CHARITABLE GIVING & CGT CONCESSIONS

Selling a business can provide a unique opportunity to boost your philanthropic giving. This Case Study outlines how charitable gifts, in conjunction with small business concessions, can minimise taxation liabilities arising from the sale of a business.

SCENARIO

- Robert, a 38 year old IT professional, receives an offer to acquire his business for $5 million dollars. The business is operated by a company and the buyer is agreeable to purchasing the company's shares.
- The company is owned by Robert and his wife Teresa's family trust and has a nominal share capital.
- Robert has been offered employment to head a new division to explore innovative IT strategies. Consequently none of the sale proceeds will be reinvested into a new business venture.
- Stuart, their accountant, advises them on the tax ramifications of the proposed sale and determines that the trust is eligible to apply for the small business CGT concessions.

Tax payable by company on sale of business

Proceeds on sale of business	$5,000,000
Less: 50% general CGT discount	($1,500,000)
Less: 50% active asset concession	($1,250,000)
Less retirement concessions	($1,000,000)
Taxable Income	**$250,000**
Tax rate applicable	46.5%
Tax payable by company	**$116,250**

ACTION

- Robert and Teresa have not previously made a significant level of donations. However, in recognition of their good fortune they decide to set up a charitable sub-fund with an initial contribution of $250,000.
- The donation to the sub fund reduces the taxable income on the sale to nil, hence saving a further $116,250 in tax. Therefore, the donation is financed from two sources:

Source	
From Robert and Teresa out of sale proceeds of the business	$133,750
From tax savings	$116,250
Total gift	**$250,000**

OUTCOME

Goal	Outcome
Share their good fortune by creating an enduring fund from which charities and the community can benefit.	Achieved.
Ensure that the business sale is structured tax efficiently.	A combination of accessing the small business concessions and charitable donations yields a nil tax payable on a business sale worth $5 million.
Utilise the taxation system to partially finance the donation.	Robert and Teresa's $250,000 donation is partially financed by a tax saving of $116,250.