BUSINESS ACCELERATOR MAGAZINE

Your Quarterly Business, Tax & Accounting newsletter to help you grow your business

SEPTEMBER 2022

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Build Your Business & Grow Your Wealth

Understanding small business CGT concessions

If you're a small business owner and own business assets, chances are you know what Capital Gains Tax (CGT) is and when it's applied.

But did you also know small business owners may qualify for a number of CGT concessions when they sell a business asset? And these CGT concessions can save you lots of money at tax time.

So, if you have an asset that's increased in value since you bought it, and you're thinking of selling, it's a good idea to understand small business CGT concessions before making the final decision to sell.

What is Capital Gains Tax (CGT)?

Introduced in September, 1985, any asset you've acquired since then is subject to CGT, unless otherwise exempt. When you sell or dispose of any asset, the difference between what you paid for it and the amount you sell it for is called a capital gain. If you sell your asset for a loss, it's then called a capital loss.

When it comes to CGT and small business, the Australian Taxation Office (ATO) advises:

"CGT affects businesses when certain events happen, such as selling commercial premises or a business.

You can disregard or defer some or all of a capital gain from an active asset with the small business CGT concessions.

Depreciating assets, such as business equipment, are generally exempt from CGT unless you use them for a private or other non-taxable purpose.

- You can find out more about CGT on the ATO website page - Capital Gain Tax , including:
  - What is CGT
  - Which assets are subject to or exempt from CGT
  - What happens when you dispose of an asset
  - how to calculate your CGT

Small business GCT concessions

The small business CGT concessions let you reduce, disregard or defer some or all of the CGT from an asset used in your small business. The concessions become available when you sell the asset and meet eligibility requirements.

CGT eligibility requirements

The ATO advises the basic eligibility steps you need to meet.

First of all, you need to 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
- an interest in a partnership asset (partnership assets)
- 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.

The asset then needs to satisfy the active asset test and, if it's a share in a company of interest in a trust, it needs to meet some additional conditions.

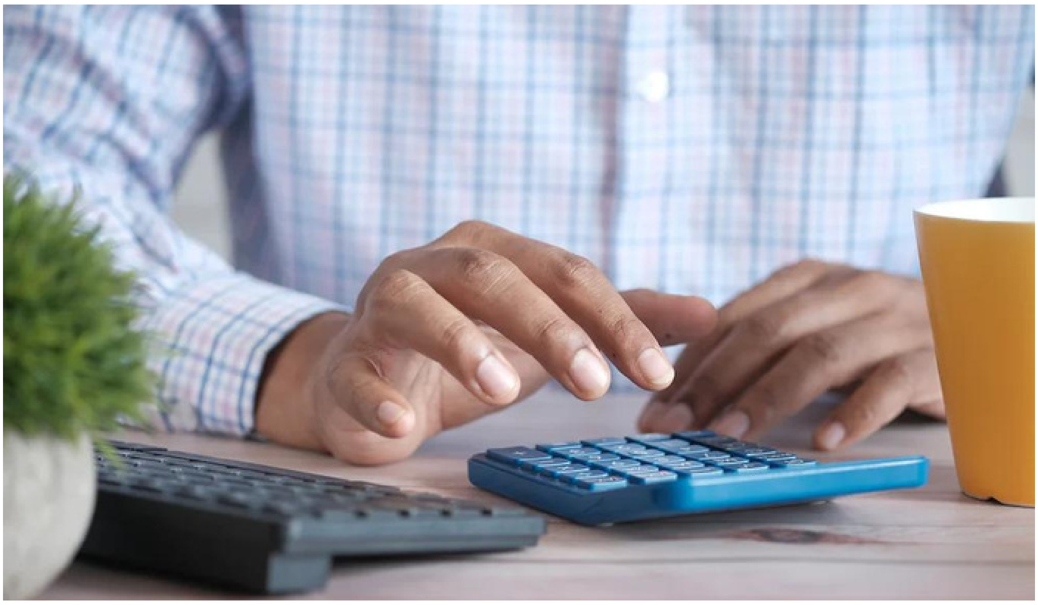
There are also some additional conditions if the CGT event happened after 7.30pm AEDT on 8 May 2018. Which you can read about in step 4 on the ATO website page.

