BUSINESS BULLETIN SPRING 2026

TAX CHANGES AHEAD: WHAT IT MEANS FOR SMALL BUSINESS

Major changes to the taxation of capital gains and discretionary trusts were announced in the 2026–27 Federal Budget. While the new rules do not begin immediately, they may affect the way some small businesses own assets, distribute income, plan for succession or eventually sell their business. At the time of writing, these measures have not yet passed Parliament and may change before becoming law.

For most business owners, there is no need to make an immediate change. Final legislation will need to be passed before certainty of the proposals are known, however, there is good reason to understand what has been announced and to begin a conversation with your advisers well before the new rules commence.

What is changing with capital gains tax?

Capital gains tax (CGT), can apply when an asset is sold or otherwise disposed of for more than its cost. Under the current rules, individuals and trusts can generally reduce an eligible capital gain by 50 per cent when the asset has been held for at least 12 months.

From **1 July 2027,** that flat 50 per cent discount will be replaced for future gains with a system based on inflation. The asset's cost base will be indexed so that tax is calculated on the "real" gain after allowing for inflation. A minimum tax rate of 30 per cent will also apply to relevant real capital gains. The CGT reform legislation has passed Parliament, although further implementation details will continue to be developed.

Importantly, the changes are prospective. This means the existing rules will continue to apply to the portion of a gain that arose before 1 July 2027, even where the asset is sold later. The new arrangements will apply to the portion of the gain arising after that date.

For businesses holding valuable assets, this may make accurate historical records particularly important. Depending on the final administrative requirements, a valuation or another approved method may be needed to separate the gain arising before 1 July 2027 from the gain arising afterwards. Records supporting the original purchase price, improvements, professional costs and other amounts included in the cost base should be located and retained.

What about the small business CGT concessions?

The four existing small business CGT concessions are being retained. These concessions can, where all the conditions are met, reduce, defer or completely eliminate a capital gain arising from the sale of an active business asset.

They include the:

- 15-year exemption;
- 50 per cent active asset reduction;
- retirement exemption; and
- active asset rollover.

From 1 July 2027, the turnover threshold for accessing the 50 per cent active asset reduction will also increase from $2 million to $10 million. This expansion is intended to allow more businesses to qualify for that particular concession. The remaining eligibility conditions will still need to be considered carefully.

These concessions can be extremely valuable, but they are not automatic. The structure that owns the asset, how the asset has been used, the length of ownership, business turnover, connected entities and the net value of assets can all affect eligibility.

What is changing for discretionary trusts?

The Government has also announced a proposed **30 per cent minimum tax on the taxable income of discretionary trusts from 1 July 2028.** Discretionary trusts have for many years formed the foundation structure of many small businesses and undoubtedly this proposed change will have a large impact on many small business owners.

Under the proposal, the trustee would pay the minimum tax. Individual beneficiaries would continue to include trust distributions in their tax returns and would generally receive a non-refundable credit for the tax paid by the trustee. The measure is intended to reduce the ability to obtain a tax benefit by directing discretionary trust income to beneficiaries taxed at rates below 30 per cent.

The detailed design of the trust measure is still being finalised and draft legislation is yet to be released. Aspects of how the minimum tax, exclusions, tax credits and collection arrangements will continue to take shape on the back of industry consultation. There may also be sound commercial reasons to continue operating through a trust despite the tax changes. These could include asset protection, estate planning and the ability to accommodate changes in family or business circumstances. Those benefits need to be considered alongside the tax and administration costs.

What should you do now?

There is no need to make a rushed decision, but business owners should begin preparing.

Confirm the structure through which your business operates and identify which entity legally owns important assets such as premises, goodwill, intellectual property and investments. Locate your trust deed, amendments, company records, asset registers, purchase agreements, loan records and supporting documents for significant assets.

Ask your accountant or tax adviser whether the CGT or discretionary trust changes are likely to affect you.

Should businesses consider restructuring?

To support businesses that decide their discretionary trust is no longer the most appropriate structure, the Government has proposed expanded rollover relief for a three-year period beginning on **1 July 2027.** The relief is intended to allow eligible businesses to move from a discretionary trust into another structure, such as a company or fixed trust, without triggering an immediate income tax or CGT liability solely because of the restructure. The detailed conditions are still subject to finalisation.

Rollover relief does not necessarily mean that restructuring will be simple or cost-free. A restructure can affect:

- ownership of assets and liabilities;
- existing finance and security arrangements;
- leases, licences and commercial contracts;
- registrations, insurance policies and payment facilities;
- GST, payroll, PAYG withholding and superannuation obligations;
- employee entitlements;
- state taxes and duties;
- invoicing and customer communications; and
- the accounting records of both the old and new entities.

