Australian Government

Australian Small Business and Family Enterprise Ombudsman

23 December 2025

Select Committee on the Operation of the Capital Gains Tax Discount
PO Box 6100
Parliament House
CANBERRA ACT 2600

via email: CGTD.Sen@aph.gov.au

Dear Committee,

Select Committee on the Operation of the Capital Gains Tax Discount

The Australian Small Business and Family Enterprise Ombudsman (ASBFEO) welcomes the opportunity to make a submission to the Select Committee on the Operation of the Capital Gains Tax Discount.

The ASBFEO understands the challenges facing small businesses and family enterprises in Australia – we conduct independent research focusing on small businesses, and regularly meet with stakeholders across many sectors of the economy. Our role includes identifying opportunities and challenges in the small business operating environment and we provide a small business perspective to inform the work of Commonwealth policymakers and government.

ASBFEO understands the impetus for this inquiry is to gain a better understanding of the impacts of the Capital Gains Tax (CGT) Discount on inequality, productivity and investment decisions in Australia. Small businesses make up 97 per cent of all Australian businesses, employ an estimated 5 million people, and contribute around one-third of Australia's GDP, making a total annual contribution of approximately $590 billion.[1]

ASBFEO considers there are three areas the committee may wish to pursue further investigation into given their relevance to this inquiry:

1. the potential impact of changes to the CGT discount on small business' access to external capital via the Venture Capital Limited Partnership Fund (VCLP) and the Early Stage Venture Capital Limited Partnership Fund (ESVCLP),
2. how changes to the CGT discount could impact the financial position of small business owners who are transitioning to retirement and relying on retirement savings from selling their business, property or other assets held through the business, and
3. the potential boost to the economy if a greater number of small businesses could access the small business CGT concessions, by lifting the threshold on turnover to less than $10 million to align with other tax concessions.

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[1] Australian Small Business and Family Enterprise Ombudsman (ASBFEO), 'Contribution to Australian Gross Domestic Product', 'Contribution to Australian Employment' and Number of Small businesses in Australia', Commonwealth of Australia, August 2024, accessed 19 December 2025.

Changes that reduce the CGT discount could impact small businesses' access to capital

In 2024, the Australian Business Growth Fund (ABGF) released the report *Powering the Growth Economy*, identifying barriers to businesses' ability to grow, including a $38 billion external equity funding gap.[2] For businesses with $2 million to $20 million in revenue, securing capital is particularly challenging. A survey of 1,212 businesses conducted by East & Partners found that two thirds of respondents had tried to access some level of equity in the previous three years and over half were unsuccessful.[3]

Equity funding plays a critical role in enabling high-growth businesses to scale, as it allows founders to retain control while freeing up resources for innovation and expansion rather than servicing debt. It also provides access to strategic expertise that can accelerate growth.[4]

However, the Australian market for equity funding for businesses that are beyond the startup phase remains underdeveloped compared to other OECD countries such as the UK, France, and Canada, where SMEs have greater access to growth capital. According to the ABGF report *Powering the Growth Economy*, Australian SMEs are significantly more reliant on debt financing than equity, limiting their ability to access capital to expand their businesses. For SMEs with revenues between $2 million and $20 million, only 12 per cent have external equity funding arrangements, compared to 34 per cent of large businesses.[5]

For startups, venture capital is a mechanism which provides seed capital to develop ideas to a stage where they become commercially viable and can attract commercial investment. Venture capital programs leverage the CGT discount to incentivise and increase venture capital investment in Australia by providing beneficial tax treatment to eligible local and foreign investors. The VCLP and ESVCLP programs are designed to increase venture capital investment in Australia by providing beneficial tax treatment to eligible local and foreign investors. These programs are jointly administered by the ATO and AusIndustry.[6]

A 2022 Treasury review of these programs found that, over the life of the programs, the Australian venture capital sector has grown driven by an increase in the flow of foreign and domestic capital from new and existing investors into Australian startups. While investment levels through the VCLP and ESVCLP had grown gradually from inception in 2002 and 2007 respectively to 2014-15, there had since been accelerated growth driven strongly by investments made through the VCLP program.[7]

It is imperative that these incentives remain in place to support the continued growth of the venture capital sector, including maintaining access to appropriate CGT concessions through the

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[2] Australian Business Growth Fund, *Powering the Growth Economy*, Australian Business Growth Fund, Australia, 2024, p.20.
[3] East&Partners, Growth Economy survey, *Question 11: Have you been prevented from accessing equity funding in the last three years?"*, in the Australian Business Growth Fund, *Powering the Growth Economy*, p. 20. 2,023 businesses completed the full survey. 1,212 businesses had a turnover between $2 million and $20 million.
[4] Australian Business Growth Fund, *Powering the Growth Economy*, Australian Business Growth Fund, Australia, 2024, p.20.
[5] Australian Business Growth Fund, *Powering the Growth Economy*, Australian Business Growth Fund, Australia, 2024, p.17.
[6] Australian Tax Office, *Venture capital and early stage venture capital limited partnerships*, 1 June 2023.
[7] Treasury, *Assessment of Australia's venture capital tax concessions final report*, p. 21.

VCLP and ESVCLP programs, so that small businesses can access the capital they need to grow. ASBFEO has noted Treasury's review findings and considers the current incentives remain appropriately targeted for the VCLP and ESVCLP programs.