What's a CGT event?

The ATO defines a CGT event as the time you sell an asset that's subject to CGT, because that is when you make a capital gain or loss on the asset. Other CGT events include the loss or destruction of an asset, or the creation of contractual or other rights.

The type of CGT event that applies to your situation may affect:

- the time when the CGT event happens
- how to calculate your capital gain or loss.



The four CGT concessions for which you may qualify

There's four small business CGT concessions that apply to CGT events:

- 15 year exemption
- 50 percent asset reduction
- retirement exemption, and;
- rollover

15 years exemption

You won't pay CGT if you dispose of an asset and meet both of these requirements:

- you're aged 55 years or older and retiring or permanently incapacitated
- you've continuously owned the asset for at least 15 years.

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

50 percent asset reduction

You'll only pay tax on 50 percent of the capital gain when you dispose of an active asset.

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

You can also opt not to apply this concession.

Small business retirement exemption

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

If you're under 55, the exempt amount needs to be paid into a complying superannuation fund or retirement savings account.

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

You don't have to shut down your business at the same time. The goal of this concession is to help you fund your retirement.

Rollover

The small business rollover lets you defer all or some of a capital gain for up to two years.

You can rollover even longer if you buy a replacement asset or improve an existing one in the income year you choose the rollover.

How many CGT concessions can you claim?

You're entitled to apply as many of the CGT concessions as are applicable until your capital gain is reduced to zero. Although, there's rules about the order you apply the concessions, any current year or prior year capital losses and the CGT discount.

It's easy to see these small business CGT concessions are designed to help boost your super or retirement savings.

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Top 5 things to think about for RETIREMENT PLANNING

Gone are the days when retiring was easy.

The self-conscious display of thanks from work colleagues, followed by the gracious acceptance of a well-meaning gift. Then a trip to the local watering hole where everyone downed the obligatory two drinks then quietly disappeared.

The retiree was then left with nothing more taxing to do than ponder how they would fill their blissful, work-free days from now until eternity.

With Australians living longer, retirement is more than just a few years. This means there's much more to think about so we've put together a list of things to consider if you're looking to retire this year.

Life expectancy

Baby Boomers are starting to retire. They're also living longer, are young longer (called down ageing) and are absolutely not going to quietly fade into the background. If you love a good statistic, you'll want to read our article about Baby Boomer wealth statistics in Australia. However, to cut to the chase, the Australian Institute of Health and Welfare (AIHW) tells us:
'Men aged 65 in 2017–2019 could expect to live another 20.0 years (an expected age at death of 85.0 years), and women aged 65 in 2017–2019 could expect to live another 22.7 years (an expected age at death of 87.7 years).'

Although Australia doesn't have a fixed retirement age, according to the Australian Bureau of Statistics (ABS), the average age of retirement is 55.4 years.
That means, today's retiree will need to sustain themselves for around 30 years. While it's no secret Baby Boomers are the wealthiest generation in history, unless they've put time into some considered estate planning, they may not have access to the cash they need to support their current lifestyles on a day to day basis.

How much money will you need to retire comfortably?

We addressed this question in greater detail here but, as with everything, it all depends. What does retirement look like for you? Do you plan on travelling the world in the lap of luxury? Or is maintaining your current lifestyle, just with a lot more free time, your idea of a perfect retirement?

The accepted wisdom is you'll need around two-thirds (67 percent) of your pre-retirement income to maintain your standard of living. In fact, the Association of Superannuation Funds of Australia (ASFA) has estimated how much money you'll need, according to lifestyle.

The 2020 Global Retirement Reality Report found 42 percent of Australians are not optimistic about their retirement. They had similar results when they asked the same question in 2018.

The report noted:
'Although not a direct result of COVID-19, we continue to see a lack of retirement confidence in Australia. The crisis has only exacerbated long-standing issues around lack of savings and uncertainty of retirement outcomes.'

With about 50 percent of the Australian population relying on the government's Age Pension as their main income source, and many people having dipped into their Super during the pandemic, it's no wonder people are worried.

