E: advice@barrettwalker.com.au
www.barrettwalker.com.au

A: Suite 8, 150 Chestnut Street, Cremorne
P: (03) 9428 1033

For small business owners who are disposing of assets that have risen in value during the time they have owned and used them in their business, accessing one or more of the available small business capital gains tax (CGT) concessions can greatly reduce any consequent tax liability.

Indeed, many small business owners find they can reduce possible CGT liabilities to zero. For example, you can reduce the capital gain on an active asset by 50%, and in addition claim the general 50% CGT discount (which is available after owning any CGT asset for 12 months or more).

However, one critical condition to be able to access this 50% active asset reduction concession is that it must be, as the name suggests, an “active” asset.

WHAT IS AN ACTIVE ASSET?

A CGT asset is an active asset if you own it and:

- you use it or hold it ready for use in the course of carrying on a business (whether alone or in partnership)
- it is an intangible asset (for example, goodwill) inherently connected with a business you carry on (whether alone or in partnership).

The active asset test is satisfied if the asset was an active asset of yours:

- for a total of at least 7½ years during the test period, if you’ve owned it for more than 15 years, or
- for at least half of the test period, if you’ve owned it for 15 years or less.

The test period:

- begins when you acquired the asset, and
- ends at the earlier of
    - the CGT event (that is, its sale), and
    - when the business ceased, if the business in question ceased in the 12 months before the CGT event (or such longer time as the ATO allows).

The periods in which the asset is an active asset do not need to be continuous. However, they must add up to the minimum periods specified above, depending on the total period of ownership. The asset does not need to be an active asset just before the CGT event.

THE OPTIONS

Unlike the other small business concessions, the small business 50% active asset reduction applies automatically if the basic conditions are satisfied, unless you choose for it not to apply.

Continued overleaf

You might prefer for it not to apply, and instead choose the small business retirement exemption or the small business rollover, if this gives you the best result for your circumstances. For example, a company or trust may make larger tax-free payments under the small business retirement exemption.

Otherwise, the small business retirement exemption or the small business rollover (or both) may apply to the capital gain that remains after applying the small business 50% active asset reduction.