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Guide to capital gains tax 2003–04

Covers:

- how to work out whether you are subject to capital gains tax
- how to calculate your capital gain or capital loss

If you are a resident personal investor with a capital gain or capital loss only from shares, units or a managed fund, you can use the shorter *Personal investors guide to capital gains tax*, instead of this guide

For CGT calculators, including for demergers, visit **www.ato.gov.au**

OUR COMMITMENT TO YOU

The information in this publication is current at May 2004 and we have made every effort to ensure it is accurate. However, if something in the publication is wrong or misleading and you make a mistake as a result, you will not be charged a penalty. You may have to pay interest, depending on the circumstances of your case.

You are protected under GST law if you have acted on any GST information in this publication. If you have relied on GST advice in this Tax Office publication and that advice has later changed, you will not have to pay any extra GST for the period up to the date of the change. Similarly, you will not have to pay any penalties or interest.

If you feel this publication does not fully cover your circumstances, please seek help from the Tax Office or a recognised tax adviser. Since we regularly revise our publications to take account of any changes to the law, you should make sure this edition is the latest. The easiest way to do this is by checking for a more recent version on our website at **www.ato.gov.au**

YOUR RIGHTS

It is important that you are aware of your rights and obligations when dealing with the Tax Office. These are explained in the taxpayer's charter, along with the service and other standards you can expect from the Tax Office. To view the taxpayers' charter, visit our website at **www.ato.gov.au** To get a printed copy of the *Taxpayers' Charter – what you need to know* (NAT 2548), phone our distribution service on **1300 720 092**.

HOW SELF-ASSESSMENT AFFECTS YOU

Self-assessment means the Tax Office uses the information you give on your tax return to work out your refund or tax debt. You are required by law to make sure you have shown all your assessable income and claimed only the deductions and tax offsets to which you are entitled. The Tax Office does not take any responsibility for checking the accuracy of the details you provide in your tax return. However, at a later date the Tax Office may examine the details contained in your tax return more thoroughly by reviewing specific parts, or by conducting an audit on your tax affairs.

What are your responsibilities?

It is your responsibility to lodge a tax return that is signed, complete and correct. Even if someone else – including a tax agent – helps you to prepare your tax return, you are still legally responsible for the accuracy of your information.

What if you lodge an incorrect tax return?

Our audit programs are designed to continually check for missing, inaccurate or incomplete information. If you become aware that your tax return is incorrect, you must contact us straight away.

Initiatives to complement self-assessment

There are a number of initiatives administered by the Tax Office which complement self-assessment. Examples include:

- if you take reasonable care with your tax affairs, you will not receive a penalty for honest mistakes – but please note that a general interest charge on omitted income or over-claimed deductions and tax offsets could still be payable
- the process for applying for private rulings
- your entitlement to interest on early payment or over-payment of a tax debt, or the process for applying for an amendment if you find you have left something out of your tax return.

Do you need to ask for a private ruling?

If you have a concern about the way a tax law applies to your personal tax affairs, you may want to ask for a private ruling.

A private ruling will relate just to your situation. Write to the Tax Office describing your situation in detail and ask for advice. To do this, complete an *Application for a private ruling for individuals* (NAT 4106 – 3.2001). You should lodge your tax return by the due date, even if you are waiting for the reply to your private ruling. You may need to request an amendment to your tax return once you have received the private ruling.

The Tax Office publishes on its website all private rulings issued. What we publish will not contain anything which could identify you.

You can ask for a review of a private ruling decision if you disagree with it, even if you have not received your assessment. Details of the review procedures are sent to you when the private ruling decision is made. For more information on private rulings, visit the Tax Office website at **www.ato.gov.au**

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This publication is available free from the Tax Office.
We prohibit any party from selling it.

CORRECTION

GUIDE TO CAPITAL GAINS TAX 2003–04

The *Guide to capital gains tax 2003–04* contains an error.

What is the problem?

The second sentence in the centre row of the last column within the table on page 37 is incorrect. The sentence should read as follows:

> Cost base of shares includes cost base of the convertible note and any amount paid on conversion.

Does this change affect you?

This correction may affect you if you have disposed of shares that were issued on the conversion of a convertible note, the convertible note was a traditional security and the note was issued after 14 May 2002.

What should you do if you are affected?

If you have relied on the incorrect information when lodging your 2003–04 return, you may have overstated your net capital gain or understated your net capital losses carried forward to later income years.

If you have overstated your net capital gain, you should request an amendment.

If you understated your net capital losses carried forward to later income years, do not request an amendment. Adjust your records to show the correct amount of your capital losses and take that amount into account in calculating capital gains in future years.

How do you request an amendment?

Write to the Tax Office. In your letter provide your name, address, telephone number, tax file number and:

- explain that when preparing your 2004 tax return you relied on incorrect information about convertible notes in the *Guide to capital gains tax 2003–04*, and
- indicate the correct net capital gain that should have been shown in your 2003–04 return and ask for an amendment.

Send your request for an amendment to the following address:

Australian Taxation Office
PO Box 9990
Sydney NSW 2001

CORRECTED INSTRUCTIONS

A corrected version of the *Guide to capital gains tax 2003–04* is located on our website at **www.ato.gov.au**

NAT 4151ADD—6.2004

GUIDE TO CAPITAL GAINS TAX 2003–04

ABOUT THIS GUIDE

This guide is designed for individuals, companies, trusts and funds completing paper-based income tax returns. It explains how capital gains tax works and will help you calculate your net capital gain or net capital loss for 2003–04 so you can meet your capital gains tax obligations. There are worksheets at the back of the guide to help you do this.

If you are an individual and prefer to prepare and lodge your tax return electronically, you can use the e-tax 2004 software package developed by the Tax Office. The capital gains tax module includes a calculator for capital gains and capital losses and can be downloaded from the internet at **www.ato.gov.au**

Companies, trusts and superannuation funds with capital gains tax obligations over a certain threshold must complete a *Capital gains tax (CGT) schedule 2004*. Copies of the schedule are included at the back of this guide.

Use part C of this guide to find out how to complete your worksheets, tax return labels and (if you are over the threshold) the CGT schedule.

If you are a small business taxpayer, you should get the publication *Guide to capital gains tax concessions for small business* (see the inside back cover).

If you have an enquiry relating to your circumstances which this publication does not cover, phone the Personal Tax Infoline on **13 28 61** or get help from a recognised tax adviser.

Publications

To find out how to get a publication referred to in this guide, see the inside back cover.

Individuals may prefer to use the shorter, simpler *Personal investors guide to capital gains tax 2003–04* if, during 2003–04, they only:

- sold some shares
- sold some units in a managed fund, and/or
- received a distribution of a capital gain from a managed fund.

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INTRODUCTION

This guide is designed to help you work out whether any of the assets you own (or may own in the future), and any events that happen to you are subject to capital gains tax (CGT). Where they are, it tells you how to work out your capital gain or capital loss. It also covers what records you need to keep.

CONSOLIDATED INCOME TAXATION OF CORPORATE GROUPS

The rules that apply to members of a consolidated group modify the application of the capital gains tax rules. Consolidation is explained in detail in the *Consolidation reference manual*, available on our website at **www.ato.gov.au** To get other consolidation products, or if you have technical tax enquiries, phone the Tax Reform Infoline on **13 24 78** or visit **www.ato.gov.au**

UNFAMILIAR TERMS

We may use some terms that you are not familiar with. These words are printed in red the first time they are used and explained in **Explanation of terms** at the back of this guide. Generally they are also explained in more detail in the section where they first appear.

While we have sometimes used the word 'bought' rather than 'acquired', you may have acquired an asset subject to capital gains tax (a CGT asset) without paying for it (for example, as a gift or through an inheritance). Similarly, we refer to 'selling' such an asset when you may have disposed of it in some other way (for example, by giving it away or transferring it to someone else). Whether by sale or by any other means, all of these disposals are CGT events.

YOUR TAX RETURN

If you have a capital gain or capital loss for 2003–04, this guide will help you – whether you are an individual or an entity (company, trust or fund) – to complete the capital gains item on a tax return.

WORKSHEETS

You may wish to use the two CGT worksheets provided at the back of this guide to help you keep track of your records and make sure you pay no more CGT than necessary.

There is a:

- **Capital gain or capital loss worksheet** for working out your capital gain or capital loss for each CGT 'event', and a
- **CGT summary worksheet** to help you summarise your capital gains and capital losses and produce the final net amount you need to include on your tax return.

