CAPITAL GAINS TAX
Business sale example

XYZ Pty Ltd conducts a retail business

100% owned by Mim:
- **Mim is on the top marginal rate of income tax (45%)**
- **Mim purchased shares in the company for $100, five years ago**
- **Retained earnings of the company are $150,000**

The key assets of XYZ Pty Ltd are:

Stock at cost	$100,000
Plant and equipment (P&E) written down value (WDV)	$50,000
Internally generated goodwill	$150,000
TOTAL ASSET VALUE	$300,000

Scenario **1.**

Mim *sells her shares* in XYZ Pty Ltd for $300,000

Share sale proceeds	$300,000
Less: cost base of shares	$(100)
Gross capital gain	$299,900
Less: general CGT discount (50%)	$(149,950)
Taxable gain	$149,950
TAX PAYABLE (45%)	$67,478

If Mim sold the shares in the company to an external party for $300,000, she would make a capital gain of $299,900. She would be entitled to the general CGT discount (50%), which would reduce that gain by half. So she would have a taxable gain of $149,950.
Mim is on the top marginal rate of income tax (45%), so she would pay tax of $67,478.

Scenario **2.**

An extraction or *sale of business assets* from the company, XYZ Pty Ltd

Gain on sale of goodwill	$150,000
Company tax payable (27.5%)	$41,250
Cash dividend to Mim	$258,750
Plus franking credits*	$98,147
Taxable income	$356,897
Gross tax (45%)	$160,603
Less franking credits	$(98,147)
Personal income tax payable	$62,456
TOTAL TAX PAYABLE	$103,706

- Franking credit is calculated at $258,750 * 27.5% / (1-27.5%)

Rather than selling the shares in the company, let's say XYZ Pty Ltd sold the business assets out of the company.
In that case, XYZ would have a gain on the sale of the goodwill of $150,000. (There would be no gain on the stock or P&E because they're sold at cost.)
So the company has a profit of $150,000 and would pay company tax at 27.5%, which is $41,250.

So how does Mim extract the cash from the company?

Generally she would do that by paying a dividend, because otherwise the earnings and the cash are locked in the company.

Payment of $258,750 cash dividend + franking credits

$356,897
Mim's in-hand income, which she would pay tax on.

Assuming a top marginal rate of tax and the benefit of the franking credits, she would effectively pay personally another $62,456 in tax.

Total tax paid: Scenario 1 = $67,478
Scenario 2 = $103,706

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