



Capital Gains Tax and Discretionary Trusts Reform Small Business Explainer

What you need to know

Small business CGT and discretionary trusts quick facts

Your CGT Safety Nets Are Locked In

- The four small business capital gains tax (CGT) concessions are **staying**. If you sell your active business to retire, start a new business, or relocate, you can still reduce or completely remove tax on any gains if you meet the eligibility criteria. The most recent data shows that over 90 per cent of active businesses are eligible.

Past Gains Are Not Affected

- The new CGT rules don't start until **1 July 2027** and are entirely prospective. Any business value you build up before this date keeps the old 50 per cent discount rule, no matter when you sell down the track.

A Shift to Indexation

- From 1 July 2027, the flat 50 per cent CGT discount is being replaced by a **new discount for inflation** and a **30 per cent minimum tax rate** on real gains. This ensures you only pay tax on your *real* capital gains, because your cost base at that date is indexed for inflation.

Trusts

- For the minority of small businesses that use a discretionary trust, a new 30 per cent minimum tax will apply. It is expected that over 90 per cent of Australia's 2.7 million active small businesses will not be affected in any given year. Small businesses will be supported if they choose to restructure, primary production income (such as farming) is exempt, and other trusts (like fixed trusts) are also exempt.

How different assets are treated

CGT Business Assets

- Selling your business name, client database, commercial real estate, or business goodwill triggers a CGT event. These assets will have the new discount for inflation applied from 1 July 2027, and you can access the CGT concessions if eligible.

Tools and Equipment

- Everyday tools of your trade (like work vans, computers, or tools) are **not** subject to CGT. Selling them is handled through standard income or deductions.

Trading Stock

- Buying and selling your regular retail shop inventory or raw manufacturing materials has nothing to do with CGT. These are treated as normal income and processed in your annual tax return.

Businesses run through a trust

The New 30 per cent Minimum

- From **1 July 2028**, a new 30 per cent minimum tax will apply to discretionary trusts at the trustee level to bring trust tax settings closer to those for ordinary wage earners.

The Employee Alternative

- If your family members genuinely work in your business, you can pay them regular employee wages or salaries instead of trust distributions, as normal wages or salaries will not attract this 30 per cent minimum trust tax.

Three Years of Restructuring Relief

- For businesses or others that would prefer to restructure, the Government will provide a **3-year window to access rollover relief starting 1 July 2027**. This will mean you can change your business setup into other structures, including a company or a fixed trust, without triggering income tax or CGT liabilities because of the restructuring.

Exemptions

- Primary production income is excluded, as is income from assets of discretionary testamentary trusts existing at the time of announcement. Other types of trusts, such as fixed trusts, are also excluded. Please refer to page 3 of the Budget Tax Explainer for further detail on exemptions.

- Small businesses that choose to restructure into a company may benefit from access to dividend imputation and a lower 25 per cent corporate tax rate. Companies also provide simpler ways to retain earnings, access debt financing and introduce new equity.
- Restructuring into a fixed trust will allow a business to retain certain benefits of a trust structure, such as asset protection and flow-through treatment, while providing beneficiaries with fixed entitlements.

Further consultation

- The Government will consult further on the detailed design of these reforms as they are progressed through tranches of legislation.
- Consistent with the Budget papers, consultation will include a focus on key issues affecting small businesses and start-ups, and how the changes operate in practice and interact with existing settings.
- This provides an opportunity for small businesses, start-ups and other stakeholders to engage with Government and help shape the final design of the reforms.

Where to access support

Australian Small Business and Family Enterprise Ombudsman (ASBFEO)

- From **January 2027**, ASBFEO will be available to assist you to understand options available to you and where you can get further advice.

Ask your accountant

- The most recent data shows that over 90 per cent of active businesses are eligible for small business CGT concessions, and it is expected that over 90 per cent of active small businesses will not be affected by the minimum tax on discretionary trusts in any given year. If in doubt, a registered tax practitioner or qualified tax-relevant provider is well-placed to advise you on your eligibility or entity structure.

Australian Securities and Investments Commission

- The corporate regulator, ASIC is putting specific arrangements in place to support small businesses that wish to incorporate as companies.

\$3.5 billion in new measures that lower taxes for businesses

Beyond the changes to the CGT and discretionary trusts, the Budget also includes measures to support small businesses to invest, innovate and build resilience:

Making permanent the \$20,000 instant asset write-off:

- Small businesses with turnover up to \$10 million can instantly write off assets that cost less than the asset threshold of \$20,000. The threshold applies on a per asset basis, so eligible businesses can write off multiple assets.
- This provides \$890 million in cash flow support over five years from 2025–26.

Permanently introducing two-year loss carry back:

- For tax years commencing on or after 1 July 2026.
- Companies with aggregated annual global turnover of less than \$1 billion will be able to carry back a tax loss and offset it against tax paid up to two years earlier.
- Up to 85,000 companies a year, the majority being small businesses, will be eligible to carry back some or all of their loss.

