



depositphotos.com

BY WEALTH ADVISER

INSIDE

1 Salary Sacrifice After 1 July 2026: Still Worth Doing?

5 Small Business CGT Concessions: Retiring From Your Business Tax-Effectively

9 Retirement Villages: What You're Really Buying

13 Q&A: Ask a Question

For most of the last decade, salary sacrifice was the default answer to the question of how a middle-income earner should get money into superannuation ahead of retirement. Set up the arrangement with the employer, redirect a slice of pre-tax income, and let the 15 per cent concessional contributions tax do its work against a marginal tax rate that was almost always meaningfully higher. The arithmetic ran itself, and the household barely had to think about it beyond the initial setup.

That default answer is now due for a reconsideration. The 1 July 2026 reset – covered in outline in Issue 134 – shifted several of the inputs that used to make salary sacrifice the obvious move. The marginal rate applying to the second tax bracket dropped from 16 to 15 per cent, which for lower-income earners has effectively closed the gap between their marginal rate and the concessional contributions rate. The concessional contribution cap moved from \$30,000 to \$32,500, marginally expanding the room for those who use it. Payday super started, which changes how the money flows and how the household should think about timing. And personal deductible contributions – the route that has always sat alongside salary sacrifice for employees – have become the more strategically useful option in a growing number of household situations.

BEFORE YOU GET STARTED

This Wealth Adviser publication is published by Wealth Today Pty Ltd (AFSL 340289), Sentry Advice Pty Ltd (AFSL 227748), Synchron Advice Pty Ltd (AFSL 243313) and Millennium3 Financial Services Pty Ltd (AFSL 244252) and contains general and factual information only.

Before acting on any information contained herein you should consider if it is suitable for you. You should also consider consulting a suitably qualified financial, tax and/or legal adviser.

Information in this document is no substitute for professional financial advice.

We encourage you to seek professional financial advice before making any investment or financial decisions.

In any circumstance, before investing in any financial product you should obtain and read a Product Disclosure Statement and consider whether it is appropriate for your objectives, situation and needs.

From 1 July 2026, the marginal rate applying to taxable income between \$18,201 and \$45,000 dropped from 16 per cent to 15 per cent – the second stage of the legislated cuts that began with the Stage 3 restructure in July 2024. A further cut to 14 per cent is legislated for 1 July 2027. For workers whose income sits inside that second bracket, the marginal rate is now identical to the concessional contributions tax rate charged on money contributed to super, before Medicare levy is added to the picture.

The question this article addresses isn't quite "does salary sacrifice still work" – it does, at most income levels most of the time. The more useful question is "what's the best way for this household to get money into super, and where does salary sacrifice still do the job it used to do?" That's a whole-of-plan question, and the answer sits partly in the arithmetic and partly in the household's circumstances.

What changed on 1 July 2026

The rate cut is the most consequential shift for the arithmetic. From 1 July 2026, the marginal rate applying to taxable income between \$18,201 and \$45,000 dropped from 16 per cent to 15 per cent – the second stage of the legislated cuts that began with the Stage 3 restructure in July 2024. A further cut to 14 per cent is legislated for 1 July 2027. For workers whose income sits inside that second bracket, the marginal rate is now identical to the concessional contributions tax rate charged on money contributed to super, before Medicare levy is added to the picture. That has closed a gap that used to be one of salary sacrifice's most reliable value propositions for lower-income earners.

The concessional contribution cap indexation took the annual cap from \$30,000 to \$32,500 for 2026-27. The non-concessional cap moved from \$120,000 to \$130,000, and the maximum three-year bring-forward from \$360,000 to \$390,000. The general transfer balance cap rose from \$2 million to \$2.1 million. None of these movements is transformative on its own, but they matter for households operating close to the caps.

Payday super – covered in Issue 132 – took effect from 1 July 2026, requiring employers to remit superannuation guarantee contributions at the same time as wages rather than on the historical quarterly cycle. For a household with a salary sacrifice arrangement in place, that means concessional contributions now flow into the fund throughout the year rather than in quarterly lumps, assuming the employer complies with the new timing requirements. Combined with employer error being caught by the ATO much sooner, the net effect is that money reaches the fund earlier and earns investment returns for longer. There's no change to the cap; there's a change to how quickly the household consumes it during the year, which matters for cap monitoring in high-contribution years.

Where salary sacrifice still delivers

The core arithmetic of salary sacrifice is unchanged in structure: the household compares its marginal tax rate (including Medicare levy) against the 15 per cent concessional contributions tax. Where the marginal rate is materially higher, salary sacrifice delivers a tax saving equal to the difference on each dollar redirected. Where the marginal rate is not materially higher, the case narrows or disappears.

For a worker in the middle income band – with taxable income between \$45,001 and \$135,000, facing a marginal tax rate of 30 per cent plus 2 per cent Medicare levy – every dollar of salary sacrificed is taxed at 15 per cent inside super rather than 32 per cent in personal hands. The differential is 17 percentage points. On a \$10,000 salary sacrifice contribution, the household is roughly \$1,700 better off after tax than if it had taken the same \$10,000 as wages and invested the after-tax amount. Compounded over the years until retirement, that differential is where the great majority of the value in a middle-income household's super plan comes from.

For a worker in the higher income band – taxable income between \$135,001 and \$190,000, marginal rate 37 per cent plus Medicare – the differential is 24 percentage points. Salary sacrifice remains highly efficient at this income level, and the case for using the full concessional cap (subject to Division 293 for those close to the threshold) is straightforward.

For a worker in the top bracket – taxable income above \$190,000, marginal rate 45 per cent plus Medicare – the raw differential looks like 32 percentage points, but this is where Division 293 comes into play. Where an individual's Division 293 income (which includes concessional super contributions) exceeds \$250,000, concessional contributions above the threshold are taxed at an additional 15 per cent inside the fund, taking the effective concessional tax rate to 30 per cent. The differential narrows accordingly, but even 17 percentage points against a 47 per cent marginal position still makes salary sacrifice worthwhile. It's just no longer running at the headline differential the household might assume from the top bracket alone.

