

Small Business Framework

You may be eligible for the small business tax concessions (set out below), which are only available to the small business entities.

Small business entity

An entity is a small business entity if it:

- carries on a business
- satisfies the \$2 million aggregated turnover test.

Broadly, an entity can satisfy the \$2 million aggregated turnover test if the total annual turnover¹ for the entity, its affiliates and entities connected with it is not more than \$2 million.

When an entity is determined to be a small business entity, it will be able to utilise these tax concessions provided it also satisfies any additional criteria that may separately apply to each concession.

Small business CGT concessions

The maximum net asset value threshold for accessing the small business CGT concessions is \$6 million. However, entities that satisfy the \$2 million aggregated turnover test can access the small business CGT concessions (even where they cannot satisfy the \$6 million net asset value test) where the following 'basic conditions' have been satisfied:

- the capital gain relates to an active asset used in carrying on a business
- the active asset has been used in carrying on a business for at least half the ownership period where it has been held for less than 15 years, or for at least seven and a half years where it has been owned for 15 years or more
- certain additional conditions are satisfied where the CGT asset is either a share in a company or an interest in a trust.

The following small business CGT concessions are available to eligible small businesses:

- the 15 year exemption
- the active asset 50% reduction
- the retirement exemption
- the small business rollover.

If you are considering selling your business you should ask us how you may benefit from accessing these concessions

¹ An entity's annual turnover is broadly the total ordinary income that the entity derives in the income year in the ordinary course of carrying a business and excludes goods and services tax (GST) and income derived from sales of retail fuel.

15 year exemption

In addition to the basic conditions for eligibility for the small business concessions being met, eligibility for the small business 15-year exemption requires that the entity claiming the concession must continuously own the asset for 15 years before it is sold. Where the entity is an individual, that person must be either over 55 years of age or be permanently incapacitated. Additional conditions will apply if the CGT active asset is a share in a company or an interest in a trust. Where all these conditions are satisfied, the capital gain will be fully exempt from CGT, and does not need to be reduced by any capital losses.

Active assets 50% reduction

The small business 50% active asset reduction is available if the basic conditions for small business CGT concessions are satisfied. The concession allows the remaining capital gain (after applying capital losses and the standard 50% CGT discount for individuals or trusts) to be further reduced by 50%.

Small business retirement exemption

Assuming the basic conditions are met, an entity may be able to choose an exemption of up to a maximum capital gain of \$500,000 where the proceeds are used for retirement. Such a gain can be disregarded where it is derived by a person aged 55 or over. If the retiree is under 55 just before making the choice, the amount equal to the gain must be contributed to a complying superannuation fund or a retirement savings account. The CGT exempt amount cannot exceed a \$500,000 lifetime limit per individual.

A company or trust selling an active asset may also choose to disregard an amount under the small business retirement exemption subject to various additional conditions being met.

Small business rollover

Where the basic conditions are met a small business entity can also choose to defer a capital gain if it applies the small business roll-over. The entity also needs to either acquire suitable replacement active asset or improve an existing active asset within two years of the sale of the active asset. If this does not occur, a capital gain will arise to the extent that the deferred capital gain is not applied to acquire replacement or improved active asset(s) within two years from the date of sale of the active asset.

Concession for superannuation contributions

Superannuation contributions made to a superannuation fund for or by an individual arising from small business CGT concessions may be covered by a CGT cap rather than the annual non-concessional contributions cap. This concession applies where the 15 year or the retirement exemption applies to disregard a capital gain and a payment into superannuation is required and/or permitted. The CGT cap amount for the 2012/13 income year is \$1,255,000 and is subject to a lifetime limit for each individual taxpayer.

Prepaid Expenses

Small businesses can claim an immediate deduction for prepaid expenses for a service period of 12 months or less, which ends in the following income year. For example, prepayments of subscriptions to professional associations, rent or insurance payments are immediately deductible.

Simplified trading stock rules

Provided that the difference between the value of the opening trading stock and the estimated closing stock of small business is \$5,000 or less, a small business entity does not have to account for changes in value of the trading stock. Otherwise, the entity must conduct a stock take and account for changes in value at the end of the income year.

Review of assessments

A small business entity has a two year tax assessment review period. This review period can be extended in circumstances where fraud or evasion of tax is involved.

PAYG instalment amounts

Small businesses will be eligible to calculate PAYG instalments based on the gross domestic product (GDP) adjusted notional tax method for cost and time saving purposes.

GST cash accounting

A small business entity can opt to account for GST either on a cash basis or accrual basis.

GST and annual private apportionment

When claiming GST input tax credits for business assets, a small business does not have to estimate how much it intends to use the assets for private purposes. Instead, it is required to make a single adjustment after the end of the income year to account for private use.

GST instalments

Small businesses can choose to pay GST by instalments and lodge a GST return annually. Depending on the nature of the business, the frequency of the instalment payments may be four quarterly instalments in an income year.



Fringe benefits tax

Small business entities can access the FBT car parking exemptions provided that the car parking is not provided in a commercial car park.

Given the above concessions, there may be substantial benefits potentially available to your business if you are eligible to be a small business entity, and we would be pleased to meet with you to identify any of the benefits potentially available.