Introducing loss refundability for start-ups:

- For tax years commencing on or after 1 July 2028.
- Start-up companies with aggregated annual turnover of less than \$10 million that generate a tax loss in their first two years of operation will be able to utilise the loss to generate a refundable tax offset. The offset will be limited to the value of fringe benefits tax and withholding tax on wages paid in respect of Australian employees in the loss year.
- This helps new businesses invest and grow in their first two years and up to 25,000 start-ups a year will be eligible to offset some or all of their loss.

Expanding tax incentives for venture capital:

- From 1 July 2027, the Government will update the venture capital tax settings by increasing the Venture Capital Limited Partnership (VCLP) cap on the asset size of the investee business at the time of investment to \$480 million (from \$250 million), and increasing the Early Stage Venture Capital Limited Partnership (ESVCLP) cap to \$80 million (from \$50 million), alongside increasing the ESVCLP tax incentive cap – at which investment returns can be fully tax exempt, to \$420 million (from \$250 million).
- These measures help to unlock patient capital and industry knowledge for young, expanding firms that can find it hard to access traditional finance.

You can read more about our \$3.5 billion in new measures that lower taxes for businesses here: [Budget 2026–27 Backing Small Businesses – Fact Sheet](#)

What's changing?

Capital gains tax (CGT)

- From 1 July 2027, the flat 50 per cent CGT discount is being replaced by a new discount for inflation and a 30 per cent minimum tax rate on real gains. This only applies when a relevant business asset is sold.
- The four small business CGT concessions are staying. Over 90 per cent of Australia's active businesses will continue to be eligible. These allow eligible small businesses to reduce, defer or eliminate tax on capital gains from active assets used in their business. The four small business CGT concessions are detailed in the table on page 8.

Examples

Example 1 – 15-year exemption

Joe is an eligible small business owner. Joe plans to retire and sells his barber shop which he's owned for 15 years. He applies the small business 15-year exemption to disregard the entire capital gain from the active assets of the business. There is no CGT liability, and an effective tax rate of zero. The changes announced in the Budget do not affect Joe.

Example 2 – 50 per cent active asset reduction

Mei is an eligible small business owner (sole trader) who buys a café in 2028 for \$200,000, makes further investments of \$20,000 in the business, and sells it five years later for \$300,000. Using the new discount for inflation, her cost base is \$250,000 and her real capital gain is \$50,000. As the gain relates to 'active assets', Mei applies the small business active asset reduction to reduce the taxable gain by 50 per cent, so that she only pays tax on a total taxable net capital gain of \$25,000. Mei also had a taxable income from other sources of \$70,000 in the year she sells.

Mei's effective tax rate is 10 per cent on the \$80,000 nominal gain (the proceeds from selling her business less the total investment she made).

Example 3 – Active asset rollover exemption

Priya is an eligible small business owner who has owned a pet grooming business for 10 years. She operates her business from a premise she purchased in 2029 for \$130,000. She plans to go on maternity leave and sells the business premises for \$300,000. She has no other income for the year, or capital losses from past years. She uses the new discount for inflation to determine a cost base of \$185,000, including further ongoing investments in the business. Priya's real capital gain is \$115,000. She then applies the small business active asset reduction to reduce the gain by a further 50 per cent. Her total taxable net capital gain is \$57,500. If Priya plans to buy another business after maternity leave, she may be able to defer her taxable net gain under the active asset rollover exemption, as long as she reinvests in a new asset within a two-year window. This could reduce her taxable income and her effective tax rate on the gain to zero in the year she takes her maternity leave.

Example 4 – Stacking concessions

Brian and Casey operate their family farming business through a trust for 10 years and are eligible small business owners. Both Brian and Casey benefit from the business operated through the trust and pass the significant individual test.

The trust sells farmland used in the business and makes a \$1 million capital gain, after applying the 50 per cent discount for gains up to 1 July 2027, and indexation (based on the 1 July 2027 value) for gains after 1 July 2027.

The gain may be reduced through the small business CGT concessions in stages to nil and the effective tax rate on the capital gain would be zero:

- First, as the farmland was actively used in the business, the 50 per cent active asset reduction would reduce it further to \$500,000.
- Second, the trustee chooses the retirement exemption for the remaining \$500,000 gain. If Brian and Casey have sufficient remaining lifetime exemption caps (currently, the lifetime limit per person is \$500,000), the trust can disregard the amount, reducing the remaining gain to nil.

Alternatively, had Brian and Casey held the farmland for more than 15 years, and the sale is in relation to their retirement, the gain would be disregarded in its entirety under the 15-year exemption.

