



ASSISTANT TREASURER

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**PRESS
RELEASE**

LOOK-THROUGH TREATMENT FOR EARNOUT ARRANGEMENTS TO SIMPLIFY SALE OF BUSINESS ASSETS

The Assistant Treasurer, Senator Nick Sherry today announced that the Rudd Government will introduce legislation to apply look-through capital gains tax (CGT) treatment for qualifying earnout arrangements in the sale of business assets.

Earnout arrangements are a common and efficient way of structuring the sale of a business or business assets to deal with uncertainty about the value of the business.

“These changes will make it easier to buy and sell businesses in these circumstances,” the Assistant Treasurer said.

“The reforms will ensure the capital gains tax treatment of earnout arrangements is not an obstacle to the efficient functioning of the market for business assets.”

The measure will treat additional payments made under a ‘standard’ earnout arrangement as related to the original asset for the seller and adding to the cost base for the buyer. It will treat payments made under a ‘reverse’ earnout arrangement as effectively a repayment of part of the capital proceeds.

“The changes will prevent anomalous outcomes for taxpayers where the actual payments under the earnout right differ from the amounts estimated at the start of the arrangement,” the Assistant Treasurer said.

In particular, the changes will benefit small business taxpayers by ensuring any small business capital gains tax concessions that were available on the sale of the business (or business assets) are also available for capital gains made on subsequent earnout payments.

“This initiative is a further step in the Rudd Government’s support for the business sector,” said the Assistant Treasurer.

“Integrity rules will ensure that the look-through treatment will only apply to genuine earnout arrangements.”

This change will apply to earnout arrangements entered into on or after Royal Assent of the amending legislation. Optional transitional relief will be provided, in certain cases back to 17 October 2007, being the date of release of a relevant ATO Draft Ruling.

A consultation paper with more information is available at www.treasury.gov.au.

CANBERRA

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