Where the case narrows most is in the second bracket. A worker on \$40,000 now faces a marginal rate of 15 per cent plus 2 per cent Medicare – 17 per cent effectively. Salary

sacrificed into super attracts the 15 per cent contributions tax with no Medicare levy on that money. The differential is around two percentage points. On a \$5,000 salary sacrifice, the household is \$100 better off than if it had taken the wages and paid tax on them personally – a real saving, but not the kind of arithmetic that drives a household's retirement plan. For workers in this bracket, the low-income super tax offset (LISTO) – set to be expanded from 1 July 2027 to apply to more workers with income up to the raised \$45,000 threshold – may offset much of the remaining contributions tax. Salary sacrifice is still not counter-productive at this income level, but it's not the lever it used to be.

The personal deductible contribution alternative

The other route into concessional contributions is the personal deductible contribution. An employee contributes to super from their own bank account, lodges a Notice of Intent to Claim a Deduction with the fund using ATO form NAT 71121, receives an acknowledgement from the fund, and then claims the deduction in the tax return. The income tax outcome is generally the same as salary sacrifice: the contribution attracts the 15 per cent concessional contributions tax and is deducted from the individual's assessable income at the marginal rate. Other government means tests – HELP repayment income, family assistance, child care subsidy, Medicare levy surcharge, reportable employer super contributions – may also be affected differently by the two routes, and where these matter to the household the adviser needs to work through the specific interactions.

The two routes converge on the arithmetic but diverge in every other respect, and the divergences are where the practical answer usually sits.

Salary sacrifice is administratively cleaner for a steady-state arrangement. The employer redirects a set portion of each pay cycle to super, the amount is treated as an employer contribution, and the household doesn't have to remember anything. Under payday super, both the salary sacrificed amount and the SG contribution are generally remitted together under the employer's payroll cycle, which is a simpler cash-flow picture than the pre-2026 quarterly arrangement.

Personal deductible contributions are administratively more work but strategically more flexible. The household can decide at year-end how much to contribute, based on the actual income picture, bonuses, and any other contributions already made through the year. There's no need to negotiate a change in salary sacrifice arrangements with an employer in advance. A household with irregular income – bonuses, incentive payments, occasional consulting income – can contribute exactly the right amount at exactly the right time, rather than having to guess in advance.

The Notice of Intent is where the flexibility is paid for. It has to be lodged with the fund before the earlier of the tax

return being lodged, or the end of the financial year following the year of the contribution. It also has to be lodged before the individual has started drawing a super pension (including a transition-to-retirement pension) from the fund, or rolled over or withdrawn the contribution. Missing the notice, or getting the timing wrong, converts the contribution from concessional to non-concessional and costs the household the deduction. The paperwork is straightforward, but the timing needs to be respected.

The pre-retirement demographic – households whose income has become variable through career transitions, part-time work, or business income – often finds personal deductible contributions the better vehicle. For a steady-state salaried employee with predictable income and a long-running salary sacrifice arrangement that already works, changing to personal deductible contributions is usually not worth the switch. For a household whose income shape is changing, or whose contribution decisions are increasingly year-end judgment calls, personal deductible contributions have become the more useful vehicle.

Carry-forward: the pre-retiree lever

For pre-retirees, the mechanism that most often changes the answer is not salary sacrifice per se but carry-forward concessional contributions. The rule allows a member whose total super balance was less than \$500,000 at 30 June of the prior year to use unused concessional cap space from up to the five preceding financial years. Any unused cap that is more than five years old drops off permanently at the start of each financial year.

For someone who spent their forties and early fifties paying down a mortgage, raising children, or supporting a business through its accumulation phase – and consequently didn't come close to fully using the concessional cap each year – carry-forward is the mechanism that lets them make up substantial ground in the last few years before retirement. A member in that position with, say, five years of largely unused cap accrued might have between \$80,000 and \$120,000 of carry-forward capacity available, depending on prior unused caps, in addition to the current year's \$32,500 cap. Where the household is also in a year of high income – perhaps because of a business sale (covered separately in Issue 142), an inheritance year that pushed taxable income up, or a redundancy payment – using carry-forward via a personal deductible contribution can deliver a tax deduction that materially changes the year's tax position.

The vehicle for using carry-forward is almost always a personal deductible contribution rather than salary sacrifice, because carry-forward is typically used in lump-sum decisions rather than year-round arrangements. A household deciding in June to contribute \$80,000 using accumulated carry-forward capacity does that by making a personal

deductible contribution, not by trying to renegotiate salary sacrifice with an employer late in the year.

The \$500,000 total super balance threshold is where households need to be careful. The threshold is measured at 30 June of the previous financial year, and it is not indexed. A household cannot access carry-forward unused cap amounts in years where their prior 30 June total super balance exceeds the threshold, though any unused cap already carried forward and used in eligible years remains valid. The interaction with contribution strategy over several years is where an adviser's projection work earns its keep.

Pulling it together

For most middle-income and higher-income households, salary sacrifice remains a straightforward and efficient way to get money into super. The 1 July 2026 rate cut has closed some of the gap for lower-income workers but hasn't materially changed the picture for anyone in the third bracket or above. The concessional cap indexation gives the household slightly more room to work with. Payday super means contributions reach the fund sooner and start earning returns earlier.

Where the answer has genuinely changed is in the growing case for personal deductible contributions as a flexible alternative – particularly for pre-retirees whose income shape has become irregular, and particularly where carry-forward is in play. For a household in the last five to ten years before retirement, sitting down with an adviser to project what carry-forward capacity is available, when it might most usefully be used, and how salary sacrifice and personal deductible contributions interact across the plan, is a conversation that will produce a materially better retirement outcome than continuing the salary sacrifice arrangement that's been in place for a decade without review.

