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PROFESSIONAL INSIGHT 05 • FOR ACCOUNTANTS AND ADVISORS

CGT changes 2027 and Business Valuations

What the proposed ATO formula could mean for private businesses, when an independent valuation may help, and what professional advisers can do before 30 June 2027.

TOPICS DISCUSSED

- CGT Changes
- ATO Formula
- CGT Triggers

Overview

The shift from the 50% CGT discount to a CPI-indexed method from 1 July 2027 means assets without a readily available market value will need a 30 June 2027 valuation, either through the ATO's formula or an independent valuation.

Because the ATO formula assumes a compounding growth rate over an asset's life, it can significantly understate gains for businesses that grew fastest in their early years. Our modelling shows this can mean tens of thousands of dollars in avoidable tax.

Businesses with low-cost bases, strong early growth, or substantial cost base elements #2 to #5 stand to benefit most from an independent valuation.

Rather than waiting until after the deadline, clients considering a restructure, succession event, or trust distribution should weigh acting now, both to simplify the CGT calculation and to lock in favourable outcomes ahead of the new rules and minimum tax thresholds.

Taking steps to prepare a business valuation documentation file ahead of 30 June 2027 will put clients in the best position, whenever they ultimately choose to obtain a valuation.

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THE CONTEXT

Introduction

It's been 3 months since the Federal Government announced a raft of proposed changes to CGT, trusts and negative gearing. While some of the changes were predicted, many of them weren't. To add to the confusion, there was no detailed information or legislation available.

Now that the legislation is starting to come through, we have reviewed it and put together an analysis to help our professional partners.

Assisting with Capital Gains Tax calculations is a common purpose of our business valuations so we will concentrate on that and the implications it has for your clients.

As you know, we at Bizval are experts in business valuations, not tax experts, so we will steer clear of the interpretation on the changes to trusts and negative gearing.

CGT Changes

From 1 July 2027 the existing 50% CGT discount will be replaced by a CPI index method.

Capital gains made up to 30 June 2027 will remain under the old 50% discount rules.

Capital gains made from 1 July 2027 fall into the new regime.

This creates a situation where all assets that don't have a readily available market value (e.g. listed shares) will need to have a value assigned to them at 30 June 2027. There are two ways this can be done, either by obtaining an independent valuation, or by using a formula prescribed by the ATO.

30 June 2027

The dividing date between the old discount rules and the proposed new regime.

ATO Formula

On 4 August 2026 Treasury released an Exposure Draft on the proposed formula to allocate capital gains between pre and post 30 June 2027. This formula can be used in situations where the taxpayer elects not to obtain an independent market valuation.

This formula involves a 9-step process, which is certainly a lot more complex than the previous 50% discount method. We have taken a deep dive into the formula to try to ascertain circumstances where an independent valuation would be a better option than using the ATO formula.

Our findings are that the ATO formula ascribes a compounding growth rate of asset values over the period from when they were acquired or commenced to the date of realisation (sale).

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THE VALUATION QUESTION

The Problem

The problem with the ATO method is that the value of many assets, particularly in private businesses, grows more rapidly in the early years and then tends to taper off as the business matures.

We ran the numbers on various scenarios and found the potential difference in CGT between using the ATO formula and obtaining an independent valuation could be significant.

An Example

Assume the following facts for a privately owned family business:

Business cost base	**$50,000**
Acquisition or commencement date	**30 June 2014**
Sale amount (realisation)	**$1,000,000**
Sale (realisation) date	**30 June 2034**
Fees relating to sale	**$70,000**
Taxpayer tax rate	**47%**
Small Business Concessions Available?	**Yes**

$276,000
ATO method
Approximate CGT liability

$143,000
Independent valuation
Approximate CGT liability

$133,000
Potential saving
Compared with the ATO method

Our calculations showed that under the ATO method, the above scenario would result in a CGT liability of approximately $276,000.

If the same business obtained an independent valuation of $650,000 on 30 June 2027, the resulting CGT liability would be around $143,000, representing a saving of $133,000 when compared to the ATO's method.

It should be noted that these are hypothetical figures with a few variables.

However, we were conservative in our assumptions (e.g. if the independent valuation at 30 June 2027 was higher than $650k, the CGT under that method would reduce even further).

The other variable is the CPI index numbers for 1 July 2027 and 30 June 2034. For these inputs we used the same CPI index numbers as those used in the example put forward by Treasury in its Explanatory Statement of 4 August 2026.

As we have been specialising in business valuations since 2010, I can understand there may be some healthy scepticism when reading this paper.

By the same token, in my experience the ATO doesn't devise rules and formulas designed to benefit the taxpayer.

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Q & A

Valuation benefits and timing

Which businesses benefit from a valuation?