You can tear out these forms and complete them as you work through the guide.

CAPITAL GAINS TAX SCHEDULE

If you are a company, trust or fund with total capital gains or capital losses of more than $10,000 this income year, you must complete a *Capital gains tax (CGT) schedule 2004* (CGT schedule). Partnerships and individual paper tax preparers are not required to lodge a schedule.

The CGT schedule is explained in detail in part C and is provided at the back of this guide if required.

WHAT'S NEW

There are a number of recent and proposed CGT changes to bear in mind when calculating your capital gain or capital loss.

Convertible notes

There has been a change to the tax treatment of convertible notes issued by a company after 14 May 2002 if the notes are traditional securities. Under the change:

- any gains you make when these notes are converted or exchanged for ordinary shares in a company will not be ordinary income at the time of conversion or exchange, and any losses you make will not be deductible
- instead, any gains or losses you make on the later sale or disposal of the shares (incorporating any gain or loss that would have been made on the conversion or exchange of the notes) will be:
  - subject to CGT if you are an ordinary investor, or
  - ordinary income (or deductible, in the case of a loss) if you are in the business of trading in shares and other securities.

For more information, get the publication *You and your shares* (see the inside back cover).

Foreign exchange gains and losses

New legislation dealing with foreign exchange (forex) gains and losses generally applies from 1 July 2003. The legislation introduces CGT events K10 and K11. The new CGT events mean that short-term forex gains or losses

arising under a transaction for the acquisition or disposal of certain capital assets are integrated into the tax treatment of the capital asset or are matched to the character of the gain or loss that would arise from the disposal of the asset. For the new rules to apply, the due date for payment must be within 12 months of acquiring the asset or disposing of it. Taxpayers could choose, generally by 16 January 2004, not to have this rule apply so forex gains and losses were instead assessable or deductible. For more information, refer to 'Forex – the 12 month rule' on our website at **www.ato.gov.au**

GST input tax credits

The Government has introduced legislation into Parliament to ensure that GST net input tax credits are excluded from the cost base, reduced cost base and other relevant amounts used for the purposes of working out the amount of a capital gain or capital loss. The amendments will apply to CGT events that happen after 19 February 2004. (The existing law provides for input tax credits to be excluded only from the first, second and third elements of the cost base of assets acquired after 7.30pm – by legal time in the ACT – on 13 May 1997.)

If you have excluded certain GST input tax credits when calculating a capital gain or capital loss for a CGT event which happened on or before 19 February 2004, you may be entitled to apply for an amended assessment – refer to *Draft Taxation Determination TD 2004/D3 – Capital gains: are input tax credits excluded from a CGT asset's cost base and reduced cost base worked out under sections 110-25 and 110-55 of the Income Tax Assessment Act and from other equivalent amounts used in working out a capital gain or loss?* and other information on our website at **www.ato.gov.au**

Rollover for financial service providers

The Government has introduced legislation into Parliament to provide automatic CGT rollover for financial service providers on transition to the financial services reform (FSR) regime when, during the FSR transitional period (11 March 2002 to 10 March 2004):

- an existing statutory licence, registration or authority is replaced with an Australian financial service licence
- a qualified Australian financial service licence is replaced with an Australian financial service licence, and
- an intangible CGT asset is replaced with another intangible CGT asset.

The legislation is expected to apply to CGT events happening on or after 11 March 2002.

Exemption for certain Second World War payments

The Government has introduced legislation into Parliament to exempt Australian residents from income tax and CGT on all Second World War compensation payments received on or after 1 July 2001 where the payment relates to suffering from a wrong or injury and/or property loss through persecution (or flight from persecution).

Sugar exit grants

Legislation has been passed to exempt any capital gain or capital loss you make from a CGT event relating directly to a sugar industry exit grant paid under the Sugar Industry Reform Program.

Foreign hybrids

If you have an investment in a foreign hybrid, the Government has introduced legislation into Parliament which will change the tax treatment from 1 July 2003 or optionally from 1 July 2002. A foreign hybrid is an entity that is taxed in Australia as a company but taxed overseas as a partnership. This can include a limited partnership, a limited liability partnership and a US limited liability company. Investors in these entities are now treated for Australian tax purposes as having a partnership interest. Previously, the investors were treated as shareholders and distributions they received were taxed as dividends. When the change becomes law, more information will be available on our website at **www.ato.gov.au**

Shares in foreign companies

The Government has introduced legislation into Parliament to disregard capital gains and capital losses made on certain disposals by Australian companies of their shares in foreign companies with underlying active businesses. The proposed legislation will also reduce attributable income arising from certain CGT events happening to shares owned by a controlled foreign company (CFC) in a foreign company.

The changes will only apply if:

- the company held a direct voting percentage in the foreign company of at least 10%, and
- the shares were held by the company for a continuous period of at least 12 months in the two years before the CGT event.

It is intended that the changes apply to CGT events happening on or after 1 April 2004. For more information call the Tax Reform Infoline on **13 24 78**.

Budget announcements

Worthless shares

On 11 May 2004, as part of the Budget, the Government announced proposed changes to the law allowing shareholders to choose to make a capital loss where any insolvency practitioner (not just a liquidator) declares in writing that shares are worthless. The new law would also apply to securities other than shares. The Government's intention is that the change will apply to declarations made after the date the amending law receives royal assent.

Testamentary gifts

On 11 May 2004, as part of the Budget, the Government announced that it proposes to remove the condition that a testamentary gift of property to a deductible gift recipient must be independently valued at greater than $5,000 before a CGT exemption can apply to the gift. The Government's intention is that the change will apply to gifts made after the date the amending law receives royal assent.

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Part A

DO YOU NEED TO READ THIS PART OF THE GUIDE?

To find out, answer the following questions. If you answer NO to all questions, you don't need to read **part A**. Go to **part B** starting on page 76.

Do you need information about the three methods of calculating a capital gain?

YES Read **part A** chapter 2, starting on page 13.

Have you received a distribution of a capital gain from a managed fund or other unit trust in 2003–04?

YES Read **part A** chapter 4, starting on page 22.

Have you sold shares or units in a unit trust in 2003–04?

YES Read **part A** chapter 5, starting on page 26.

Did you sell real estate or your home (main residence) in 2003–04?

YES Read **part A** chapter 6, starting on page 44.

Do you need help completing the capital gains item on your individual tax return?

YES Read the relevant chapters in **part A**, then work through **part B**.

Do you need help completing the capital gains item on your entity's tax return?

YES Read the relevant chapters in **part A**, then work through **part C**.

CHAPTER 1
Does capital gains tax apply to you?

This chapter provides general background information about capital gains tax and whether and how it applies to you.

UNFAMILIAR TERMS

We may use some terms that you are not familiar with. These words are printed in **red** the first time they are used (for example, 'capital gains tax' on this page) and explained in **Explanation of terms** at the back of this guide. They are also explained in more detail later in the section where they first appear.

WHAT IS CAPITAL GAINS TAX AND WHAT RATE OF TAX DO YOU PAY?

Capital gains tax (CGT) is the tax that you pay on any capital gain you include on your annual income tax return. It is not a separate tax, merely a component of your income tax. You are taxed on your net capital gain at your marginal tax rate.

Your **net capital gain** is:

- your total capital gains for the year
  minus
- your total capital losses (including any net capital losses from previous years)
  minus
- any **CGT discount** and **small business CGT concessions** to which you are entitled.

You make a capital gain or capital loss if a CGT event happens. You can also make a capital gain if a **managed fund** or other trust distributes a capital gain to you.

For most CGT events, your capital gain is the difference between your capital proceeds and the **cost base** of your **CGT asset** – for example, if you sell an asset for more than you paid for it, the difference is your capital gain. You make a capital loss if your **reduced cost base** of your CGT asset is greater than the capital proceeds.

Generally, you can disregard any capital gain or capital loss you make on an asset if you acquired it before 20 September 1985 (pre-CGT). For details of some other exemptions, see **Exemptions and rollovers** on page 9.

There are special rules that apply when working out gains and losses from **depreciating assets**. A depreciating asset is a tangible asset (other than land or trading stock) that has a limited effective life and can reasonably be expected to decline in value over the time it is used. Certain intangible assets are also depreciating assets.

