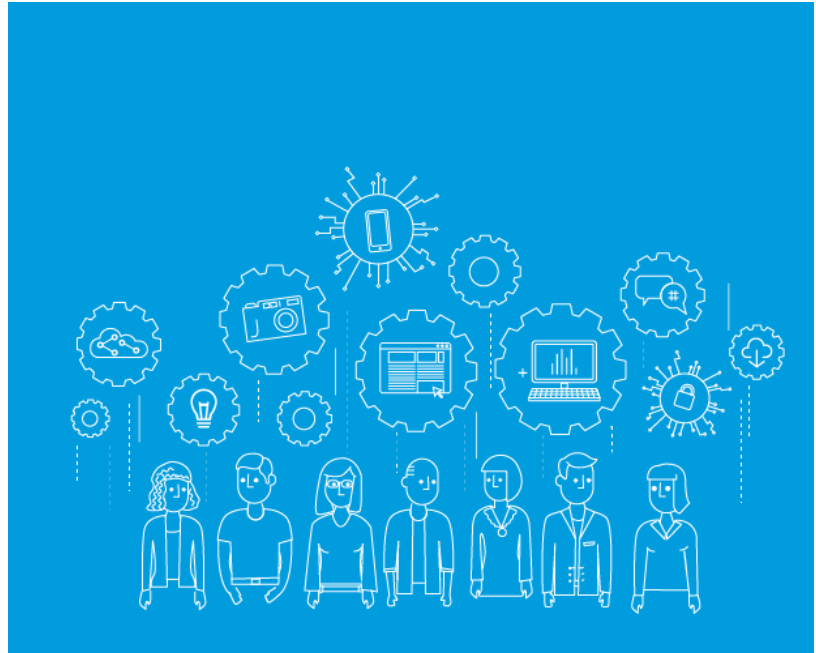


THE POWER OF BEING UNDERSTOOD

AUDIT | TAX | CONSULTING





SELL YOUR BUSINESS & PAY NO TAX

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Principal

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Disclaimer

- This presentation contains general information only and should not be used or treated as personal advice. Readers should rely on their own enquiries and that matters addressed in this paper are only some of the matters that should be considered when making decisions.
- Laws and practice change frequently and without warning, therefore, caution must be exercised before relying on any information.
- The information covers taxation advice for educational purposes only and taxation is only one factor to consider when making decisions.
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Sell your business and pay no tax

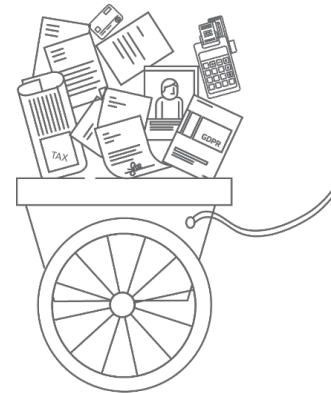
Agenda:

- What is Capital Gains Tax(CGT)
- The Small Business Entity(SBE) CGT Concessions
- Elements of a business sale
- Worked example
- Conclusion



What is capital gains tax(CGT)?

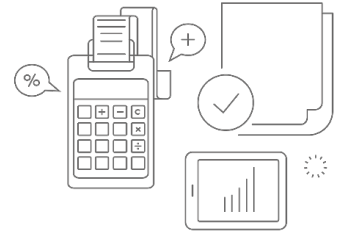
- CGT is not a separate tax or tax rate
- A capital gain or loss will occur on capital assets which are disposed
 - Land, shares & goodwill etc
- Capital gain or loss = capital proceeds – cost base
- The net capital gain may be reduced by:
 - Any eligible prior year or current year capital losses
 - The 50% 12 month discount, if eligible
- The net amount left after applying any capital losses or eligible discounts/concessions is included as assessable income in your tax return



Sell your business and pay no tax

SBE CGT Concessions

- 15 year exemption
 - Total exemption of the capital gain
- 50% active asset reduction
 - 50% reduction of the capital gain
- Small business rollover
 - Defer a capital gain for a minimum of two years
 - Rollover the gain into a replacement asset
- Retirement exemption
 - An exemption of capital gains up to a lifetime limit of \$500k



SBE CGT Concessions

The basic conditions must first be satisfied before you can apply one or more of the concessions

- Step 1
 - You are a CGT SBE. You are in business and your aggregated turnover is less than \$2 million, or
 - You satisfy the \$6 million maximum net asset value test
- Step 2
 - The asset in question is an active asset
- Step 3
 - This step only applies if the CGT asset is a share in a company or an interest in a trust

