



Australian Government  
Australian Taxation Office

# Capital gains tax on sale of shares or units



**When you sell or dispose of shares or units you may make a capital gain or capital loss. This will depend on when you bought or acquired the shares or units.**

If you bought the shares or units:

- **before 20 September 1985** – you are exempt from capital gains tax (CGT), because CGT came into effect from 20 September 1985
- **on or after 20 September 1985** – you may make a capital gain or capital loss when you dispose of the shares or units.

## Calculating CGT on the sale of your shares or units

A capital gain or loss is the difference between your:

- Cost base
- Capital proceeds

### Cost base

When buying or selling shares or units you need to work out your cost base. The elements of the cost base relating to shares or units are generally:

- what you paid for your shares or units
- certain incidental costs of buying and selling the shares or units
  - brokerage or agent fees
  - legal fees
  - investment adviser's fees (but not investment seminar costs)
- the costs of owning the shares or units, such as interest on monies borrowed to acquire the asset (generally this won't apply to shares or units because you will usually have claimed or be entitled to claim these costs as a tax deduction)
- capital costs of preserving or defending your title or rights to your shares or units.

## Capital proceeds

The amount you receive or the market value of what you should have received when you dispose of your shares or units.

## Share parcels

A parcel of shares is a distinct number of shares that you own. You can buy different parcels of shares in the same company at different times.

Each parcel of shares that you own added together make up your 'holding' or equity in the stock of that company. For example, you may buy 2 parcels of 500 AZY shares at different times. You have a total of 1,000 AZY shares in your portfolio, made up of 2 parcels.

## Parcel selection methods

Shares can be described as 'fungible' because one share is identical to and interchangeable with any other share.

As one share is functionally identical to all others of the same share class (for example, ordinary shares, preference shares) in that company, it is difficult to identify which shares were disposed of. The shares that are disposed of need to be identified to work out the cost base when calculating CGT.

There are 3 common ordering methods for parcel allocation when calculating CGT on shares:

- FIFO (first-in, first out), where the shares bought first are sold first, regardless of cost
- LIFO (last-in, first-out), where the shares bought last are sold first, regardless of cost
- HIFO (highest-in, first-out), sometimes also referred to as HCFO (highest-cost, first-out) – the most expensive shares bought are sold first, regardless of timing.

A different method of parcel selection may be applied for each parcel of shares sold. Most people use FIFO because it is the easiest to keep track of, however you can choose any of these 3 methods.

### Capital losses

It is important to report all capital losses in your tax return, so they carry forward and can be applied against future capital gains.

You can only claim a loss for shares or units you have disposed of. You can't claim a 'paper loss' on investments you continue to hold because they may have decreased in value.

If you make a capital loss from the sale of your shares or units, the loss:

- can only be offset against capital gains
- can be carried forward indefinitely to offset against future capital gains
- can't be offset against your other income such as salary and wages
- can't be converted to revenue losses in future years, even if you haven't been able to offset it against a capital gain.

You can also make a capital loss on your shareholding when an administrator or liquidator makes a written declaration that a company's shares are worthless.

### Working out your net capital gain

There are 3 methods for working out your net capital gain. If eligible for more than one of the calculation methods, you can choose the method that gives you the best result. This is the method that gives you the smallest capital gain.

The 3 methods are:

- **Discount method** – reduce your capital gain by 50% for resident individuals where the asset was held for 12 months or more before the CGT event.
- **Indexation method** – increase the cost base by applying an indexation factor based on the consumer price index (CPI). This method is only available for assets bought at or before 11:45 am (legal time in the Australian Capital Territory) on 21 September 1999 and held for 12 months or more before the relevant CGT event.
- **The 'other' method** – subtract the cost base from the capital proceeds if the asset was owned for less than 12 months. In this case, the indexation and discount methods don't apply.

To help you work out your calculation, use the [CGT record keeping tool](#).

### Timing of a CGT event

The timing of a CGT event is important because it determines the income year you report your capital gain or capital loss in.

- If you sell or dispose of the shares or units, the CGT event happens when you enter the contract of sale.
- If there's no contract, the CGT event happens when you stop being the owner of the shares or units. For example, when you sell your shares or units.
- If you receive a distribution of a capital gain from a managed fund, you make the capital gain in the income year shown on your statement from the managed fund.

### Disposing of shares or units

You can dispose of your shares or units:

- by selling them
- by giving them away
- by transferring them to a spouse due to a breakdown in your marriage or relationship
- through share buy-backs
- through [mergers, takeovers and demergers](#)
- because the company goes into liquidation.

Disposal of shares or units includes the sale, exchange or gifting of all or part of a share or unit. Before selling your shares or units, ensure you identify the correct date of disposal.

- If you dispose of shares or units you received as a gift, you must use the market value on the day that you received them. Use the market value as the first element of your cost base when working out your capital gain or loss.
- If you give shares or units as a gift, treat them as if you disposed of them at their market value on the date you gave this gift. This means a CGT event has occurred. You must include any capital gain or capital loss in your tax return for the income year you gave them away.