If a depreciating asset is used for a taxable purpose (for example, in a business) any gain you make on it is treated as ordinary income and any loss as a deduction. It is only when a depreciating asset has been used for a non-taxable purpose (for example, used privately) that you can make a capital gain or capital loss on it. For details on the CGT treatment of depreciating assets, see **CGT and depreciating assets** on page 11.

To work out whether you have to pay tax on your capital gains, you need to know:

- whether a CGT event has happened to you
- the time of the CGT event
- what assets are subject to CGT
- how to calculate the capital gain or capital loss (how to determine your capital proceeds, cost base and reduced cost base, how to apply capital losses and the methods available to calculate a capital gain)
- whether there is any exemption or **rollover** that allows you to reduce or disregard the capital gain or capital loss
- whether the CGT discount applies, and
- whether you are entitled to any of the small business CGT concessions

WHAT IS A CGT EVENT?

CGT events are the different types of transactions or events that may result in a capital gain or capital loss. Many CGT events involve a CGT asset; some relate directly to capital receipts (capital proceeds).

You need to know which type of CGT event applies in your situation because it affects how you calculate your capital gain or capital loss and when you include it in your net capital gain or net capital loss.

The range of CGT events is wide. Some happen often and affect many people while others are rare and affect only a few people. There is a summary of the various types of CGT events at appendix 1.

The most common CGT event happens if you dispose of a CGT asset to someone else – for example, if you sell it or give it away. A CGT event also happens when:

- an asset you own is lost or destroyed (the destruction may be voluntary or involuntary)
- shares you own are cancelled, surrendered or redeemed
- you enter into an agreement not to work in a particular industry for a set period of time
- a trustee makes a **non-assessable payment** to you from a managed fund or other unit trusts
- a company makes a payment (not a dividend) to you as a shareholder
- a liquidator declares that shares you own are worthless

- you receive an amount from a local council for disruption to your business assets by roadworks
- you stop being an Australian resident
- you enter into a conservation covenant, or
- you dispose of a depreciating asset that you used for private purposes.

Subdividing land does not result in a CGT event if you retain ownership of the subdivided blocks. Therefore, you do not make a capital gain or a capital loss at the time of the subdivision.

Australian residents make a capital gain or capital loss if a CGT event happens to any of their assets anywhere in the world. As a general rule, non-residents make a capital gain or capital loss only if a CGT event happens to a CGT asset that has a 'necessary connection with Australia' (see page 9).

Non-Australian residents may also make a capital gain or capital loss where CGT events create:

- contractual or other rights (CGT event D1), or
- a trust over future property (CGT event E9).

Order in which CGT events apply

If more than one CGT event could apply to your transaction or circumstances, the most relevant CGT event applies.

Time of the CGT event

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

If you dispose of a CGT asset to someone else, the CGT event happens when you enter into the contract for disposal. If there is no contract, the CGT event generally happens when you stop being the asset's owner.

EXAMPLE

Contract

In June 2004, Sue enters into a contract to sell land. The contract is settled in October 2004.

Sue makes the capital gain in the 2003–04 income year (the year she enters into the contract), not the 2004–05 income year (the year settlement takes place).

If a CGT asset you own is lost or destroyed, the CGT event happens when you first receive compensation for the loss or destruction. If you do not receive any compensation, the CGT event happens when the loss is discovered or the destruction occurred.

EXAMPLE

Insurance policy

Laurie owned a rental property that was destroyed by fire in June 2003. He received a payment under an insurance policy in October 2003. The CGT event happened in October 2003.

The CGT events relating to shares and units, and the times of the events, are dealt with in chapter 5.

WHAT IS A CGT ASSET?

Many CGT assets are easily recognisable – for example, land, shares in a company, and units in a unit trust. Other CGT assets are not so well understood – for example, contractual rights, options, foreign currency and goodwill. All assets are subject to the CGT rules unless they are specifically excluded.

CGT assets fall into three categories:

- collectables
- personal use assets, and
- other assets.

Collectables

Collectables include the following items that are used or kept mainly for the personal use or enjoyment of you or your associate(s):

- paintings, sculptures, drawings, engravings or photographs, reproductions of these items or property of a similar description or use
- jewellery
- antiques
- coins or medallions
- rare folios, manuscripts or books, and
- postage stamps or first day covers.

A collectable is also:

- an interest in any of the items listed above
- a debt that arises from any of those items, or
- an option or right to acquire any of those items.

Capital losses from collectables can only be used to reduce capital gains (including future capital gains) from collectables. However, any capital gain or capital loss you make from a collectable is disregarded if any of the following apply:

- you acquired the collectable for $500 or less
- you acquired an interest in the collectable for $500 or less before 16 December 1995, or
- you acquired an interest in the collectable when it had a market value of $500 or less.

If you dispose of a number of collectables individually that you would usually dispose of as a set, you are exempt from paying CGT only if you acquired the set for $500 or less. This does not apply to collectables you acquired before 16 December 1995.

Personal use assets

A personal use asset is:

- a CGT asset, other than a collectable, that is used or kept mainly for the personal use or enjoyment of you or your associate(s)
- an option or a right to acquire a personal use asset
- a debt resulting from a CGT event involving a CGT asset kept mainly for your personal use and enjoyment, or
- a debt resulting from your doing something other than gaining or producing your assessable income or carrying on a business.

Personal use assets include such items as boats, furniture, electrical goods and household items. Land and buildings are not personal use assets. Any capital loss you make from a personal use asset is disregarded.

If a CGT event happened to a personal use asset during or after the 1998–99 income year, any capital gain you make is disregarded if you acquired the asset for $10,000 or less. If you dispose of a number of personal use assets individually that would usually be sold as a set, you get the exemption only if you acquired the set for $10,000 or less.

Other assets

Assets that are not collectables or personal use assets include:

- land
- shares in a company
- rights and options
- leases
- units in a unit trust
- goodwill
- licences
- convertible notes
- your home (see **Exemptions** on page 9)
- contractual rights
- foreign currency, and
- any major capital improvement made to certain land or pre-CGT assets.

Partnerships

It is the individual partners who make a capital gain or capital loss from a CGT event, not the partnership itself. For CGT purposes, each partner owns a proportionate share of each CGT asset.

Joint tenants

For CGT purposes, individuals who own an asset as joint tenants are each treated as if they own an equal interest in the asset as a tenant in common (see page 75 for more information). Each joint tenant or tenant in common makes a capital gain or capital loss from a CGT event in line with their interest in the asset.

Separate assets

For CGT purposes, there are exceptions to the rule that what is attached to the land is part of the land. In some circumstances, a building or structure is considered to be a CGT asset separate from the land.

Other improvements to an asset – including land – acquired before 20 September 1985 may also be treated as a separate CGT asset.

Buildings, structures and other improvements to land you acquired on or after 20 September 1985

A building, structure or other capital improvement on land that you acquired on or after 20 September 1985 is a separate CGT asset, not part of the land, if a balancing adjustment provision applies to it. For example, a timber mill building is subject to a balancing adjustment if it is sold or destroyed, so it is treated as an asset separate from the land it is on.

Buildings and structures on land acquired before 20 September 1985

A building or structure on land that you acquired before 20 September 1985 will be a separate asset if:

- you entered into a contract for the construction of the building or structure after that date, or
- construction began on or after that date.

Other capital improvements to pre-CGT assets

If you make a capital improvement to a CGT asset you acquired before 20 September 1985, this improvement will be treated as a separate asset and is subject to CGT if, at the time a CGT event happens to the original asset, the cost base of the capital improvement is:

- more than the improvement threshold for the year in which the event happens (see table below), and
- more than 5% of the amount of money and property you receive from the event.

If there is more than one capital improvement and they are related, they are treated as one separate CGT asset if the total of their cost bases is more than the threshold.

The improvement threshold is adjusted to take account of inflation. The thresholds for 1985–86 to 2003–04 are shown in the following table.

IMPROVEMENT THRESHOLDS FOR 1985–86 TO 2003–04

Income year	Threshold ($)	Income year	Threshold ($)
1985–86	50,000	1995–96	84,347
1986–87	53,950	1996–97	88,227
1987–88	58,859	1997–98	89,992
1988–89	63,450	1998–99	89,992
1989–90	68,018	1999–2000	91,072
1990–91	73,459	2000–01	92,802
1991–92	78,160	2001–02	97,721
1992–93	80,036	2002–03	101,239
1993–94	80,756	2003–04	104,377
1994–95	82,290		

EXAMPLE

Adjacent land

On 1 April 1984, Dani bought a block of land. On 1 June 2004, she bought an adjacent block. Dani amalgamated the titles to the two blocks into one title.