ASFA Retirement Standard	Annual living costs	Weekly living costs
Couple – modest	$40,380	$774
Couple – comfortable	$61,909	$1,186
Single – modest	$27,902	$535
Single – comfortable	$43,687	$837

Source: ASFA Retirement Standard, June quarter 2020

Do you really want to retire?

Do you really want to retire? Or are you planning to retire this year because you're at retirement age and feel you should just retire?

We already know there's no hard and fast rules around a retirement age so, if you don't want to, then why do it?

Your health is good. Your love your life just the way it is. Maybe you've already handed off some work to your kids (if you're running a family business) or dropped down to part time work. You don't have any grand plans that require you not working so, is full time retirement really for you this year?

Have you considered a transition to retirement income stream?

If you do happen to be someone who doesn't want, or need to, retire completely, you're in luck. Maybe you like the idea of working 1 to 2 days, especially now that working from home is a thing.

Or perhaps your finances just won't allow you to retire 100 percent. Whatever the reason, you may want to think about a transition to retirement (TTR) income stream.

What is a TTR?

A transition to retirement (TTR) scheme means once you reach around 55 to 60 years and you're still working, you can begin to access your super to supplement your income. When this happens will depend on your superannuation preservation age, the age when you can legally access your super. And your preservation age is determined by your date of birth.

Using a TTR strategy, a transition to retirement income stream (TRIS), means you can boost your superannuation, save tax and keep working.

It's worth mentioning that if you're over 60, any money you get from a TTR pension is completely tax free. Even if you're under 60, by making voluntary concessional contributions to your super, or salary sacrificing, you're taxed on these at the concessional tax rate of 15 percent.

Retirement has changed

The world has changed a lot in the last 50 years. We're living longer, staying younger and people don't want the same things their parents did. Far from fading into the shadows and becoming on-call babysitters for grandkids, today's retirees are shaking things up. Baby Boomers grew up in a different world and they'll be retiring (or not) into a different world again.

Date of birth	Preservation age
Before 1 July 1960	55
1 July 1960 – 30 June 1961	56
1 July 1961 – 30 June 1962	57
1 July 1962 – 30 June 1963	58
1 July 1963 – 30 June 1964	59
From 1 July 1964	60

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Stabilise supply chain cash flow to SURVIVE RATE RISES

With supply chain uncertainty and rising cost, your cash flow forecasting could help manage the impact. Master your supply chain cash flow to make and reach business targets, and take the right amount of risk for your business.

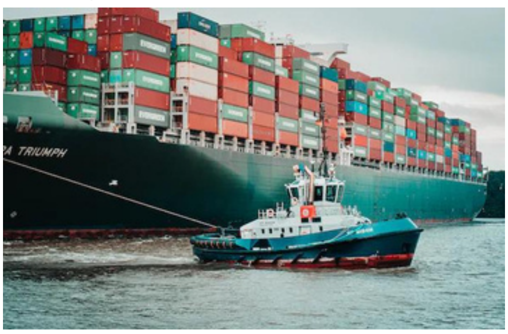
A perfect storm of costs and risks

As market conditions and logistics challenges put global supply chains under immense pressure, interest rates are rising and inflation looms.

The cost of manufacturing in Australia is the highest of the world's top 25 exporting nations; 30% more than the USA. The price of materials continues to creep up – particularly concrete, steel, timber and PVC-based products – compounded by record prices for raw materials like copper and iron ore.

These conditions — with rising inflation and interest rates — create a perfect storm of supply chain risk.

Many small businesses are saddled with record-high levels of debt thanks to funding their growth with 'cheap money' at low rates. Now, interest rates drive higher repayments, so there's less cash on hand, and it's tougher to secure more funding.



It's never been more important to understand your cash flow

Know what to expect with your cash flow and the scenarios for rising interest rates and costs. Take a look at:

- Your cash flow position
- Managing your supply chain to minimise risk
- Assessing your suppliers and customers
- Surviving a cash flow crisis.

How to assess your cash flow position

Are you basing your cash flow management on gut feel, or your account balance on any given day? Knowledge is power. Regularly forecasting your cash flow means you're making informed business decisions.