Scrip for Scrip rollover relief enables a shareholder to disregard a capital gain made from a share that is disposed of as part of a corporate take-over or merger if the shareholder receives a replacement share in exchange. However, scrip for scrip rollover is only available when the original and replacement interests being exchanged are of the same type. If you are eligible for the roll over, make sure you include the scrip for scrip roll over in the CGT section of your tax return when you lodge.

### Disposing of inherited shares

When you sell shares or units you inherit, the normal rules for calculating CGT apply.

Depending on the circumstances, the cost base and acquisition date may be based on either:

- when the deceased acquired it
- when they died.

If the deceased acquired the asset:

- before 20 September 1985
  - you are taken to have owned it since the deceased died
  - your cost base is the market value of the asset on the day the deceased died, plus any other elements of their cost base
- on or after 20 September 1985
  - you are taken to have owned it since the deceased acquired the asset
  - your cost base is the deceased's cost base for the asset on the day they died.

### Record keeping

You need to keep records of all your transactions associated with acquiring, holding and disposing of your shares or units.

Records may include:

- receipts of purchase, sale or transfer – for example, documents that show price, date and volume
- interest on money you borrowed relating to the asset
- accountant and legal costs
- brokerage fees on purchase and sale.

Records are generally required to be held for at least 5 years after the disposal of the shares or units (or year in which you declare a capital gain). If you make a capital loss, once you've offset the carried forward loss against a capital gain, you should keep your records for a further 2 years.

### Foreign and temporary residents

Foreign and temporary residents are only subject to CGT if a CGT event happens to a CGT asset that is taxable Australian property.

Shares in widely held, publicly listed companies aren't generally considered to be taxable Australian property. Therefore, shares that are purchased and sold by a foreign or temporary resident (even if on the Australian stock exchange) are not liable for CGT, as shares are not Australian taxable property.

If you cease to be a temporary resident but remain an Australian resident (for example, becomes a permanent resident or citizen), you are taken to have acquired the shares (excluding pre-CGT shares) for their market value at the time you ceased being a temporary resident.

Temporary residents:

- hold a temporary visa granted under the *Migration Act 1958*
- aren't an Australian resident within the meaning of the *Social Security Act 1991*
- don't have a spouse who is an Australian resident within the meaning of the *Social Security Act 1991*.

The *Social Security Act 1991* defines an 'Australian resident' as a person who resides in Australia and is an Australian citizen or the holder of a permanent visa. A person with a protected special category visa and who was in Australia on or before 26 February 2001 is also considered an Australian resident for the purposes of the Act. This is different to the standards used to determine tax residency.

Anyone who is an Australian resident for tax purposes on or after 6 April 2006 but isn't a temporary resident can't later become a temporary resident, even if they later hold a temporary visa.

For more information, see [Your tax residency](#).

### Example: capital gain

On 6 November 1997 Ellie bought a parcel of 10,000 shares in AZY at \$2.50 per share.

Ellie was charged \$50 brokerage for the purchase transaction.

On 14 October 2022 Ellie decided to sell all her AZY shares due to their excellent price of \$6.40 per share. Ellie sold 10,000 shares at \$6.40 per share and her capital proceeds from the sale were \$64,000. She was charged \$30 brokerage for the sale transaction.

The cost base of the shares was \$25,080 ( $10,000 \times \$2.50$  price per share + \$80 brokerage).

Ellie made a total capital gain of \$38,920 on the sale of her AZY shares (\$64,000 less \$25,080).

As Ellie held her shares for more than 12 months prior to the CGT event she was able to apply the discount method, reducing her total capital gain by 50%.

Ellie reported the sale of her AZY shares in her 2023 tax return by recording a:

- \$38,920 gross capital gain
- \$19,460 net capital gain.

### Example: capital loss

On 10 November 2022 Trevor purchased a parcel of 18,000 shares in XYZ at \$3.60 per share.

Trevor was charged \$50 brokerage for the purchase transaction.

A few months later, Trevor's circumstances changed and he decided to sell his shares, even though the current price of the shares was lower than when he purchased them.

On 6 March 2023 Trevor sold all his 18,000 XYZ shares for a price of \$2.70 per share and his capital proceeds from the sale of the shares were \$48,600. He was charged \$40 brokerage for the sale transaction.

The reduced cost base of the shares was \$64,890 ( $18,000 \times \$3.60$  price per share + \$90 brokerage).

Trevor has made a total capital loss of \$16,290 on the sale of his XYZ shares (\$48,600 less \$64,890).

Trevor can't offset his capital loss against his income earned from salary and wages in his tax return, however the capital loss can be carried forward indefinitely to offset against future capital gains.


Trevor reported the sale of his XYZ shares in his 2022 tax return by recording a \$16,290 capital loss.

## Always keep your details updated

Ensure your broker always has your correct personal details, such as full name, date of birth and tax file number (TFN). This helps you because:

- your dividends won't be subject to the 47% no TFN withholding tax
- we can pre-fill more of your information for tax time.

If you bought shares on behalf of your self-managed super fund (SMSF), make sure your broker set up your account using the super fund's details. Otherwise, the shares may be incorrectly matched to you as an individual.

 **This is a general summary only.**  
For more information go to [ato.gov.au/shares](https://ato.gov.au/shares)  
or speak to a registered tax professional.