The second block is treated as a separate CGT asset acquired on or after 20 September 1985 and is therefore subject to CGT.

WHAT ARE CAPITAL PROCEEDS?

Whatever you receive as a result of a CGT event is referred to as your 'capital proceeds'. For most CGT events, your capital proceeds are an amount of money or the value of any property you receive (or are entitled to receive).

In some cases, if you receive nothing in exchange for a CGT asset (for example, if you give it away as a gift) you are taken to have received the market value of the asset at the time of the CGT event. You may also be taken to have received the market value if:

- your capital proceeds are more or less than the market value of the CGT asset, and
- you and the purchaser were not dealing with each other at arm's length in connection with the event.

This is known as the **market value substitution rule for capital proceeds**.

You are said to be dealing at arm's length with someone if each party acts independently and neither party exercises influence or control over the other in connection with the transaction. The law looks at not only the relationship between the parties but also the quality of the bargaining between them.

Your capital proceeds from a CGT event are reduced if:

- you are not likely to receive some or all of the proceeds
- the non-receipt is not due to anything you have done or failed to do, and
- you took all reasonable steps to get payment.

Provided you are not entitled to a tax deduction for the amount you repaid, your capital proceeds are also reduced by:

- any part of the proceeds that you repay, or
- any compensation you pay that can reasonably be regarded as a repayment of the proceeds.

If you are registered for goods and services tax (GST) and you receive payment when you dispose of a CGT asset, any GST payable is not part of the capital proceeds.

There are special rules for calculating the proceeds from a depreciating asset. For more information, see **CGT and depreciating assets** on page 11.

WHAT IS THE COST BASE?

The cost base of a CGT asset is generally the cost of the asset when you bought it; however, it also includes certain other costs associated with acquiring, holding and disposing of the asset.

For most CGT events, you need the cost base of the CGT asset to work out whether or not you have made a capital gain. If you may have made a capital loss, you need the reduced cost base of the CGT asset for your calculation. The capital gain and capital loss columns in the table at appendix 1 indicate whether the cost base and reduced cost base of an asset are relevant for a CGT event.

For those CGT events where the cost base and reduced cost base are not relevant, the explanation of the CGT event given in the table explains the amounts to use to work out your capital gain or capital loss. For example, if you enter into an agreement not to work in a particular industry for a set period of time, CGT event D1 specifies that you make a capital gain or capital loss by comparing the capital proceeds with the incidental costs.

Cost base is not relevant when working out a capital gain from a depreciating asset.

There are special rules for calculating the cost of a depreciating asset. For details, see **CGT and depreciating assets** on page 11, and the *Guide to depreciating assets*.

Elements of the cost base

The cost base of a CGT asset is made up of five elements. You need to work out the amount for each element then add the amounts together to work out the cost base of each of your CGT assets.

If you are registered for GST, the first, second and third elements of the cost base of an asset you acquired after 13 May 1997 are reduced by the amount of any GST input tax credits included in the cost. Refer to **What's new** on page v for information about proposed changes that will reduce all elements of the cost base by the amount of any GST net input tax credits.

First element: money or property given for the asset

The money paid (or required to be paid) for the asset and the market value of property given (or required to be given) to acquire the asset are included in the first element.

Second element: incidental costs of the CGT event or of acquiring the CGT asset

There are five incidental costs you may have incurred. They are:

- remuneration for the services of a surveyor, valuer, auctioneer, accountant, broker, agent, consultant or legal adviser (you can only include the cost of advice concerning the operation of the tax law as an incidental cost if the advice was provided by a recognised tax adviser and you incurred the cost after 30 June 1989)
- costs of transfer
- stamp duty or other similar duty
- costs of advertising to find a seller or buyer, and
- costs relating to the making of any valuation or apportionment for the purposes of determining your capital gain or capital loss. Do not include expenditure for which you have or may have a deduction for income tax purposes in any year.

Third element: non-capital costs associated with owning the asset

Non-capital costs associated with owning an asset include rates, land taxes, repairs and insurance premiums. Non-deductible interest on borrowings to finance a loan used to acquire a CGT asset and on loans used to finance capital expenditure you incur to increase an asset's value are also third element costs.

You can **only** include non-capital costs of ownership in the cost base if you cannot claim a tax deduction for them and if you acquired the asset on or after 21 August 1991. You cannot include them at all in the cost base of collectables or personal use assets.

You cannot index these costs or use them to work out a capital loss. See **Indexation of the cost base** following.

Fourth element: capital costs associated with increasing the value of your asset

This element is relevant only if the expenditure was incurred to increase the asset's value and is reflected in the state or nature of the asset at the time of the CGT event – for example, if you paid for a carport to be built on your rental investment property.

Fifth element: capital costs of preserving or defending your ownership of or rights to your asset

Capital expenses you incur to preserve or defend your ownership of or rights to the asset – for example, if you paid a call on shares – come under this element.

Assets acquired after 13 May 1997

If you acquired a CGT asset after 13 May 1997, the cost base of the asset also excludes:

- any expenditure in the first, fourth or fifth element that has been (or can be) claimed as an income tax deduction, or
- heritage conservation expenditure and landcare and water facilities expenditure incurred after 12 November 1998 that give rise to a tax offset.

Special rules apply for land and buildings. See **Cost base adjustments for capital works deductions** on page 44.

Reversal of deduction: effect on cost base

In some cases, a deduction you have claimed on a CGT asset can be partly or wholly 'reversed' – that is, part or all of the deduction may be included in your assessable income in the year the CGT event happens. In this case, the cost base of the CGT asset is increased by the amount you have to include in your assessable income.

Indexation of the cost base

If a CGT event happened in relation to a CGT asset you acquired before 11.45am (by legal time in the ACT) on 21 September 1999 and owned for at least 12 months, you may be able to use either the **indexation method** or the **discount method** to calculate your capital gain.

If you use the indexation method, some of the cost base expenditure you incurred up to 11.45am (by legal time in the ACT) on 21 September 1999 may be indexed to account for inflation up to the September 1999 quarter. Only expenditure incurred before 11.45am (by legal time in the ACT) on 21 September 1999 may be indexed because changes to the law mean indexation was frozen at that date. Refer to chapter 2 for more information on the indexation and discount methods.

WHAT IS THE REDUCED COST BASE?

When a CGT event happens to a CGT asset and you haven't made a capital gain, you need the asset's reduced cost base to work out whether you have made a capital loss. (Remember, a capital loss can only be used to reduce a capital gain – it cannot be used to reduce other income.)

Elements of the reduced cost base

The reduced cost base of a CGT asset has the same five elements as the cost base (see previous page), except for the third element:

1. money or property given for the asset
2. incidental costs of the CGT event or of acquiring the CGT asset
3. balancing adjustment amount – any amount that is assessable because of a balancing adjustment for the asset or that would be assessable if certain balancing adjustment relief were not available
4. capital costs associated with increasing the value of your asset, and
5. capital costs of preserving or defending your title or rights to your asset.

These elements are not indexed.

You need to work out the amount for each element then add the amounts together to find out your reduced cost base for the relevant CGT asset.

Refer to **What's new** on page v for information about proposed changes that will reduce all elements of the reduced cost base by the amount of any GST net input tax credits.

The reduced cost base does not include any costs you have incurred that have been (or can be) claimed as deductions – for example, capital works deductions for capital expenditure.

EXAMPLE

Capital works deduction: effect on reduced cost base

Danuta acquired a new income-producing asset on 28 September 1994 for $100,000. She sold it for $90,000 in November 2003. During the period she owned it she claimed capital works deductions of $7,500 for expenditure she incurred. Her capital loss is worked out as follows:

Cost base	$100,000
less capital works deductions	$7,500
Reduced cost base	**$92,500**
less capital proceeds	$90,000
Capital loss	**$2,500**

Modifications to the cost base and reduced cost base

In some cases, the general rules for calculating the cost base and reduced cost base have to be modified. For example, the market value may be substituted for the first element of the cost base and reduced cost base if:

- you did not incur expenditure to acquire the asset
- some or all of the expenditure you incurred cannot be valued, or
- you did not deal at arm's length with the vendor in acquiring the asset.

This is known as the **market value substitution rule for cost base and reduced cost base**.

You do not include expenditure you subsequently recoup in the cost base and reduced cost of a CGT asset unless the recouped amount is included in your assessable income. Recouped amounts, such as an insurance pay-out you receive or an amount paid for by someone else, are not included in the cost base and reduced cost base unless those amounts are included in your assessable income.

