest to either:

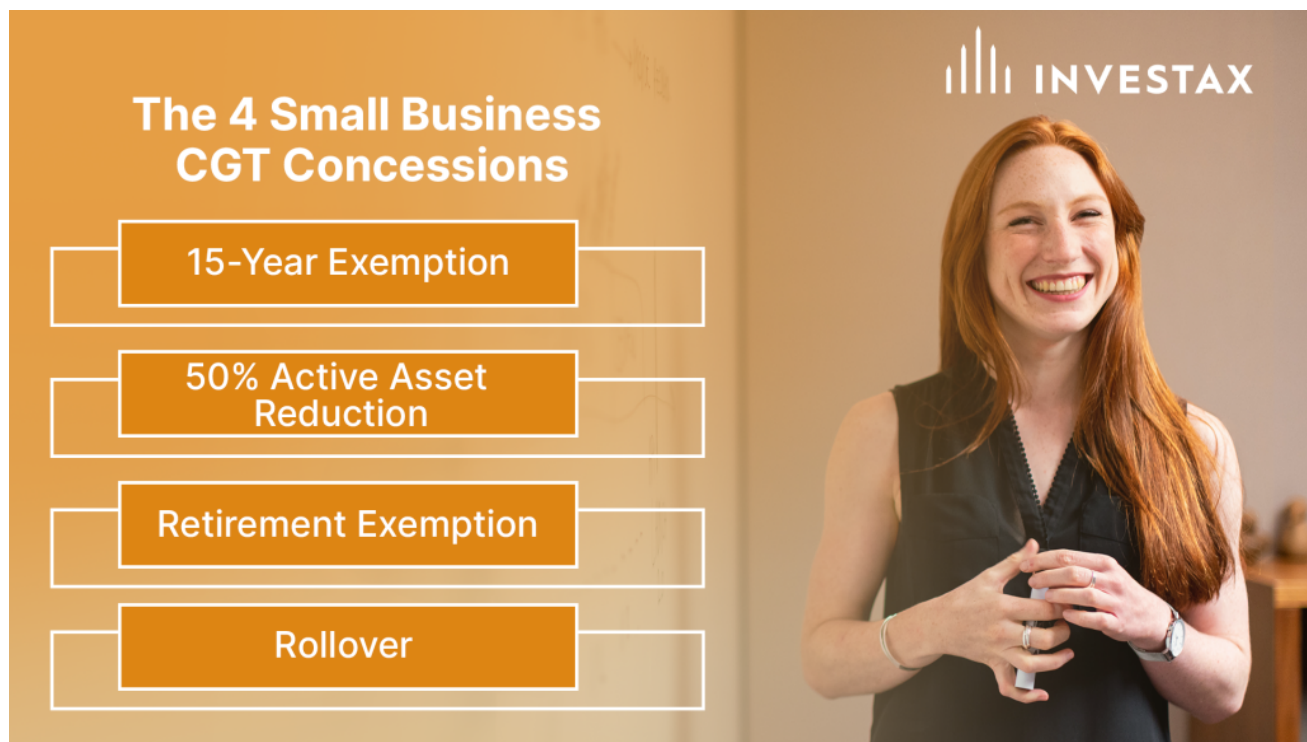
- an amount of income or capital of a partnership
- an amount calculated by reference to the entitlement of a partner in a partnership to an amount of the partnership's income or capital.

If the CGT event involved ending your right or interest, your right or interest must be a membership interest in the partnership immediately before the CGT event happens.

For all other cases, your right or interest must be a membership interest in the partnership immediately after the CGT event happens.

The 4 small business CGT concessions

All the concessions except for the small business 50% active asset reduction have additional requirements you must meet.



The 4 small business CGT concessions

Small business 15-year exemption

You will not pay CGT when you dispose of an active asset if you meet both of the following additional requirements:

- you are aged 55 years or older and retiring, or are permanently incapacitated
- you have continuously owned the asset for at least 15 years.

You may be able to contribute amounts to your super fund from the small business 15-year exemption without affecting your non-concessional contributions limits.

Small business 50% active asset reduction

You will only pay tax on 50% of the capital gain when you dispose of an active asset.

The small business 50% active asset reduction applies if you meet the basic eligibility conditions. It applies in addition to the CGT discount.

You may choose not to apply the concession if you prefer.

Small business retirement exemption

Capital gains from the disposal of active assets are exempt from CGT up to a lifetime limit of \$500,000.

If you are under 55, the exempt amount from the proceeds on disposal of the asset must be paid into a complying superannuation fund or a retirement savings account.

You may be able to use amounts from the small business retirement exemption as contributions to your super fund without affecting your non-concessional contributions limits.

Small business rollover

The small business rollover allows you to defer all or part of a capital gain made from a CGT event happening to an active asset.

For example, you can defer your capital gain until a later year if you buy a replacement asset or improve an existing active asset.

The replacement asset can be acquired one year before or up to 2 years after the last CGT event in the income year for which you choose the rollover.

Applying the small business CGT concessions

You can apply as many of the small business CGT concessions as you are eligible for until the capital gain is reduced to zero.

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

How a Tax Accountant Can Help

Small business owners in Australia can benefit from capital gains concessions, but the complex tax rules and regulations can make navigating the tax system overwhelming. This is where tax accountants can be a valuable asset. They can provide expert advice and guidance to small business owners on how to maximize their tax savings while staying compliant with the law.

Tax accountants can assist small business owners in determining whether they are eligible for the capital gains concessions and guide them on how to structure the sale of their assets to maximize their tax savings. They can also advise on other tax strategies that may be relevant to the business, such as using trusts, superannuation funds, or other investment vehicles.

In conclusion, small business owners can benefit greatly from working with tax accountants to take advantage of available tax savings while staying compliant with the law. Tax accountants can provide expert advice and guidance on capital gains concessions and other relevant tax strategies, as well as ongoing support and advice to ensure the business remains compliant with all relevant laws and regulations.

Investax accountants are experienced in working with small businesses, and they understand the unique challenges and opportunities that come with managing a small business. They can offer tailored advice and solutions to help small business owners optimize their tax savings and minimize their tax liabilities.

In summary, working with Investax accountants can provide small business owners with the expertise, support, and technology needed to navigate the complex tax system and maximize their tax savings. It is a valuable investment that can help small businesses thrive and grow in the long run.



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