What are the CGT reductions?

The general 50% discount may be available for some capital gains (e.g. CGT Event A1) made by an individual taxpayer where the asset has been held for longer than 12 months.

Examples

You purchased a rental property in January 2018 for $500,000 and sold it in January 2020 for $750,000. Settlement costs totalled $500 and stamp duty on purchase was $5,000. In January 2019 the kitchen was renovated for $15,000.

The sale of this rental property triggers CGT event A1. The capital proceeds of the sale are $750,000 which must be reduced by the asset's cost base ($500,000 + $500 + $5,000 + 15,000 = $520,500). Therefore, the capital gain on sale is $229,500 ($750,000 - $520,500).

However, the 50% General Discount can be applied to reduce the $229,500 capital gain as the rental property was held for longer than 12 months. Accordingly, the net capital gain is $114,750 and this amount must be included as assessable income in your income tax return for the 2019-2020 financial year.

Useful ATO resources

- For more information about CGT, please visit ato.gov.au/general/capital-gains-tax

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Capital gains tax

What is capital gains tax (CGT)?

Capital gains tax commonly applies to capital assets acquired on or after 20 September 1985. When capital assets are sold or disposed of, any net capital gain made or loss incurred is reportable in your income tax return.

A capital gain arises where you sell or dispose of the capital asset for more than the cost paid to acquire it. Tax is then paid on the net capital gain.

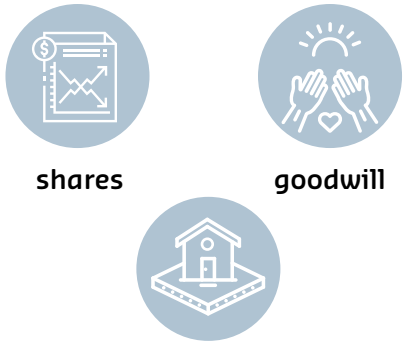
A capital loss arises where you sell or dispose of the capital asset for less than the cost paid to acquire it. All capital losses are quarantined for offset only against capital gains and can be carried forward to later income tax years indefinitely.

When does CGT apply?

CGT applies when a CGT event is triggered. It is important to know the timing of the CGT event to ensure any CGT liability is recorded in the correct income tax year.

One of the most common CGT events is CGT Event A1 - disposal of a CGT asset. CGT Event A1 will generally be triggered when a contract for sale or disposal is entered into.

Common CGT assets captured by CGT Event A1 can include:



What records do I need to keep?

You must maintain complete records relating to actual or potential capital gains or capital losses. The records must document:

- the nature of the act, transaction, event or circumstance
- the day it happened
- who did the act or who were the parties to the transaction
- how the act, transaction, event or circumstance is relevant to working out the capital gain or capital loss

Common examples of records to keep include: receipts, market valuations, income and expense records and loan statements.

What are the CGT exemptions?

Some capital gains or losses may be exempt where they relate to:

- an asset acquired before 20 September 1985
- your car
- certain low-value collectables and personal-use items
- your main residence

Main residence exemption

The main residence exemption may be available where your property has a dwelling on it that:

- you and your family live in with your personal belongings
- is the address appearing on the electoral roll and where your mail is delivered to
- has services connected (e.g. gas, electricity)

The length of time that you stay in the dwelling and your intention in occupying it may also be relevant to determining whether the property is your main residence.

The full main residence exemption may be available where the dwelling:

- has been your home (and your family's) for the whole ownership period
- has not been used to produce assessable income (e.g. not used to operate a business, not rented out or flipped)
- is on land of two hectares or less

Otherwise, you may only be eligible for a partial main residence exemption.

A property is no longer considered your main residence when you cease living in it. However, you can continue to treat the property as your main residence for CGT purposes:

- for up to six years if it was used to produce assessable income
- indefinitely if it is not used to produce assessable income

Another property cannot generally be treated as your main residence simultaneously.