EXAMPLE

Recouped expenditure

John bought a building in 2000 for $200,000 and incurred $10,000 in legal costs associated with the purchase. As part of a settlement, the vendor agreed to pay $4,000 of the legal costs. John did not claim as a tax deduction any part of the $6,000 he paid in legal costs.

He later sells the building. As he received reimbursement of $4,000 of the legal costs, in working out his capital gain he includes only the $6,000 he incurred in the cost base.

If you acquire a CGT asset and only part of the expenditure relates to the acquisition of the CGT asset, you can only include that part of the expenditure that is reasonably attributable to the acquisition of the asset in its cost base and reduced cost base.

Apportionment is also required if you incur expenditure and only part of that expenditure relates to another element of the cost base and reduced cost base.

Similarly, if a CGT event happens only to part of your CGT asset, you generally apportion the asset's cost base and reduced cost base to work out the capital gain or capital loss from the CGT event.

Consolidated groups

For information on how consolidated groups modify cost bases, refer to the *Consolidation reference manual*, available on our website at **www.ato.gov.au** For other consolidation products, phone the Tax Reform Infoline on **13 24 78** or visit **www.ato.gov.au**

General value shifting regime

Value shifting generally occurs when a dealing or transaction between two parties is not at market value and results in the value of one asset decreasing and (usually) the value of another asset increasing.

The general value shifting regime (GVSR) rules apply to:

- value shifts which arise as a result of interests in a company or trust being issued or bought back at other than market value, or as a result of their rights being varied so that the value of some interests increases while the value of others decreases (direct value shifts on interests)
- value shifts which arise as a result of two entities under the same control or ownership conducting dealings or transactions that are neither at market value nor arm's length, so that the value of interests in one entity decreases while (usually) the value of interests in the other entity increases (indirect value shifting), and
- value shifts which arise as a result of the creation of a right over a non-depreciating asset in favour of an associate for less than market value (direct value shifts by creating rights).

The rules relating to direct value shifts on interests target only equity or loan interests held by an individual or entity that controls the company or trust, the controller's associates and, where the company or trust is closely held, any active participants in the arrangement.

The indirect value shifting rules target only equity or loan interests held by an individual or entity that controls the two entities conducting the dealing or transaction and the controller's associates. But if the two entities are closely held, the rules also target equity or loan interests held by two or more common owners of those entities, the common owner's associates and any active participants in the arrangement.

There are also exclusions and safe harbours that limit the operation of the rules.

Where the rules apply, you may need to:

- adjust the cost base and reduced cost base of equity and loan interests affected by the value shift, or
- adjust a realised loss or gain on the disposal of the relevant assets.

In some cases, there may also be an immediate capital gain.

For more information on whether the GVSR rules apply to you, refer to the publication *General value shifting regime in brief*. For detailed information on the operation of the rules, refer to the *Guide to the general value shifting regime*. Both publications can be found at **www.ato.gov.au**

Other special rules

There are other rules that may affect the cost base and reduced cost base of an asset. For example, they are calculated differently:

- if the asset is your **main residence** and you use it to produce income for the first time after 20 August 1996 (see chapter 6)
- if you receive the asset as a beneficiary or as the legal personal representative of a deceased estate (see chapter 9)
- for **bonus shares** or units, rights and options and convertible notes (see chapter 5)

- under a demerger (see chapter 5), and
- where you have been freed from paying a debt (see **Debt forgiveness** below).

Debt forgiveness

A debt is forgiven if you are freed from the obligation to pay it. Commercial **debt forgiveness** rules apply to debts forgiven after 27 June 1996. A debt is a commercial debt if part or all of the interest payable on the debt is, or would be, an allowable deduction.

Under the commercial debt forgiveness rules, a forgiven amount may reduce (in the following order) your:

- prior year revenue losses
- prior year net capital losses
- deductible expenditure
- assets' cost base and reduced cost base.

These rules do not apply if the debt is forgiven:

- as a result of an action under bankruptcy law
- in a deceased person's will, or
- for reasons of natural love and affection.

EXAMPLE

Applying a forgiven debt

On 1 July 2003, Josef had available net capital losses of $9,000. On 1 January 2004, he sold shares he had owned for more than 12 months for $20,000. They had a cost base (no indexation) of $7,500. On 1 April 2004, a commercial debt of $15,000 that Josef owed to AZC Pty Ltd was forgiven. Josef had no prior year revenue losses and no deductible capital expenditure.

Josef must use part of the forgiven commercial debt amount to wipe out his net capital losses and the rest to reduce the cost base of his shares. He would work out what net capital gain to include in his assessable income as follows:

Adjust net capital loss:	
Available net capital losses	$9,000
less debt forgiveness adjustment	$9,000
Adjusted net capital loss	**Nil**
Adjust cost base:	
Cost base of shares (no indexation)	$7,500
less debt forgiveness adjustment	$6,000
Adjusted cost base (no indexation)	**$1,500**
Calculate net capital gain:	
Sale of shares	$20,000
less adjusted cost base (no indexation)	$1,500
less adjusted net capital losses	Nil
Capital gain (eligible for discount)	$18,500
less discount percentage (50%)	$9,250
Net capital gain	**$9,250**

ACQUIRING CGT ASSETS

Generally, you acquire a CGT asset when you become its owner. You may acquire a CGT asset as a result of:

- A CGT event happening to someone else (for example, the transfer of land to you under a contract of sale).

  If you acquired an asset as a result of a CGT event happening, you are generally taken to have acquired the asset at the time of the CGT event.

  For example, if you enter into a contract to purchase a CGT asset, the time of acquisition is when you enter into the contract (as that is the time CGT event A1 happened to the seller). However, if you obtain an asset without entering into a contract, the time of acquisition is when you start being the asset's owner.
- Other events or transactions happening that are not the result of a CGT event happening to someone else (for example, a company issuing shares, which is not a CGT event).

  If a company issues or allots shares to you, you acquire the shares when you enter into a contract to acquire them or, if there is no contract, at the time of their issue or allotment.
- Other special CGT rules (for example, a CGT asset passing to you as a beneficiary when someone dies).

  If a CGT asset passes to you as a beneficiary of someone who has died, you are taken to have acquired the asset on the date of the person's death.

Time of acquisition

The time a CGT asset is acquired is important for four reasons:

- CGT generally does not apply to assets acquired before 20 September 1985 (pre-CGT assets)
- different cost base rules apply to assets acquired at different times – for example, non-capital costs are not included in the cost base of an asset acquired before 21 August 1991
- it determines whether the cost base can be indexed for inflation and the extent of that indexation (see chapter 2 page 14), and
- it determines whether you are eligible for the CGT discount – for example, one requirement is that you need to have owned a CGT asset for at least 12 months (see chapter 2 page 13).

BECOMING A RESIDENT AND CEASING TO BE A RESIDENT

There are special CGT rules that apply when you become or stop being a resident of Australia for tax purposes. These rules do not affect pre-CGT assets.

Becoming a resident

If you become a resident you are taken to have acquired certain assets – specifically, those that do not have a necessary connection with Australia (see opposite page) – at the time you become a resident. You are taken to have acquired them for their market value at that time.

The general rules apply to any assets that had the necessary connection with Australia (for example, land in Australia) when you became a resident.

Ceasing to be a resident

If you stop being an Australian resident for tax purposes, you are taken to have disposed of assets that don't have the necessary connection with Australia (see below) for their market value on the day you stopped being a resident.

Short-term resident

The capital gain or capital loss is disregarded if you are an individual and were an Australian resident for less than five years during the 10 years before you stopped being one, and either:

- owned the asset before last becoming an Australian resident, or
- inherited the asset after last becoming an Australian resident.

Choosing to disregard making a capital gain or capital loss

If you are an individual, you can choose to disregard all capital gains and capital losses you made because you are taken to have disposed of assets when you stopped being a resident. If you make this choice the assets are taken to have the necessary connection with Australia until the earlier of:

- a CGT event happening to the assets (for example, their sale or disposal)
- you again becoming an Australian resident.

