



# LETTER TO THE EDITOR



## GILLARD NEEDS TO RULE OUT CGT THREAT

ACCI Economics and Industry Policy Director Greg Evans published in "The Australian Financial Review"  
- Thursday 22 July 2010

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Jason Murphy's "Calls to scrap breaks on family home" (July 20) correctly notes that any shift to remove the capital gains tax exemption for family homes would be so controversial, it would likely never happen. He referred to other concessions whose specific removal the Henry Review recommended yet these were sensibly ruled out by the Rudd government.

Concerning for small business is that two important mechanisms designed to alleviate the burden of CGT upon the sale of an asset were recommended for removal by the Henry review panel yet have not been ruled out. The measures targeted by Henry for removal include the 15 year exemption for those over 55 years and retiring and the more commonly used small business 50 per cent active asset reduction initiative. Australian Taxation Office statistics indicate that about 28,000 small business proprietors accessed these provisions in 2006-07, demonstrating they are significant and widely utilised.

These are sensible provisions that flowed from the 1999 Ralph Review which recognised the CGT regime imposed on Australian small businesses was punitive and the most onerous in advanced countries.

Many small business owners can have negligible superannuation savings and use the value built up in their business for post retirement income. The potential narrowing of the options available to reduce the impact of CGT will make achieving a reasonable retirement income more difficult. Moreover, increasing the burden of CGT has a wider and more serious impact on investment and diminishes incentives for entrepreneurship and job creation. CGT has an economically detrimental 'lock-in' effect where an asset is retained to avoid realising a liability even though proceeds could be deployed elsewhere and achieve a higher return.

The government needs to specifically rule out this threat to small business proposed by the review of taxation. The Australian Chamber of Commerce and Industry considers this a matter of urgency, as a newly constituted Senate may give the Australian Greens a position of leverage. Small business owners should be concerned given their policy position remains opposed to any concessions in relation to CGT.

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