The default answer of the 2010s – set up salary sacrifice at the marginal rate and forget about it – is still a defensible answer for many households in 2026. It's no longer the answer for as many households as it once was.

Worth thinking about

Some prompts for the adviser conversation about where salary sacrifice sits in the household's plan:

- What is the household's marginal tax rate, including Medicare levy and Division 293 where relevant, and how does that compare to the 15 per cent concessional contributions tax? What is the actual after-tax value being delivered by the current salary sacrifice arrangement?
- Is the current salary sacrifice arrangement using the full concessional cap available to the household, taking into

account SG contributions and any personal deductible contributions already made? Where would additional contribution room best go?

- For pre-retirees under the \$500,000 total super balance threshold: what carry-forward capacity has accrued, and is any of it approaching the five-year expiry?
- Would personal deductible contributions be a more useful vehicle than salary sacrifice for this household – particularly where income is irregular, where year-end judgment calls are useful, or where carry-forward is being used?
- If both routes are being used, is the notice of intent process well understood, and is the timing lined up to avoid the paperwork pitfalls?
- How does the household's contribution strategy interact with any planned retirement transition, pension commencement, or business sale within the next few years? These are the events that most often disrupt notice-of-intent validity and contribution eligibility.

The 1 July 2026 changes don't rewrite the salary sacrifice case for most households, but they do make it worth reopening a conversation that may have been on autopilot for years. For households whose income shape or life stage has changed since the arrangement was set up, the conversation is where a genuinely better answer is likely to emerge.

References

- Australian Taxation Office. Individual income tax rates (2026-27). <https://www.ato.gov.au/tax-rates-and-codes/tax-rates-australian-residents>
- Australian Taxation Office. Concessional contributions cap. <https://www.ato.gov.au/individuals/super/growing-and-keeping-track-of-your-super/how-much-can-i-contribute-to-my-super-fund/concessional-contributions-cap>
- Australian Taxation Office. Carry-forward unused concessional contributions.
- Australian Taxation Office. Notice of intent to claim or vary a deduction for personal super contributions (NAT 71121). <https://www.ato.gov.au/forms-and-instructions/superannuation-personal-contributions-notice-of-intent-to-claim-or-vary-a-deduction>
- Treasury Laws Amendment (Cost of Living Tax Cuts) Act 2024 (Cth) – legislated second-bracket rate reductions.
- Australian Taxation Office. Division 293 tax on concessional contributions.
- Superannuation Guarantee (Administration) Act 1992 (Cth) – payday super amendments effective 1 July 2026.
- MLC TechConnect. Steps to claiming a deduction for super contributions, 3 July 2026. https://www.mlc.com.au/content/dam/mlcsecure/adviser/technical/pdf/steps_to_claiming_super_deduction.pdf
- SuperGuide. Australian income tax brackets and rates 2026-27. <https://www.superguide.com.au/super-boost/income-tax-rates-brackets>
- Funded Futures. Your Go-To Guide to the New Super Caps for 2026-27. <https://fundedfutures.com.au/your-go-to-guide-to-the-new-super-caps-for-2026-27/>



depositphotos.com

Small Business CGT Concessions

Retiring From Your Business Tax-Effectively

BY WEALTH ADVISER

For a household whose retirement plan is built around the eventual sale of a business, the small business capital gains tax concessions are almost certainly the most valuable tax planning available. A well-sequenced sale that qualifies for the full suite of concessions can often allow a substantial proportion of the sale proceeds to move into superannuation on a tax-effective footing, converting decades of built-up business value into retirement income. A poorly sequenced sale – or one where the eligibility work wasn't done in the years leading up to it – can see a large share of that value go to the Australian Taxation Office instead.

The concessions are set out in Division 152 of the Income Tax Assessment Act 1997. There are four, and they interact in ways that reward planning and punish improvisation. This article walks through what each concession does, when it applies, and how the pieces fit together. Because eligibility is where most disputes with the ATO arise and where careful pre-sale positioning does the most work, the article starts there.

The gateway that decides whether any of this applies

Before any of the four concessions can be claimed, the household has to pass one of two gateway tests, and the asset being sold has to satisfy the active asset test.

The first gateway is the small business entity test: the entity that owns the asset (or the individual, in the case of a sole trader) must generally qualify as a CGT small business entity, which currently requires an aggregated turnover of less than \$2 million. Aggregated turnover isn't just the operating business's revenue – it includes turnover of connected entities and affiliates, which is where a lot of miscalculations happen. Two related businesses each turning over \$1.5 million don't each qualify separately; they aggregate.

The second gateway, alternative to the first, is the maximum net asset value test: the net value of the CGT assets of the taxpayer, their connected entities and affiliates cannot exceed \$6 million immediately before the CGT event. Personal-use assets, the family home, and superannuation are excluded from the calculation, but many investment assets – including investment properties and share portfolios – may be included.

The \$6 million figure has been fixed since 2007 and is not indexed. Property values, business goodwill and revenues have risen considerably around it. A single appreciating commercial property can absorb much of the threshold on its own – a business that would have fitted comfortably within the test a decade ago may sit just outside it now.

The household only needs to pass one of the two gateways, not both. In practice, businesses with modest revenues and substantial asset bases tend to rely on the small business entity turnover test, while businesses with higher revenues and lean balance sheets tend to rely on the maximum net asset value test.

The asset being sold must also satisfy the active asset test. That means it must have been used in the course of carrying on the business (or held ready for such use) for a required proportion of the ownership period – half of the ownership period for assets held up to 15 years, or 7.5 years for assets held longer than 15 years. Passive investment assets generally don't qualify, although business real property leased within a qualifying business group – for example, from a landholding entity to a related operating entity – may still be an active asset. This is where property investments dressed up as business assets tend to come unstuck, and where genuine business real property held separately often needs careful analysis.