Necessary connection with Australia

Assets you may own that have a necessary connection with Australia include:

- land or a building in Australia (or an interest in land or a building)
- a CGT asset you have used in carrying on a business through a permanent establishment in Australia
- a share in a private company that is an Australian resident company for the income year in which the CGT event happens
- a share, or an interest in a share, in a public company that is an Australian resident company and in which you and your associates have owned at least 10% of the value of the shares at any time during the five years before the CGT event happens
- a unit in a unit trust that is a resident trust and in which you and your associates have owned at least 10% of the issued units at any time during the five years before the CGT event happens
- a unit or other interest in a trust that is a resident trust for CGT purposes for the income year in which the CGT event happens, and
- an option or right to acquire any of the preceding CGT assets.

Assets that do not fall within one of the above categories – for example, land or a building overseas or shares in a foreign company – do not have the necessary connection with Australia.

CHOICES

In some cases you are given a choice as to how the CGT rules apply to you. As a general rule, if you wish to make a choice you must make it by the day you lodge your tax return – the way you prepare your tax return is sufficient evidence of your choice. However, there are some exceptions:

- companies must make some decisions about replacement asset rollovers earlier
- choices relating to the small business retirement exemption must be made in writing, and
- a longer period is allowed to choose the small business rollover.

EXEMPTIONS AND ROLLOVERS

There are exemptions and rollovers that may allow you to reduce, defer or disregard your capital gain or capital loss.

Exemptions

A common exemption is for gains and losses from pre-CGT assets (that is, an asset you acquired before 20 September 1985).

Another important exemption is for a capital gain or capital loss you make from a CGT event relating to a **dwelling** that was your main residence. This rule can change, however, depending on how you came to own the dwelling and what you have done with it – for example, if you rented it out (see chapter 6 for more information).

The following capital gains and capital losses are also disregarded:

- a car (that is, a motor vehicle designed to carry a load of less than one tonne and fewer than nine passengers) or motor cycle or similar vehicle
- a decoration awarded for valour or brave conduct unless you paid money or gave any other property for it
- collectables acquired for $500 or less
- a capital gain from a personal use asset acquired for $10,000 or less
- any capital loss from a personal use asset
- CGT assets used solely to produce exempt income or some amounts of non-assessable non-exempt income
- a CGT asset that is your trading stock at the time of a CGT event
- shares in a pooled development fund
- compensation or damages you receive for any:
  - wrong or injury you suffer in your occupation
  - wrong, injury or illness you or your relatives suffer
- compensation you receive under the firearms surrender arrangements
- winnings or losses from gambling, a game or a competition with prizes
- a reimbursement or payment of your expenses under the General Practice Rural Incentives Program or the Sydney Aircraft Noise Insulation Project
- a reimbursement or payment made under the M4/M5 Cashback Scheme

- a re-establishment grant made under section 52A of the *Farm Household Support Act 1992*
- a dairy exit payment under the *Farm Household Support Act 1992*
- all payments made under the German Forced Labour Compensation Programme (GFLCP) – including to a relative or heir of the victim (refer to *Class Ruling CR 2002/59 – Income tax: Compensation payments for Holocaust survivors and their relatives – remembrance, responsibility and future foundation*)
- some types of testamentary gifts
- any capital gain or capital loss that would otherwise arise from the assignment of a right in relation to a general insurance policy held with an HIH company to the Commonwealth, the trustee of the HIH trust or a prescribed entity
- any capital gain or capital loss you make from rights being created in you or your rights ending in relation to the making of a superannuation agreement (as defined in the *Family Law Act 1975*), the termination or setting aside of such an agreement or such an agreement otherwise coming to an end
- any capital gain or capital loss that a complying superannuation entity makes from a CGT event happening in relation to a segregated current pension asset
- in certain circumstances, a general insurance policy, a life insurance policy or an annuity instrument
- the transfer on or after 28 December 2002 of a superannuation interest in a small superannuation fund to another small superannuation fund on the breakdown of a legal (but not a de facto) marriage
- your gain on disposal of eligible venture capital investments, if you are a qualifying investor – see *Venture capital concessions (capital gains tax) – overview*, available on our website at **www.ato.gov.au**

Other exemptions: capital gains

Your capital gain may be reduced if because of a CGT event, an amount has been included in your assessable income other than as a capital gain.

There are a range of concessions that allow you to disregard part or all of a capital gain made from an active asset you use in your small business. For more information, get the publication *Guide to capital gains tax concessions for small business* (see the inside back cover).

Other exemptions: capital losses

You disregard any capital loss you make:

- from the expiry, forfeiture, surrender or assignment of a lease if the lease is not used solely or mainly for the purpose of producing assessable income
- from a payment to any entity of personal services income that is included in an individual's assessable income under the alienation of personal services income provisions, or any other amount attributable to that income
- as an exempt entity.

Rollovers

A capital gain or capital loss may be deferred or disregarded – rolled over – until a later CGT event happens. The types of rollover available are listed here; however, only the following four types are covered in this guide. If you would like information on the others, please contact the Tax Office.

Marriage breakdown

In certain cases where an asset or a share of an asset is transferred from one spouse to another after their marriage breaks down, any CGT is deferred until a later CGT event happens (for example, when the former spouse sells the asset to someone else). For more examples of how CGT obligations are affected by marriage breakdown, go to chapter 8.

Loss, destruction or compulsory acquisition of an asset

You may defer a capital gain in some cases where a CGT asset has been lost or destroyed or is compulsorily acquired (see chapter 7).

Scrip-for-scrip

You may be able to defer a capital gain if you dispose of your shares in a company or interest in a trust as a result of a takeover (see chapter 5 page 28).

Demergers

You may be able to defer a capital gain or capital loss if a CGT event happens to your shares in a company or interest in a trust as a result of a demerger (see chapter 5 page 30).

Other replacement asset rollovers

You may be able to defer a capital gain or capital loss when you replace an asset in the following circumstances (if you would like information on these rollovers, contact your tax adviser or the Tax Office):

- an individual or trustee disposes of assets to, or creates assets in, a wholly owned company
- partners dispose of assets to, or create assets in, a wholly owned company
- a CGT event happens to small business assets and you acquire replacement assets
- your statutory licence is renewed or extended
- your property is converted to strata title
- you exchange shares in the same company or units in the same unit trust
- you exchange rights or options to acquire shares in a company or units in a unit trust
- you exchange shares in one company for shares in an interposed company
- you exchange units in a unit trust for shares in a company
- a body is converted to an incorporated company
- you acquire a Crown lease

- you acquire a depreciating asset
- you acquire prospecting and mining entitlements
- you dispose of a security under a securities lending arrangement
- a trust restructure ends your ownership of units or interests.

Other same asset rollovers

You may be able to defer a capital gain or capital loss when you transfer or dispose of assets in the following circumstances (if you would like information on these rollovers, contact your tax adviser or the Tax Office):

- an individual or trustee transfers a CGT asset to a wholly owned company
- a partner transfers their interest in a CGT asset to a wholly owned company
- a CGT asset is transferred between related companies
- a trust disposes of a CGT asset to a company under a trust restructure
- a CGT event happens because of a change to a trust deed of a complying approved deposit fund, a complying superannuation fund or a fund that accepts worker entitlement contributions
- a transfer of a CGT asset from one small superannuation fund to another because of a marriage breakdown.

CGT AND DEPRECIATING ASSETS

The uniform capital allowance system (UCA) applies from 1 July 2001 and replaces the previous capital allowance regime for plant. Under the UCA system, a capital gain or capital loss from the disposal of a depreciating asset will only arise to the extent that the asset has been used for a non-taxable purpose (for example, used for private purposes).

A capital gain or capital loss from a depreciating asset used for a non-taxable purpose is calculated using the UCA concepts of cost and termination value, not the concepts of capital proceeds and cost base found in the CGT provisions.

If a balancing adjustment event occurs for a depreciating asset that you have at some time used for a non-taxable purpose, a CGT event happens (refer to CGT event K7 in appendix 1). The most common balancing adjustment event for a depreciating asset occurs when you stop holding it (for example, you sell, lose or destroy it) or stop using it.

Calculating capital gain or capital loss for a depreciating asset

You make a capital gain if the termination value of your depreciating asset is greater than its cost; you make a capital loss if the reverse is the case and the asset's cost is more than its termination value.

You use different formulas to calculate a capital gain or capital loss depending on whether the asset is in a low-value pool or not.