A company may provide advantages such as a fixed corporate tax rate, the ability to retain profits and access to dividend imputation. However, it also introduces different legal, tax and administration requirements.

Not every business operating through a discretionary trust will need to be restructured. It will depend on matters such as the type of income earned, the beneficiaries receiving distributions, their tax rates and whether any exclusions apply. A restructure should only proceed after receiving advice that considers the complete legal, tax, financial and commercial position.

Where does your BAS agent fit into the process?

Your BAS agent won't be the adviser recommending whether you should operate through a trust, company or another structure. That advice will need to come from a registered tax agent, and/or a lawyer.

However, your BAS agent is the adviser who often best understands how your business operates from day to day. They know how sales are recorded, how customers pay, how payroll operates, which assets are used in the business and how money moves between the business and its owners.

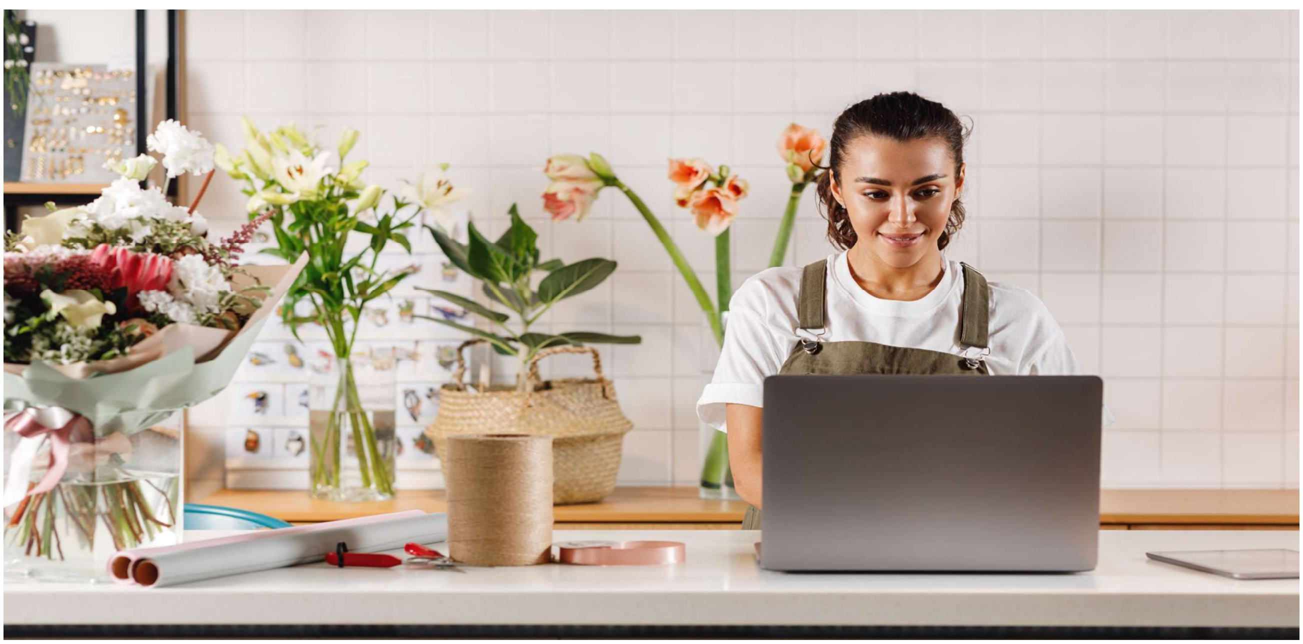
Where a restructure proceeds, your BAS agent may be involved in establishing or updating the accounting software, transferring opening balances, finalising the old entity's records, setting up new bank feeds, updating payroll and STP details, transferring debtors and creditors, reviewing GST coding and ensuring invoices are issued in the name of the correct entity.

Involving your BAS agent early can help identify practical problems before the change takes effect. It can also reduce the risk of transactions being duplicated, omitted or reported under the wrong ABN.

Where assets have increased substantially in value, discuss whether a formal valuation may be needed closer to 1 July 2027.

Most importantly, keep your advisory team connected. Decisions made by your accountant or lawyer will often need to be implemented through your accounting, payroll and reporting systems. Bringing your BAS agent into the discussion will help ensure that the legal structure, tax treatment and day-to-day records continue to align.

These reforms do not mean that trusts are disappearing or that every business should become a company. They do mean that structures established many years ago should not simply be assumed to remain the best option forever. A timely review will allow you to make a considered decision based on your business goals rather than reacting at the last minute.



This article contains general information only. The application of the proposed and enacted measures will depend on individual circumstances. Obtain professional tax and legal advice before selling an asset, changing ownership or restructuring a business.