Where the business is held through a family trust or a company rather than owned directly, additional eligibility tests apply. There must be a "significant individual" – broadly, someone with at least a 20 per cent small business participation percentage – and, for concessions claimed by the entity, a CGT concession stakeholder relationship has to be established. The detail here is technical and the sequencing decisions can materially affect the household's tax position. Readers whose business is held through a trust or company should treat this article as the outline and expect their adviser to work through the specific interaction with the entity structure.

The concession that eliminates CGT entirely: the 15-year exemption

The most valuable of the four concessions, where it applies, is the 15-year exemption in Subdivision 152-B. It disregards the entire capital gain – no CGT is payable – provided a specific set of conditions is met.

The asset must have been continuously owned for at least 15 years ending just before the CGT event. The individual must be 55 or older at the time of the sale, and the sale must happen "in connection with retirement". Alternatively, the concession is available where the individual is permanently incapacitated, or (with modified conditions) where a deceased business owner had been 55 or older immediately before death and the estate sells within two years.

The "in connection with retirement" requirement is more particular than it sounds. It's not enough to sell and

continue working the same hours in the same role. The ATO's position is that there must be at least a significant reduction in the number of hours worked, or a significant change in the nature of activities. The timing may precede or follow actual retirement – the concession doesn't require the retirement to happen on the day of the sale – but the connection has to be real.

Where the concession applies, the full capital gain is disregarded, and none of the other concessions need to be reached. Just as importantly, the sale proceeds up to the CGT cap can be contributed to superannuation on a tax-effective basis – a mechanism explored in a dedicated section below.

The concession that halves the gain: the 50 per cent active asset reduction

Where the 15-year exemption doesn't apply, the next tier is the 50 per cent active asset reduction in Subdivision 152-C. It reduces the remaining capital gain by half. It's the most widely used of the four concessions because it doesn't require any age threshold or connection to retirement – the eligibility test is essentially the basic conditions plus the active asset test.

This concession applies on top of the general 50 per cent CGT discount available on assets held for over 12 months. In combination, an individual whose business asset qualifies for both takes the gross gain, applies the general 50 per cent discount to get to the assessable gain, and then applies the small business 50 per cent active asset reduction on top – so only a quarter of the gross gain is ultimately assessable before any further concessions are applied.

An important legislative change is scheduled to take effect from the 2027-28 income year. Under the Treasury Laws Amendment (Tax Reform No 1) Act 2026, which received royal assent on 26 June 2026, the aggregated turnover threshold for the 50 per cent active asset reduction rises from \$2 million to \$10 million. The change applies only to this concession – the 15-year exemption, retirement exemption and rollover retain the current \$2 million turnover / \$6 million net asset value tests. From 1 July 2027, a materially larger group of businesses will be eligible for the 50 per cent reduction than are eligible today. The same reform package removes the general 50 per cent CGT discount from 1 July 2027, replacing it with cost base indexation – a much broader change whose interaction with the small business reduction is worth working through with an adviser well before any planned sale.

The concession that fits into super without touching contribution caps: the retirement exemption

The retirement exemption in Subdivision 152-D disregards up to \$500,000 of capital gain over the individual's

lifetime. The cap is not indexed. The exemption is often paired with the 50 per cent active asset reduction: the remaining gain after the reduction is applied is what feeds into the retirement exemption's \$500,000 limit.

Despite the name, the concession doesn't actually require retirement. It's available at any age. The catch: if the individual is under 55 when they choose to apply it, the exempt amount must be contributed to a complying superannuation fund or retirement savings account within the required legislative timeframe. If the individual is 55 or older at the relevant time, the exempt amount doesn't have to go to super – it can be retained personally.

The \$500,000 cap is per individual and lifetime. If the individual used \$200,000 of it selling a previous business, only \$300,000 remains for a future sale. For businesses held through a company or trust, the exempt amount is allocated among CGT concession stakeholders (each an individual with a participation percentage of at least 20 per cent), which can multiply the total exempt amount across a family that qualifies – again, a structural point that flows through the entity holding the business.

The concession that defers rather than eliminates: the rollover

The small business rollover in Subdivision 152-E defers the capital gain rather than eliminating it. Where the individual (or the entity) intends to reinvest in a replacement active asset, or to make capital improvements to an existing active asset, within the required window – one year before the CGT event to two years after – the deferred gain sits in abeyance. If a qualifying replacement or improvement is completed in time, the deferred gain remains deferred until a future CGT event involving the replacement or improved asset. If it isn't completed within the window, the deferred gain crystallises and becomes assessable.

The rollover suits business owners who are exiting one venture but intend to enter another, or who are restructuring the way a business is held. For a genuine exit into retirement, the 15-year exemption or the retirement exemption typically does more work.

The mechanism that turns the concessions into retirement wealth: the CGT cap

The CGT cap is the piece that lifts these concessions from tax planning into retirement planning. It sits alongside the concessional and non-concessional contribution caps that were the subject of the 1 July 2026 reset covered in Issue 134 – but it is a separate cap with its own rules.

The CGT cap is a lifetime limit on the amount an individual can contribute to superannuation from the sale of eligible small business assets without the contributions counting against their non-concessional contributions cap. For the

2026-27 financial year the CGT cap stands at \$1,935,000, indexed annually in \$5,000 increments against average weekly ordinary time earnings. Two of the four concessions feed into this cap: the 15-year exemption (where the entire sale proceeds up to the CGT cap can be contributed) and the retirement exemption (where the exempt amount up to the \$500,000 lifetime retirement-exemption limit can be contributed, and counts against the broader CGT cap).