Depreciating asset not in a low-value pool: capital gain

If your depreciating asset is not a pooled asset, you calculate the capital gain as follows:

$$(\text{Termination value} - \text{cost}) \times \frac{\text{sum of reductions}^{(1)}}{\text{total decline}^{(2)}}$$

Depreciating asset not in a low-value pool: capital loss

Calculate the capital loss from a depreciating asset that is not a pooled asset as follows:

$$(\text{Cost} - \text{termination value}) \times \frac{\text{sum of reductions}^{(1)}}{\text{total decline}^{(2)}}$$

EXAMPLE

Capital gain on depreciating asset

Larry purchased a truck in August 2003 for $5,000. He used the truck 10% for private purposes. The decline in value of the truck up to the date of sale was $2,000. Therefore, the sum of his reductions relating to his private use is $200 (10% of $2,000). Larry disposes of the truck in June 2004 for $7,000. Larry calculates his capital gain from CGT event K7 as follows:

$$(\$7{,}000 - \$5{,}000) \times \frac{200}{2{,}000}$$

Capital gain from CGT event K7 = $200

Depreciating asset in a low-value pool: capital gain

You calculate the capital gain from a depreciating asset in a low-value pool as follows:

$(\text{Termination value} - \text{cost}) \times (1 - \text{taxable use fraction}^{(3)})$

Depreciating asset in a low-value pool: capital loss

Calculate the capital loss from a depreciating asset in a low-value pool as follows:

$(\text{Cost} - \text{termination value}) \times (1 - \text{taxable use fraction}^{(3)})$

(1) The sum of the reductions in your deductions for the asset's decline in value that is attributable to your use of the asset, or having it installed ready for use, for a non-taxable purpose.

(2) The decline in the value of the depreciating asset since you started to hold it.

(3) 'Taxable use fraction' is the percentage of the asset's use that is for producing your assessable income, expressed as a fraction. This is the percentage you reasonably estimate at the time the asset is allocated to the low-value pool.

Application of CGT concessions

A capital gain from a depreciating asset may qualify for the CGT discount if the relevant conditions are satisfied. If the CGT discount applies, there is no reduction of the capital gain under the indexation method, as detailed in chapter 2.

The small business CGT concessions do not apply to a capital gain made from the disposal of a depreciating asset – because a capital gain can only arise in respect of an asset's use for non-taxable purposes (for example, to the extent it is used for private purposes).

Do any CGT exemptions apply to a depreciating asset?

A number of exemptions may apply to a capital gain or capital loss made from the disposal of a depreciating asset:

- Pre-CGT assets – A capital gain or capital loss from a depreciating asset is disregarded if the asset was acquired before 20 September 1985.
- Simplified tax system (STS) assets – A capital gain or capital loss from a depreciating asset is disregarded if you have elected to become an STS taxpayer and you can deduct an amount for the depreciating asset's decline in value under the STS provisions for the income year in which the balancing adjustment event occurred.
- Personal use asset – If a depreciating asset is a personal use asset (that is, one used or kept mainly for personal use and enjoyment), any capital loss from CGT event K7 is disregarded. A capital gain under CGT event K7 from a personal use asset costing $10,000 or less is also disregarded.
- Collectables – A capital gain or a capital loss from a depreciating asset that is a collectable costing $500 or less is disregarded.
- Balancing adjustment event and CGT event – A balancing adjustment event that gives rise to a capital gain or capital loss is only included under CGT event K7. However, capital proceeds received under other CGT events – for example, CGT event D1 – may still be relevant for a depreciating asset as CGT events are not the equivalent of balancing adjustment events.

Changed treatment of intellectual property

Intellectual property is a depreciating asset for the purposes of the UCA. Under this system, the former special treatment for partial realisations of intellectual property no longer applies.

If you grant or assign an interest in an item of intellectual property, you are treated as if you had stopped holding part of the item. You are also treated as if, just before you stop holding that part, you had split the original item of intellectual property into two parts, the part you stopped holding and the rest of the original item. You determine a first element of the cost for each part.

This treatment applies if a licence is granted over an item of intellectual property. To this extent, the treatment of intellectual property is different from other depreciating assets. The grant of a licence in respect of other depreciating assets would result in CGT event D1 (about creating contractual rights) happening.

Need more information?

For more information about depreciating assets, get the publication *Guide to depreciating assets* (see the inside back cover).

WHERE TO NOW?

Chapter 2 in **part A** explains how to calculate a capital gain using one of the three methods (indexation, discount or 'other').

Chapter 4 in **part A** explains how to calculate your capital gain if a managed fund or trust has distributed a capital gain to you. Capital gains included in trust distributions must be taken into account in working out your net capital gain or capital loss.

For more specific directions on how to complete your income tax return, please go to:

- **part B** for individuals
- **part C** for companies, trusts and funds (individuals who use the worksheets may find steps 1, 2 and 3 in part C useful – ignore the word 'entity').

CHAPTER 2

How to work out your capital gain or capital loss

This chapter explains how to work out your capital gain or capital loss. There are three methods that you can use to work out your capital gain. There is only one way to work out your capital loss.

The **Capital gain or capital loss worksheet** provided at the back of this guide shows the three methods of calculating a capital gain: the indexation method, the discount method and the 'other' method. You are not obliged to use this worksheet but you may find it helps you calculate your capital gain or capital loss for each CGT event.

UNFAMILIAR TERMS

If there are terms in this chapter that are not familiar to you, refer to **Explanation of terms** at the back of this guide.

THREE METHODS OF CALCULATING CAPITAL GAIN

The three methods of calculating capital gains are summarised and compared in the table **Capital gain calculation methods** on page 18. They are explained in more detail in the following pages. In some cases you may be able to choose either the discount method or the indexation method to calculate your capital gain. In this case you use the method that gives you the better result.

THE 'OTHER' METHOD

This is the simplest of the three methods. You must use the **'other' method** to calculate your capital gain if you have bought and sold your asset within 12 months or generally for CGT events that do not involve an asset. In these cases, the indexation and discount methods do not apply.

Generally, to use the 'other' method, you simply subtract your cost base (what the asset cost you) from your capital proceeds (how much you sold it for). The amount of proceeds left is your capital gain. For some types of CGT events, a cost base is not relevant. In these cases, the particular CGT event explains the amounts to use.

EXAMPLE

Calculating a capital gain using the 'other' method

Marie-Anne bought a property for $150,000 under a contract dated 24 June 2003. The contract provided for the payment of a deposit of $15,000 on that date, with the balance of $135,000 to be paid on settlement on 5 August 2003.

Marie-Anne paid stamp duty of $5,000 on 20 July 2003. On 5 August 2003, she received an account for solicitors fees of $2,000 which she paid as part of the settlement process.

Contracts for the sale of the property for $215,000 were exchanged on 15 October 2003. Marie-Anne incurred costs of $1,500 in solicitors fees and $4,000 in agents commission.

As she bought and sold her property within 12 months, Marie-Anne must use the 'other' method to calculate her capital gain.

Deposit	$15,000
Balance	$135,000
Stamp duty	$5,000
Solicitors fees for purchase of property	$2,000
Solicitors fees for sale of property	$1,500
Agents commission	$4,000
Cost base (total)	**$162,500**

Marie-Anne works out her capital gain as follows:

Capital proceeds	$215,000
less cost base	$162,500
Capital gain calculated using the 'other' method	**$52,500**

Assuming Marie-Anne has not made any other capital losses or capital gains in the 2003–04 income year and does not have any prior year net capital losses, the net capital gain to be included at item **17** on her tax return is $52,500 (item **9** if she uses the tax return for retirees).

THE INDEXATION METHOD

You can use the indexation method to calculate your capital gain if:

- a CGT event happens to an asset you acquired before 11.45am (by legal time in the ACT) on 21 September 1999, and
- you owned the asset for 12 months or more.

Under this method, you increase each amount included in an element of the cost base (other than those in the third element – non-capital costs of ownership) by an indexation factor.

The indexation factor is worked out using the consumer price index (CPI) at appendix 2.

If the CGT event happened on or after 11.45am (by legal time in the ACT) on 21 September 1999 you can only index the elements of your cost base up to 30 September 1999. You use this formula:

$$\text{Indexation factor} = \frac{\text{CPI for quarter ending 30.9.99 (123.4)}}{\text{CPI for quarter in which expenditure was incurred}}$$

If the CGT event happened before 11.45am (by legal time in the ACT) on 21 September 1999, you use this formula:

$$\text{Indexation factor} = \frac{\text{CPI for quarter when CGT event happened}}{\text{CPI for quarter in which expenditure was incurred}}$$

Work out the indexation factor to three decimal places, rounding up if the fourth decimal place is five or more.