SBE CGT Concessions

- If the basic conditions are met you can begin to work through the concessions available
 - 15 year exemption
 - 50% active asset reduction
 - Small business rollover
 - Retirement exemption
- Some of the concessions have additional conditions depending on the taxpayers exact circumstances



Elements of a business sale

- Business sales can include the following elements
 - Stock on hand
 - Plant & equipment
 - Goodwill
 - Land
- Stock and plant & equipment are not capital assets
 - Any gain will be treated as business income
- Goodwill and land are capital assets
 - Must be used in the business
 - Can be owned by a connected entity



15 year exemption

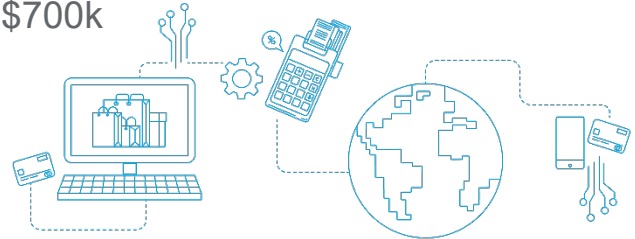
Jack decides to sell his business

- Jack sells his business in the 2022 financial year
 - Sole trader
 - Turnover for the 2022 financial year was \$1.8 million
 - Business has operated continuously since 2000
 - 56 years of age and intends to retire
 - No other income during the financial year



15 year exemption – no goodwill

- At the time of sale
 - The cost of the stock on hand = \$200k
 - The written down value(WDV) of the plant & equipment = \$500k
 - Cost base of any goodwill = \$0
- Jack negotiates a total sale price for the business of \$1million
- He and the purchaser agree in the contract to allocate the \$1million accordingly
 - Stock on hand = \$300k
 - Plant & equipment = \$700k
 - Goodwill = \$0

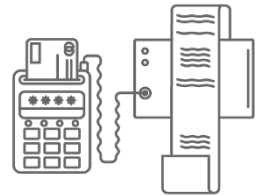


15 year exemption – no goodwill

Income item	Net result
Stock on hand(\$300k - \$200k)	\$100,000
Plant & Equipment(\$700k - \$500k)	\$200,000
Goodwill(\$0 - \$0)	\$0
Taxable income	\$300,000
Income tax payable	\$111,667

15 year exemption – goodwill

- Same facts except Jack and the purchaser agree on the following allocation in the contract
 - Stock on hand = \$200k
 - Plant & equipment = \$500k
 - Goodwill = \$300k
- Jack meets the basic SBE CGT conditions
 - Is an SBE
 - The goodwill is an active asset
- Jack qualifies for the 15 year exemption
 - Asset has been owned continuously for greater than 15 years and has been an active asset for at least 7.5 years
 - Jack is over 55 years of age and retiring
 - The exemption amount is below current lifetime cap of \$1.615 million



15 year exemption - goodwill

Sale proceeds	\$300,000
Less: cost base	(\$0)
Capital Gain	\$300,000
Less: 15 Year exemption*	(\$300,000)
Net assessable Capital Gain	\$0

*CGT lifetime CAP 2022FY = \$1,615,000

Capital losses, 50% 12 month discount & 50% active asset discount are ignored when the 15 year exemption applies

15 year exemption - goodwill

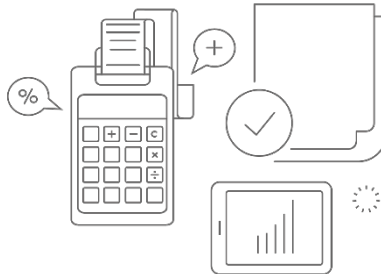
Income item	Net result
Stock on hand(\$200k - \$200k)	\$0
Plant & Equipment(\$500k - \$500k)	\$0
Goodwill(\$300,000 - \$300,000)	\$0
Taxable income	\$0
Tax payable	\$0

Comparison

Income item	No goodwill	Goodwill
Stock on hand	\$100,000	\$0
Plant & equipment	\$200,000	\$0
Goodwill	\$0	\$0
Taxable Income	\$300,000	\$0
Tax payable	\$111,667	\$0

Conclusion

- What exactly are you selling
 - Stock, plant & equipment, land or goodwill
- Be aware of the concessions available
 - Get advice well before you try and sell your business
 - Don't just assume you can access the concessions



Conclusion

- Understand your business structure
 - Can it access the concessions and how
 - Do you need to review your current setup
 - Is it worth making any changes
- The concessions are there to use
 - Build wealth in your business
 - Use the tax savings to buy a bigger replacement business
 - Have more money for retirement



Thank you
for your time
and attention