The practical significance is substantial. An individual applying the 15-year exemption can contribute up to \$1,935,000 in the current year to superannuation – well over ten times the standard non-concessional cap – without the contribution counting against the non-concessional contributions cap. For a business owner selling an asset that has appreciated significantly over the required 15 years, this is often the single largest tax-advantaged super contribution they will ever make. And the CGT cap is not limited by the total super balance restrictions that apply to non-concessional contributions.

There are procedural requirements that matter. A CGT cap election form must be lodged with the receiving super fund at or before the contribution is made. If the form isn't lodged in time, the contribution is treated as an ordinary non-concessional contribution and may exceed the standard cap. Contribution timing is tight: contributions must generally be made by the later of the day the tax return is lodged or a set period after receipt of proceeds. And contributions can only be accepted while the individual is eligible to contribute to super, which generally means before age 75.

How the pieces fit together

Where more than one concession applies, the order of application matters. The general 50 per cent CGT discount is applied first (for assets held over 12 months by an eligible individual or trust – companies don't get the general discount). The 15-year exemption, if available, then disregards the entire remaining gain and stops the sequence. If it isn't available, the 50 per cent active asset reduction halves what's left, the retirement exemption disregards up to \$500,000 of the remaining gain, and the rollover defers any residual gain the household chooses to defer.

A worked example makes the arithmetic clearer. A sole trader aged 60 sells an active business asset held for eight years, realising a gross gain of \$800,000. The household passes the maximum net asset value test. The gain qualifies for the general 50 per cent CGT discount (asset held over 12 months), which brings the assessable gain to \$400,000. The 50 per cent active asset reduction halves that to \$200,000. The individual then applies the retirement exemption to disregard the full \$200,000 (drawing on their lifetime \$500,000 limit). The remaining capital gain is reduced to nil. Because the individual is 60, the exempt amount doesn't

have to be contributed to super, though they may choose to do so under the CGT cap.

If the same individual had held the asset for over 15 years and satisfied the retirement connection, the 15-year exemption would have disregarded the entire \$800,000 gain in a single step, and up to \$1,935,000 of the sale proceeds could have gone into super under the CGT cap without touching the non-concessional caps at all.

The difference between these two paths is what makes pre-sale planning valuable. Whether the 15-year exemption applies is often a matter of a few months' difference in sale timing, or a change in working arrangements in the year leading up to the sale to satisfy the "in connection with retirement" test.

Worth thinking about

The small business CGT concessions reward households that treat the sale of a business as a planned event rather than a transactional one. Some prompts for the adviser conversation:

- Which of the two gateway tests does the household rely on, and how comfortable is the margin? For households near the \$6 million net asset value threshold, the position across connected entities and affiliates needs to be measured carefully well before any sale.
- Is the asset being sold likely to satisfy the active asset test on its ownership history?
- If the 15-year exemption is potentially in reach, does the ownership history run continuously for the required 15 years, and is the individual in a position where a genuine reduction in working hours can be documented in connection with the sale?
- If the retirement exemption is on the table, how much of the \$500,000 lifetime limit has already been used, and how does the exempt amount interact with the household's super contribution strategy against the caps covered in Issue 134?
- If the sale proceeds are to be contributed to super under the CGT cap, is the CGT cap election form process, timing, and documentation understood and lined up in advance?
- Where the business is held through a trust or company, what does the significant individual and CGT concession stakeholder analysis look like, and does the entity structure need any repositioning before the sale?
- How does the sale timing interact with the changes from 1 July 2027 – the raised \$10 million threshold for the 50

per cent active asset reduction, and the broader replacement of the general 50 per cent CGT discount with cost base indexation?

The concessions have stood for close to two decades and their basic architecture is stable. What changes for each household is the sequencing, the eligibility positioning, and the interaction with the household's broader super and retirement plan. Those decisions belong in a structured conversation with an adviser and a tax professional, and the value of that conversation is generally measured in six figures.

References

- *Income Tax Assessment Act 1997 (Cth), Division 152 – small business CGT concessions.*
- *Australian Taxation Office. Small business CGT concessions.* <https://www.ato.gov.au/businesses-and-organisations/income-deductions-and-concessions/incentives-and-concessions/small-business-cgt-concessions>
- *Australian Taxation Office. Small business 15-year exemption.* <https://www.ato.gov.au/businesses-and-organisations/income-deductions-and-concessions/incentives-and-concessions/small-business-cgt-concessions/small-business-15-year-exemption>
- *Australian Taxation Office. Small business retirement exemption.* <https://www.ato.gov.au/businesses-and-organisations/income-deductions-and-concessions/incentives-and-concessions/small-business-cgt-concessions/small-business-retirement-exemption>
- *Treasury Laws Amendment (Tax Reform No 1) Act 2026 (Cth) – royal assent 26 June 2026. Raises the 50 per cent active asset reduction turnover threshold to \$10 million from FY2027-28; replaces the general 50 per cent CGT discount with cost base indexation from 1 July 2027.*
- *Prime Minister of Australia. Tax reform implementation for small business and startups, 18 June 2026.* <https://www.pm.gov.au/media/tax-reform-implementation-small-business-and-startups>
- *MLC TechConnect. Guide to CGT small business concessions.* https://www.mlc.com.au/content/dam/mlcsecure/adviser/technical/pdf/guide_to_sbcbgt.pdf
- *SuperGuide. Small business retirement exemption explained.* <https://www.superguide.com.au/super-booster/small-business-retirement-exemption>
- *HopgoodGanim. Small business CGT concessions: Opportunities and challenges in a changing landscape, July 2026.*
- *Piper Alderman. Tax reform update – Government's post-Budget carve-outs and the new start-up CGT concession, 18 June 2026.* <https://piperalderman.com.au/insight/tax-reform-update-governments-post-budget-carve-outs-and-the-new-start-up-cgt-concession/>



depositphotos.com

BY WEALTH ADVISER

A couple in their late sixties visits a retirement village on a Sunday morning. The grounds are immaculate. The display unit is warm, sunlit, and priced at \$680,000 – comparable to a small townhouse in the same suburb. The sales consultant walks them through the community centre, the pool, the medical rooms, the bus timetable. On the way out, they agree it feels right. The village is exactly what they want. What most people in that moment don't fully understand is that they haven't been shown the price of a townhouse. They've been shown the entry price of a licence to live in a townhouse – priced at close to what a townhouse would cost – with a set of exit-side arrangements that shape the total cost of the arrangement in ways the display unit does nothing to reveal.