- Those with a low cost base. For example, a business that was started from scratch, or with minimal upfront cost.
- Businesses that have experienced strong growth from inception up to 30 June 2027.
- Businesses that have experienced strong growth prior to 30 June 2027 and are expecting growth rates to stabilise post 30 June 2027.
- Businesses with significant cost base elements #2 to #5. This is because the ATO method only includes cost base element #1 within its valuation calculation at 30 June 2027.

When should a valuation be done?

First, it is important to note that business valuations can be undertaken retrospectively, therefore there is no requirement to have a business valuation conducted in July 2027. Many taxpayers will wait until they have a need for a 30 June 2027 valuation before commissioning one. For example, when the business is sold, quite likely several years later.

Conversely, there will be other taxpayers that choose to get a valuation on their business shortly after 30 June 2027 in preparation for future needs.

> **Business valuations can be undertaken retrospectively.**

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Q & A

Acting before June 2027

June 2027 is almost a year away, so what should you be doing now to help your clients?

The first thing is not to assume that waiting until after 30 June 2027 is the wisest course of action.

If you have clients who are already contemplating some sort of restructure or event that will trigger CGT, they could be better off acting now. Here are a few reasons why:

1

It provides simplicity and avoids excess costs.

If you do it now there is no need to calculate the gain across two CGT regimes, you simply work out the CGT as you have over recent years. From 1 July 2027 there will be extra work involved in apportioning gains across periods. This extra work will be required whether you get an independent valuation or use the ATO method.

2

Minimum tax on capital gains.

When the new rules come into effect, there will be a minimum 30% tax imposed on capital gains. This could catch out some taxpayers, especially those with the ability to distribute gains to income earners on lower tax brackets.

3

Trust distributions.

Separately to the CGT changes, there is a proposed 30% minimum tax on trust distributions from 1 July 2028. While the government has proposed rollover relief for taxpayers to restructure out of trusts, it may be beneficial to trigger the CGT event now and distribute to beneficiaries under the 30% tax rate (where possible) before the business is rolled out of a trust.

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Q & A

Acting before June 2027

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Crystallise gains and lock in a cost base.

Triggering a CGT event pre June 2027 would crystallise gains made to date under the old 50% discount regime.

With further small business concessions, it could result in minimal tax being paid now. It would then also lock in a cost base for future gains.

As this cost base is close to 30 June 2027 (i.e. within 1 year), it is likely that the taxpayer could then simply use the ATO apportioning method for any future sale or CGT calculation as the period of time under the old regime would be minimal (less than 1 year), thereby possibly avoiding the need for a valuation as at 30 June 2027.

That is, given it is a short period of time between the CGT event and 30 June 2027, the valuation amount is unlikely to change much, meaning rather than incurring the costs of another valuation at 30 June 2027, simply use the ATO method which is likely to result in a similar CGT amount.

5

Valuation capacity.

The valuation market could get very busy after 30 June 2027 so locking in a cost base now could save time and costs later.

What types of events warrant your consideration now?

- Share transfers for succession planning.
- Distribution of profits (capital gains) from a trust, prior to trusts being phased out.
- Share transfers to key employees.
- Any entity restructure that is being contemplated.

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PREPARE THE EVIDENCE

What else can you do now in preparation for FY27?

From a future CGT view, our analysis found that most businesses will be better off if they are able to show the highest valuation possible as at 30 June 2027. So, even if they are not going to order a valuation until well after that point, they have time now to maximise their potential value at that point. Here are a few ways that could happen:

- Ensure contracts with key clients, suppliers, and landlords are up to date and signed.
- Maximise profitability in the 2027 financial year as it is normally the year that is given the most weighting in a valuation.
- Preserve the highest possible net asset position at 30 June 2027. For example, consider if declaring dividends can be delayed until after 30 June 2027.
- Prepare detailed forecasts with substantiating assumptions. Have them dated and signed by directors prior to 30 June 2027. When undertaking a retrospective valuation, valuers can only use information which was known at the valuation date. For example, if a valuation at 30 June 2027 was undertaken in 2029, the valuer could not use FY28 financials or any other 'post valuation' information. However, they could use forecasts prepared prior to that date, provided they are justifiable and supported by strong assumptions.

VALUATION DOCUMENTATION FILE

Gather information as at 30 June 2027

in preparation for a future valuation, for example:

- Financial Statements
- Asset register with estimated market values
- Organisational chart or employee structure
- Number of employees
- Owners' working arrangements
- Forecasts with assumptions

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IMPORTANT INFORMATION

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The commentary regarding proposed changes to capital gains tax is based on exposure drafts that were current as at the date of writing (3 September 2026) and may be subject to further change before enactment. Figures and examples used in this paper are hypothetical and provided for illustrative purposes only; actual outcomes will vary based on individual circumstances.

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