Minimum tax on discretionary trusts

- From 1 July 2028, the Government will introduce a 30 per cent minimum tax on discretionary trusts. This will mean a fairer rate of tax paid on discretionary trust income, better aligning the tax rate on trust income with the tax rates paid by workers.
 - The tax will be paid by the trustee, as it is the trustee who controls distributions.
 - Beneficiaries will still need to declare their income from trust distributions, but beneficiaries, other than corporate beneficiaries, will receive non-refundable credits for the tax payable by the trustee.
- It is expected that over 90 per cent of Australia's 2.7 million active businesses will not be affected by the minimum tax on discretionary trusts in any given year.
 - Around 350,000 active small businesses operated through a discretionary trust structure in 2022–23 (less than 15 per cent of all active small businesses). Of these, around 40 per cent (140,000 small businesses) are not expected to pay additional tax or need to restructure in any given year.

Rollover relief for businesses using discretionary trusts

- Rollover relief will be available to assist small businesses and others that wish to restructure out of a discretionary trust into other arrangements, such as a company or a fixed trust.
- This will provide expanded relief from income tax consequences, including capital gains tax, for those who choose to restructure, and will be available for three years from 1 July 2027.
- Key aspects of the changes, including the rollover relief, will be finalised following consultation with stakeholders.

Assistance for small businesses

- From 1 January 2027, the Australian Small Business and Family Enterprise Ombudsman will be available to assist small businesses to understand the options available to them and where they can get further advice.
- Specific arrangements will be put in place by the Australian Securities and Investments Commission to support small businesses that wish to incorporate.

Next step

- Small businesses should consult a registered tax practitioner or qualified tax-relevant provider such as a qualified accountant for more detailed questions about individual business circumstances.



What are the existing small business CGT concessions?

Small businesses with an aggregated annual turnover of less than \$2 million, or assets with a net value of less than \$6 million, can access four small business CGT concessions. Assets generally need to be active (that is, used in the business). The relevant taxpayer can apply for as many concessions as they are entitled to – this may reduce the capital gain to zero.

Small business CGT concessions

Concession	Explanation
The 15-year exemption	<p>A taxpayer can reduce or completely disregard a gain from an asset that has been owned continuously for at least 15 years where the owner is retiring (and it was an 'active asset' for at least 7.5 years, if owned more than 15 years).</p> <p>If the taxpayer is an individual, the CGT event must be in connection with the retirement of a 'significant individual' who is 55 or older; or their permanent incapacity.</p>
The 50 per cent active asset reduction	<p>If the asset was actively used in the business, the 50 per cent reduction automatically applies, unless the taxpayer chooses not to.</p> <p>Where applicable, this is on top of any generally available CGT discount. For gains before 1 July 2027 this is on top of the 50 per cent CGT discount, and for gains after 1 July 2027 will be on top of the discount for inflation.</p>
The retirement exemption	<p>A taxpayer can disregard up to \$500,000 of capital gains over their lifetime, even if they are not retiring. If they are under 55, the amount must be paid into a complying superannuation or retirement savings account.</p>
The active asset rollover concession	<p>A taxpayer can choose to roll over a gain. Broadly, the replacement asset period starts one year before and two years after the CGT event. If at the end of the period, there is no replacement asset, then the gain must be included in the taxpayer's tax return.</p>

How the system works – before and after the changes

Feature	Current system	Changes & timeline
CGT discount	50 per cent discount for individuals and trusts.	From 1 July 2027, a new discount-based indexation of cost base and a 30 per cent minimum tax on capital gains .
Tax on discretionary trust income	Income generally taxed at beneficiary marginal rates.	From 1 July 2028, 30 per cent minimum tax on discretionary trusts applied at trustee level . Beneficiaries, other than corporate beneficiaries, will receive non-refundable credits for the tax payable by the trustee.
Small business CGT concessions	4 concessions available if eligibility criteria met.	4 concessions remain available if eligibility criteria met.
Restructuring	Limited rollover options.	From 1 July 2027, expanded rollover relief (3 years) .
Instant asset write-off	Temporary \$20,000 IAWO set to expire 30 June 2026.	Permanent \$20,000 IAWO from 1 July 2026 .
Loss carry-back	Not available	Permanently introducing loss carry-back for companies up to \$1 billion in turnover from 1 July 2026.
Loss refundability	Not available	Introducing loss refundability for start-ups from 1 July 2028. Refunds will be limited to fringe benefits tax and PAYG withholding tax paid in the relevant year.
Research & Development Tax Incentive	For businesses up to \$20 million turnover: Offset rate 18.5 per cent, supporting expenditure eligible, minimum R&D spend \$20,000, offset refundable.	From 1 July 2028, for businesses up to \$50 million turnover: Offset rate 23 per cent, supporting expenditure not eligible, minimum R&D spend \$50,000, offset refundable for businesses younger than 10 years and non-refundable for businesses older than 10 years.
Working Australians Tax Offset	Not available	From 2027–28, \$250 Working Australians Tax Offset to provide a tax cut for every working Australian taxpayer. This is expected to benefit around 1.5 million sole traders.