That's not a criticism of the operator or the model. Retirement villages solve real problems: they cluster older residents into communities designed for the life stage, they take maintenance off the resident's plate, they provide social infrastructure that many suburbs no longer supply, and they defer a meaningful share of the accommodation cost to the exit. The point is that the arrangement isn't a property purchase in the ordinary sense, and understanding that is the difference between an informed choice and a surprise on

the way out. The economic substance of the arrangement is often closer to prepaying for accommodation and services over an uncertain period than buying residential real estate – and the mental model matters.

What you actually own

The starting point – and the foundation of everything that follows – is that most retirement village residents don't own real property in the freehold sense. They hold a lease, a licence to occupy, or (less commonly) a strata title. The choice of structure shapes the exit mechanics, so it's worth naming which is which.

Leasehold is the standard structure used by most for-profit operators. The resident pays what looks like a purchase price but is legally an entry contribution for a long-term lease – commonly 45, 50, or 99 years, sometimes for life. The operator retains ownership of the land and building; the resident has an exclusive right to occupy the unit for the term. Where the lease is registered on title and satisfies the statutory requirements – including the required term and other legislative criteria relating to capital gain entitlement and similar matters – the resident may qualify as a “registered interest holder” under NSW legislation, which brings certain protections that unregistered leaseholders don't have.

Licence-to-occupy arrangements are sometimes discussed alongside leasehold arrangements because they produce a similar practical outcome for residents, though operators themselves generally distinguish the two. The legal position of a licence is thinner: the resident pays an ingoing contribution in exchange for a contractual right to occupy the unit, but there's no lease registered on title. The trade-off is that the resident's position depends more heavily on the contract's terms and less on the property register.

Strata title is the exception rather than the rule – around one in ten retirement village units are strata-owned. Here the resident actually purchases freehold title to the unit itself, becomes a member of the body corporate (or owners corporation), and pays stamp duty as on a conventional purchase. Common facilities are owned by the body corporate. Strata ownership looks and feels closer to a normal property purchase, though the retirement village overlay – the DMF (where applicable), the recurrent charges, the operator's role – still applies.

The reason this matters is that everything that comes next – the DMF, the resale mechanics, the exit timeline – is a direct consequence of the structure. A leaseholder's exit position is fundamentally different from a strata owner's, and the mental model of "I bought this place and I'll sell it when I leave" is much closer to the truth for the strata owner than for the leaseholder.

What the DMF actually is

The deferred management fee is the mechanic at the centre of the retirement village model, and it is where most reader confusion – and most reader surprise – sits.

The concept is straightforward. Rather than pricing the accommodation and the services separately upfront, the operator recovers a share of the total cost at the exit, calculated as a percentage that accrues over the years the resident stays. A typical structure runs 3 per cent per year for ten years, capped at 30 per cent. Another common structure runs 5 or 6 per cent per year for five or six years, capped at somewhere between 30 and 36 per cent. Property Council data on the sector shows most villages cap the DMF at 36 per cent or less, with the modal range in the mid-twenties to mid-thirties. A minority of villages cap higher.

The fee is calculated on either the ingoing contribution the resident paid or the resale price the incoming resident pays. The distinction matters. If the DMF is calculated on the ingoing figure and property values rise, the resident's exposure to the fee stays fixed against what they originally paid – capital growth flows more cleanly to their exit entitlement. If the DMF is calculated on the resale figure, growth in property value increases the operator's share of the fee.

Overlaid on this is a further question: who shares in the capital gain? Some contracts return 100 per cent of any

resale gain to the resident. Others share it with the operator, sometimes on an escalating scale. A meaningful subset of contracts – including offerings from some of the largest operators – provide that the operator retains the entire capital gain, in exchange for capping the DMF at a defined level and offering guarantees such as no-capital-loss protection. There's no universally right answer here. A resident who values certainty and downside protection may prefer the arrangement that trades capital gain for guarantees. A resident who expects the property to appreciate strongly may prefer to keep the upside.

The arithmetic that changes the picture

The DMF is often presented as though the reader should simply add the capped percentage to their upfront cost and think of it as the total price of village life. That's not quite right. The real determinant of what the DMF costs the resident is how long they live in the village.

Take a village charging 5 per cent per year, capped at 30 per cent after six years, calculated on an ingoing contribution of \$680,000. A resident who stays fifteen years pays the full 30 per cent – \$204,000 – and pays it after receiving fifteen years of village life. Distributed across those years, that's about \$13,600 per year of accommodation cost above the recurrent charges. Most people at the sales tour, thinking about this as a lifestyle decision, would find that manageable.

Now consider a resident who stays three years – perhaps because a spouse dies and the survivor decides to move closer to family, or because a fall triggers early transfer to residential aged care. On the same 5 per cent structure, three years of accrual means 15 per cent of the ingoing figure, or \$102,000. But now that \$102,000 has been paid for three years of village life, not fifteen. On an annual basis, the accommodation cost has more than tripled – around \$34,000 per year. Add the recurrent service charges and the picture changes significantly.

This isn't a criticism of the fee structure. It reflects a genuine feature of the deal: industry surveys suggest an average length of stay of somewhere around eight to nine years (though this varies between villages), and the deferred fee is priced against that expectation. Residents who stay much longer than average effectively receive a better rate; residents who leave much sooner effectively pay more per year for what they got. The point isn't that the fee is unfair – it's that a household considering a village should hold its own view about how long the stay is likely to be, and about the plausible reasons an early exit might arise.