Timing is crucial, so keep inflow and outflow estimates accurate.

To forecast your cash flow:

1. Forecast your monthly sales income. Look at last year's figures to spot any trends. Keep in mind how quickly customers

- tend to pay, and economic factors like unemployment and interest rates.
- Estimate your cash inflows (sources of cash other than sales). Include funds from asset sales, GST rebates and tax refunds, and government grants.
- Estimate cash outflows and expenses. Include costs for operations, administration, new assets, loan repayments, bank fees and investments.
- Update your cash flow forecast. Start with actual cash on hand, add all the cash inflows, and deduct the cash outflows, for each month. The number at the end of each month is your closing cash balance — and your opening cash balance for the month ahead.
- Review estimated against actual. Compare your estimated versus actual cash flows each month. Look for errors or gaps, and adjust your forecast to match.

Get started with the ATO's cash flow forecasting template.

Tools of the trade

BALANCE SHEET

It pays to maintain an ongoing balance sheet — also known as a statement of financial position. It details your assets, liabilities and shareholder equity.

It's crucial for understanding your financial foundations and planning for both stormy economic conditions and for growth.

P&L

YOUR PROFIT AND LOSS IS ANOTHER KEY PIECE OF YOUR FINANCIAL PUZZLE. IT SUMMARISES REVENUE, COSTS AND EXPENSES INCURRED DURING A SPECIFIC TIME – USUALLY PER QUARTER AND ANNUALLY.

Your balance sheet and P&L paint a picture of business stability, profitability and operating health.

Managing your supply chain for healthy cash flow

Preparation makes for smarter supply chain management. Get on the front foot by identifying supply chain risks and making plans to manage them as part of your overall business continuity plan (BCP).

Measure and manage your known risks over time – like supplier bankruptcy, a cybersecurity breach, or a raw material shortage. Then allow for unknown risks which are unpredictable and beyond your control – like the weather or economic decisions.

Use all the information you have to minimise risk

- **Revisit your budget.** Interrogate actual and forecast expenses and look for opportunities to eliminate unnecessary costs.
- **Consider offset accounts**. Put your operating cash flow in an offset account that reduces loan interest without tying up your cash.
- **Limit your use of debt.** Keep an eye on interest rates and be prudent with debt. Consider putting off any new debt and paying down existing loans to keep interest under control.
- **Get proactive about scenario planning.** Get expert eyes on your business financial forecasting.

Assessing your suppliers for risk

Consider your current contracts, terms and relationships.

- Create a supplier questionnaire to identify and assess potential risks before engaging with a new supplier.
- Revisit your payment terms with suppliers and customers — consider tightening terms or offering early payment discounts to avoid cash flow delays.
- Assess payment history and identify late-payers. Are they risking your cash flow? Is the revenue worth the risk?
- Consider minimum and maximum order quantities to control costs and encourage bulk orders.

Cash flow crisis? Act fast.

If you find yourself overwhelmed in a cash flow crisis, stay calm. Get the right support to steady the ship with a few simple actions.

- **Accelerate your receivables.** Ask new customers for an upfront deposit, send invoices earlier, follow up overdue accounts and offer early payment discounts.
- **Renegotiate rates or ask to delay payments.** Some vendors might not budge, but others might give you some leeway in a tight situation.
- **Create debt payment plans.** Buy your business some time with a debt payment plan to pay down loans in manageable chunks.
- **Get expert support.** Cash flow management can be a steep learning curve. Reduce the overwhelm by talking to your accountant about getting your cash flow on track.

Steady the ship

As inflation and interest rates force up costs, focus on what you can control: stay vigilant across Accounts Payable and Accounts Receivable and maintain an ongoing cash flow forecast. If you hit troubled waters – like an overdue debt or ATO payment – ask for a payment plan that keeps it moving.

Managing cash flow through choppy economic waters is simpler with trusted financial advice. Talk to your accountant or business advisor to ensure you're on an even keel.

Keep cash flow consistent with accurate forecasts. Plan for rising costs with expert advice.

Get in touch with us today if you want to chat about anything in this newsletter.

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