While Australia has successfully incentivised early-stage venture capital, the ABGF report identifies a significant opportunity to extend this approach to established businesses seeking to scale. These businesses, typically generating between $2 million and $20 million in revenue and operating for more than two years, account for 42 per cent of total employment and are outperforming the broader economy, with a compound annual growth rate of 5.7 per cent compared to 4.3 per cent.[8]

Given the significant contribution small businesses make to the economy through innovation, the provision of goods and services, employment and tax contributions, any changes considered for the CGT discount should also consider the potential impacts on small business' access to capital. This includes any broader impacts for the economy and productivity if access to capital were to become more limited for early stage and growing small businesses.

Changes that reduce the CGT discount could reduce the retirement savings of small business owners

Small and family business owners can often have less savings in superannuation in the years preceding retirement, with ongoing concerns that many small business owners risk falling short of the recommended super balance once they retire to support a comfortable lifestyle.

- In 2018, the Association of Superannuation Funds of Australia (ASFA) published a research paper highlighting the low superannuation balances of the self-employed compared with wage and salary earners, and an absence of any significant retirement savings for many of the self-employed. ASFA reported around two thirds of self-employed people with no post-school qualifications had no superannuation, or a balance of less than $40,000.[9]
- In July 2025, AMP Bank released findings from its survey of 2,000 businesses – most running small or micro businesses with 4 or fewer employees – that close to half of the business operators surveyed were not contributing to their superannuation, with many prioritising reinvesting in their business or managing cash flow over long-term financial security.[10]

Generally, only small business owners paid as an employee by their incorporated entity are covered by the Superannuation Guarantee. Owners of the majority of small business which are not incorporated do not benefit from the workplace obligation to make super contributions. The small business CGT concessions provide small businesses with the opportunity to make catch-up contributions in the lead up to retirement when their business and/or related assets are sold.[11]

[8] Australian Business Growth Fund, *Powering the Growth Economy*, Australian Business Growth Fund, Australia, 2024, p.2.
[9] Association of Superannuation Funds of Australia Research and Resource Centre, *Superannuation balances of the self-employed*, March 2018, p. 5.
[10] AMP Bank, *Australia's solopreneurs risk half a million-dollar shortfall in retirement with 1 in 2 skipping super contributions*, 3 July 2025.
[11] Association of Superannuation Funds of Australia Research and Resource Centre, *Superannuation balances of the self-employed*, March 2018, p. 12.

Small business CGT concessions allow small business entities with an aggregated turnover of less than $2 million and a maximum asset value of $6 million to use four CGT concessions for the disposal of assets:

- the **small business 50 per cent reduction** allows an extra 50 per cent reduction of the capital gain and is in addition to the usual 50 per cent CGT discount available for individuals.
- the **small business 15-year exemption** allows a full exemption from CGT on the sale of business assets if the asset has been owned by the business for more than 15 consecutive years, the owner is over the age of 55 and the sale is made in connection with retirement (or permanent incapacity). If this exemption is applied, no other small business CGT concessions can be applied.
- the **small business retirement exemption** allows small businesses to reduce or eliminate up to $500,000 of capital gains on the sale of eligible business assets.
- the **small business roll-over** allows the capital gain to be rolled over into another active business asset.[12]

Where applicable, the small business CGT concessions are applied after the CGT discount has been applied. In effect, the small business CGT concessions provide a cumulative reduction on the tax paid on a capital gain.[13]

It is ASBFEO's view that any changes to reduce or remove the CGT discount would likely result in small business owners having less funds available following the sale of their business or related assets. For owners transitioning towards retirement, this could mean less money being added to their retirement savings, impacting small business owners' ability to catch up on superannuation contributions and have lasting impacts for their retirement.

Changes that reduce the CGT discount could also create significant uncertainty for small and family businesses that have invested time and funds into their business based on medium- and long-term planning where the CGT discount has been incorporated into those planning decisions. Similarly, ASBFEO does not support changes to the use of the CGT discount in family trusts.

Expanding small business access to the CGT concessions could incentivise investment in retirement

ASBFEO considers that a greater number of small businesses should be allowed to benefit from the small business CGT concessions through aligning the financial caps with other tax concessions that have an eligibility threshold of less than $10 million in turnover. This would not only support small and family business owners as they transition into retirement by ensuring they have adequate funds but also support small businesses throughout earlier stages of the business lifecycle by allowing more funds to be reinvested into the business throughout the growth phase.

Moreover, the committee should consider exploring additional options that would help small businesses achieve a dignified and comfortable retirement. It may be worth examining whether alternatives to the current CGT discount could provide better support for small and family businesses throughout the life of the business. Such alternatives could enable business owners to

[12] Australian Tax Office, *CGT concessions eligibility overview*, 6 June 2023; Australian Tax Office, *Maximum net asset value test*, 6 May 2024.
[13] Australian Tax Office, *CGT concessions eligibility overview*, 6 June 2023.

make meaningful contributions to their superannuation, ensuring financial security in retirement, especially in cases where the sale of assets or the business itself does not occur.

If you require any further information, please do not hesitate to contact the Advocacy team via email at advocacy@asbfeo.gov.au.

Yours sincerely

The Hon Bruce Billson

Australian Small Business and Family Enterprise Ombudsman