Getting out: the resale problem

The other side of the exit story is timing. Once a resident leaves – whether to enter aged care, to move in with family, or on death – the exit entitlement is only paid when the unit

is resold to an incoming resident or (in some states) when a statutory buyback period expires. This is where state law does the heaviest work, and where the reader's location genuinely changes the answer.

In New South Wales, following reforms that took effect from 1 January 2021, an operator of a registered interest-holder unit must make an exit payment within six months if the village is in the Sydney metropolitan area, or twelve months in regional areas, whether or not the unit has been resold. A separate "aged care rule" allows former residents who have moved to residential aged care to request the operator make daily accommodation payments to the aged care facility on their behalf, up to 85 per cent of the resident's exit entitlement, while the resale process continues. If the unit is not sold within two years after entering aged care, the former resident can apply for an exit entitlement order.

In Queensland, mandatory buyback provisions generally require the operator to pay the exit entitlement within eighteen months of the resident permanently vacating, subject to statutory conditions. South Australia generally requires the same, again subject to specific legislative circumstances. The ACT sits closer to the NSW model with a six-month period.

Victoria has historically had no equivalent general mandatory buyback provision – a structural difference that has left some Victorian residents (or their estates) waiting materially longer for exit payments than residents in the mandatory-buyback states. That position has begun to shift. The Retirement Villages Amendment Act 2025 (Vic) and the accompanying Retirement Villages Regulations 2026 (Vic) both commenced on 1 May 2026, introducing the most significant overhaul of Victorian retirement village law in decades. A standard-form residence and management contract becomes mandatory from 1 September 2026 following a transition period. The regulations also establish an aged care payment mechanism mirroring the NSW structure: non-owner residents who have moved to residential aged care may request the operator to pay refundable accommodation deposits or daily accommodation payments up to 85 per cent of the estimated exit entitlement. Recurrent maintenance charges must cease when the resident provides vacant possession – a protection the previous regime didn't clearly deliver. Victorian readers considering a village move now, or with a family member in a Victorian village, should ask specifically what the operator's position is under the reformed regime.

Alongside these statutory rules sit contractual guarantees offered by individual operators – some provide a shorter voluntary buyback period, some offer no-capital-loss guarantees, some pay accommodation payments to aged care operators on more generous terms than the statutory

minimum. These matter, but they are contract features, not legal rights, and they only apply where the contract says so.

One further point that catches residents (and estates) out: recurrent charges – the ongoing service fees for the village's common facilities and services – continue to accrue after the resident leaves and until the unit is either sold or the state's cap kicks in. In New South Wales, general services charges for registered interest holders are capped at 42 days after the resident permanently vacates. In other jurisdictions the position varies both by state legislation and by the specific contract, and in some cases the resident's estate can find itself paying recurrent charges for months or years before the exit entitlement is paid. This is one of the areas where the state's rules – and the contract's own terms – do the most concrete work for the household.

Where the model earns its keep, and where it doesn't

Set out this way, the retirement village trade becomes visible. The resident is paying an amount close to the market price of comparable accommodation as an ingoing contribution, plus recurrent charges through their occupation, plus a deferred fee that accrues to a capped percentage of the ingoing or resale price. In exchange, they get accommodation designed for the life stage, community, services and facilities they wouldn't easily assemble elsewhere, and – depending on the contract – capital gain participation, capital loss protection, or neither. The exit is governed by a combination of state law and contract terms that determine when the money comes back.

Where does the model earn its keep? Broadly, where the resident values the community and services enough to accept the deferred cost, where the expected length of stay is close to or beyond the DMF cap period, where the alternative (staying in a family home with its own maintenance and isolation burdens) is materially worse, and where the state's rules provide reasonable exit-side certainty. For many households in that position, the trade is a fair one and the arrangement delivers what it promises.

Where does the model earn its keep less well? Where the expected length of stay is likely to be short – because a health event is foreseeable, or the resident is entering the village well into old age, or the household has reason to think it may want to move again. Where capital-gain participation matters significantly to the estate. Where the state's exit provisions are weak enough that resale-timing risk falls primarily on the resident's estate. And where the recurrent service package, sometimes bundled with services the resident doesn't much use, is priced above the marginal value of the services the resident actually uses.

Those categories aren't exhaustive and they aren't advice. They're the terms of the trade set out honestly

enough that a household can weigh them against its own circumstances.

Worth thinking about

A retirement village decision has enough moving parts that a structured conversation with a financial adviser – and, separately, an independent solicitor who has read this particular contract – is worth the time. Some prompts for that conversation:

- What is the legal structure of the residence right on offer – leasehold, licence, strata, or something else – and what does that mean for the household’s position on exit and death?
- How is the DMF calculated (percentage per year, cap, whether on ingoing or resale price), and what is the plausible range of what the fee will cost across different lengths of stay?
- How is capital gain treated – retained by the operator, shared, or fully returned to the resident – and how does that interact with any capital-loss protection?
- What state law applies to the exit timing, what does the specific contract say about buyback and resale, and how do those two interact?
- How do recurrent charges continue after departure or death, and what is the maximum exposure to those charges before the exit entitlement is paid?
- If the resident may need to move to residential aged care, how does the operator’s position on daily accommodation payments interact with the household’s aged care funding plan? This connects to the broader aged care and downsizer material covered in Issues 129 and 133 and the residential care journey covered in Issue 140.
- How would a decision to enter a village affect the Age Pension assets and income tests, and does the entry contribution fall inside or outside the assessable amount? The answer here is highly fact-specific – it depends on whether the entry payment is treated as a homeowner asset, whether the resident retains homeowner status for means-testing purposes, and the specific contractual structure – so this is a question worth putting to an adviser rather than assuming.

The retirement village trade is a genuine one, and for the

right household in the right circumstances it works well. What it isn’t is a property purchase in the familiar sense, and pretending otherwise is what leaves people surprised on the way out. Understanding what is being bought – and what the exit looks like – is the whole of the exercise.

References

- NSW Fair Trading. Retirement Village Calculator – Learn More. <https://rvcalculator.fairtrading.nsw.gov.au/learn-more>
- Consumer Affairs Victoria. Retirement village reforms (effective 1 May 2026). <https://www.consumer.vic.gov.au/licensing-and-registration/retirement-village-operators/retirement-village-reforms>
- Retirement Villages Amendment Act 2025 (Vic). Victorian Legislation. 3a. Retirement Villages Regulations 2026 (Vic), SR 25/2026. <https://www.legislation.vic.gov.au/as-made/statutory-rules/retirement-villages-regulations-2026>
- Retirement Villages Act 1999 (NSW), as amended by the Retirement Villages Amendment Act 2020 (NSW) – mandatory buyback and aged care rule provisions.
- Retirement Villages Act 1999 (Qld) – mandatory buyback provisions (eighteen months).
- Retirement Villages Act 1987 (SA) – exit entitlement provisions.
- Australian Taxation Office. Retirement villages and occupancy arrangements. <https://www.ato.gov.au/businesses-and-organisations/assets-and-property/retirement-villages-and-tax/retirement-villages-and-occupancy-arrangements>
- Property Council of Australia. Retirement Census (industry survey of DMF structures and average length of stay).
- NSW Government. Retirement Villages Act 1999 – 42-day cap on general services charges.
- Turnbull Hill Lawyers. Retirement Village Act NSW: Changes, 27 February 2026. <https://www.turnbullhill.com.au/articles/changes-to-retirement-village-act-and-regulations/>
- Maddocks. Major overhaul of retirement villages law in New South Wales and Victoria, 8 October 2025. <https://www.maddocks.com.au/insights/major-overhaul-of-retirement-villages-law-in-new-south-wales-and-victoria-what-operators-need-to-know>
- Russell Kennedy. Victorian Retirement Villages Regulations Passed, 22 April 2026. <https://www.russellkennedy.com.au/insights-events/insights/victorian-retirement-villages-regulations-passed-what-operators-need-to-know-before-1-may-2026>

Q&A: Ask a Question

Question 1

I'm thinking about moving into a retirement village. How does the "deferred management fee" work and why does length of stay matter so much?

The deferred management fee, or DMF, sits at the centre of most retirement village contracts. Rather than pricing the accommodation and services fully upfront, the operator recovers part of its return through a fee payable when you leave. It's calculated as a percentage that accrues over the years you stay – commonly around 3% per year over ten years, or 5-6% per year over five or six years, and typically capped between 30% and 36% of either your ingoing contribution or the eventual resale price.

Because the fee is paid at exit, length of stay changes the effective cost significantly. A resident who stays fifteen years and pays the full capped percentage spreads that cost across many years of village life. Someone who leaves after only three or four years – perhaps because of a health event or a move to residential aged care – pays a large share of the fee for a much shorter period, so the annual cost of village life ends up much higher.

Understanding how the fee is calculated, whether any capital gain on the unit stays with you or the operator, and what your likely length of stay might be are all key pieces of the decision. Working through the numbers with your adviser, alongside independent legal review of the specific contract, is time well spent before signing.

Question 2

I'm planning to sell my business in a few years and retire. I've heard about small business CGT concessions – how do they work?

The small business CGT concessions can significantly reduce, defer, or even eliminate the tax payable on the sale of an eligible business asset. There are four concessions in total. To access any of them, the business must first satisfy either an aggregated turnover test or a maximum net asset value test – the two available "gateways" – and the asset being sold must have been used in the business for a required portion of the ownership period.

The most valuable, where it applies, is the 15-year exemption. If you're 55 or older, have continuously owned the asset for at least 15 years, and are selling in connection with retirement, the entire

capital gain can be disregarded. Where the 15-year exemption doesn't apply, the retirement exemption can disregard up to a lifetime cap of \$500,000 of capital gain per individual. There's also a 50% reduction on the remaining active asset gain, and a rollover that can defer any residual gain into a replacement business asset.

Where these concessions really add value is when they're combined with the ability to contribute eligible amounts under the CGT cap into super – meaning those contributions don't count against your normal contribution caps. Because eligibility hinges on structure, timing, and record-keeping, sitting down with your financial adviser and accountant well before the sale is usually where the meaningful value gets locked in.

Question 3

I didn't put much extra into super during my forties. Can I "catch up" on my unused contribution cap from previous years?

Yes – the carry-forward concessional contribution rules allow you to use unused concessional cap space from the previous five financial years, on top of your current year's cap. This can be a valuable catch-up mechanism for people whose earlier years went towards mortgage repayments, raising children, supporting a business, or other priorities.

To be eligible, your total super balance must have been below \$500,000 at 30 June of the year immediately before you use the unused cap. Any unused cap amount more than five years old drops off permanently at the start of each financial year, so accumulated capacity has a finite shelf life.

Carry-forward is typically used in an unusually high-income year – perhaps because of a bonus, business sale, or redundancy payout – where a larger concessional contribution can meaningfully reduce your tax bill. Because it's usually applied as a lump sum, most people access it through a personal deductible contribution rather than salary sacrifice.

The timing rules around personal deductible contributions and the Notice of Intent process need to be respected, and the interaction with your total super balance can get complex, so it's worth mapping this out with your adviser in the years leading up to retirement to see how much of your unused cap you can effectively bring back into play.

With all these topics, there is no single "right" choice. Your personal situation matters, and you should seek advice from a licensed financial adviser to understand what is most appropriate for you.