For most assets, you index expenditure from the date you incur it, even if you do not pay some of the expenditure until a later time. However, there is an exception for partly paid shares or units acquired on or after 16 August 1989. If the company or trust later makes a call on the shares or units, you use the CPI for the quarter in which you made that later payment.

There are some exceptions to the requirement that you must have owned an asset for at least 12 months for indexation to apply. For example, you can use the indexation method:

- if you acquire a CGT asset as a legal personal representative or a beneficiary of a deceased estate. The 12-month requirement is satisfied if the deceased acquired the asset 12 months (or more) before you disposed of it, or
- if you acquired an asset as the result of a marriage breakdown. You will satisfy the 12-month requirement if the combined period your spouse and you owned the asset is more than 12 months.

THE DISCOUNT METHOD

You can use the discount method to calculate your capital gain if:

- you are an individual, a trust or a complying superannuation entity
- a CGT event happens in relation to an asset you own
- the CGT event happened after 11.45am (by legal time in the ACT) on 21 September 1999
- you acquired the asset at least 12 months before the CGT event, and
- you did not choose to use the indexation method.

Generally the discount method does not apply to companies, although it can apply in relation to a limited number of capital gains made by life insurance companies.

In determining whether you acquired the CGT asset at least 12 months before the CGT event, both the day of acquisition and the day of the CGT event are excluded.

EXAMPLE

CGT discount method

Sally acquired a CGT asset on 2 February 2003. Sally is entitled to apply the CGT discount if a CGT event happens in relation to that asset on or after 3 February 2004.

In certain circumstances, you may be eligible for the CGT discount even if you have not owned the asset for at least 12 months. For example:

- if you acquire a CGT asset as a legal personal representative or as a beneficiary of a deceased estate. The 12-month requirement is satisfied if the asset was acquired by the deceased
  - before 20 September 1985 and you disposed of it 12 months or more after they died, or
  - on or after 20 September 1985 and you disposed of it 12 months or more after they acquired it
- if you acquired an asset as the result of a marriage breakdown. You will satisfy the 12-month requirement if the combined period your spouse and you owned the asset is more than 12 months, or
- if a CGT asset is compulsorily acquired, lost or destroyed and you acquire a rollover replacement asset, you will satisfy the 12-month requirement for the replacement asset if the period of ownership of the original asset and the replacement asset is at least 12 months.

Certain capital gains are excluded

The CGT discount does not apply to capital gains from certain CGT events. The full list of CGT events is shown in the summary at appendix 1. The CGT discount does not apply to these CGT events:

- D1 Creating contractual or other rights
- D2 Granting an option
- D3 Granting a right to income from mining
- E9 Creating a trust over future property
- F1 Granting a lease
- F2 Granting a long-term lease
- F5 Lessor receives payment for changing a lease
- H2 Receipt for an event relating to a CGT asset
- J2 Change in status of a CGT asset that was a replacement asset in a rollover under Subdivision 152-E
- J3 A change happens in circumstances where a share in a company or an interest in a trust was a replacement asset in a rollover under Subdivision 152-E.

If you make a capital gain from a CGT event that creates a new asset – for example, receiving a payment for agreeing not to do something (entering into a restrictive covenant), you cannot satisfy the 12-month ownership rule so your CGT event does not qualify for the CGT discount.

The CGT discount may be denied:

- if the CGT event that gave rise to the capital gain occurred under an agreement that was made within 12 months of the acquisition of the asset
- on the disposal of certain shares or trust interests in non-widely held companies and trusts, that is, those with fewer than 300 members, or
- if an arrangement was entered into for the purposes of claiming the CGT discount under which an 'income' asset was converted into a 'capital' asset (conversion of income to capital) (Part IVA of the *Income Tax Assessment Act 1936*).

Discount percentage

The discount percentage is the percentage by which you reduce your capital gain. You can reduce the capital gain only after you have applied all available capital losses.

The discount percentage is 50% for individuals and trusts, and 33⅓% for complying superannuation entities and eligible life insurance companies.

CHOOSING THE INDEXATION OR DISCOUNT METHOD

For assets you have held for 12 months or more, you may choose to use the indexation method or the discount method to calculate your capital gain. There is no one factor you can use as a basis to select the better option as it depends on the type of asset you own, how long you have owned it, the dates you owned it and the past rates of inflation. Because capital losses must be offset against capital gains before the discount is applied, your choice may also depend on the amount of capital losses that you have available.

For example, Justin sold some land and has a $10,000 capital gain under the discount method (before applying the CGT discount) or a $7,000 capital gain under the indexation method. If Justin has no capital losses the discount method will produce the smaller capital gain (that is, $5,000).

However Justin also made a capital loss of $5,000 on the sale of some shares. He will be better off using the indexation method to work out the capital gain from the sale of his land. Under this method his net capital gain is $2,000 ($7,000 – $5,000). If he used the discount method his net capital gain would be $2,500 [($10,000 – $5,000) × 50%].

It is probably best to calculate your capital gain using both methods to find out which gives you the better result. This is shown for Val in the worked example on the next page and the completed **Capital gain or capital loss worksheet** on page 17.

EXAMPLE

Choosing the indexation or discount method

Val bought a property for $150,000 under a contract dated 24 June 1991. The contract provided for the payment of a deposit of $15,000 on that date, with the balance of $135,000 to be paid on settlement on 5 August 1991.

She paid stamp duty of $5,000 on 20 July 1991. On 5 August 1991, she received an account for solicitors fees of $2,000, which she paid as part of the settlement process.

She sold the property on 15 October 2003 (the day the contracts were exchanged) for $215,000. She incurred costs of $1,500 in solicitors fees and $4,000 in agents commission.

Val's capital gain calculated using the indexation method	
Deposit x indexation factor $15,000 × (123.4 ÷ 106.0 = 1.164)	$17,460
Balance x indexation factor $135,000 × (123.4 ÷ 106.0 = 1.164)	$157,140
Stamp duty x indexation factor $5,000 × (123.4 ÷ 106.6 = 1.158)	$5,790
Solicitors fees for purchase of property x indexation factor $2,000 × (123.4 ÷ 106.6 = 1.158)	$2,316
Solicitors fees for sale of property (indexation does not apply)	$1,500
Agents commission (indexation does not apply)	$4,000
Cost base (total)	**$188,206**
Val works out her capital gain as follows: Capital proceeds	$215,000
less cost base	$188,206
Capital gain (Val's total current year capital gain using this method)	**$26,794**
Assuming Val has not made any other capital losses or capital gains in the 2003–04 income year and does not have any prior year net capital losses, her net capital gain using the **indexation** method is $26,794.	

Val's capital gain calculated using the discount method	
Deposit	$15,000
Balance	$135,000
Stamp duty	$5,000
Solicitors fees for purchase of property	$2,000
Solicitors fees for sale of property	$1,500
Agents commission	$4,000
Cost base (total)	**$162,500**
Val works out her capital gain as follows: Capital proceeds	$215,000
less cost base	$162,500
Capital gain before applying discount (Val's total current year capital gain using this method)	$52,500
less 50% discount (as Val has no capital losses)	$26,250
Net capital gain	**$26,250**
As the **discount** method provides Val with the better result, she will show the amount worked out using the discount method on her tax return rather than the amount worked out using the indexation method. The worksheet example on the next page shows how Val might complete the **Capital gain or capital loss worksheet** using both methods.	

CAPITAL GAIN OR CAPITAL LOSS WORKSHEET

This worksheet helps you calculate a capital gain for each CGT asset or any other CGT event[1] using the indexation method[2], the discount method[3] and/or the 'other' method. It also helps you calculate a capital loss.

CGT asset type or CGT event

- Shares and units (in unit trusts) ☐
- Real estate ☒
- Other CGT assts and any other CGT events[4] ☐
- Collectables[5] ☐

Description of CGT asset or CGT event: *Val's property at 15 Smith St, Oldtown*

Date of acquisition: *24/06/1991* **Date of CGT event:** *15/10/2003*

Elements of the cost base or reduced cost base	1 Amount	2 Amounts to be deducted for cost base[9]	3 Cost base (1 – 2)	4 Amounts to be deducted for reduced cost base[9]	5 Reduced cost base (1 – 4)	6 Indexation factor[10]	7 Cost base indexed (3 x 6)
Acquisition or purchase cost of the CGT asset[6]	*15,000* *135,000*	*0* *0*	*15,000* *135,000*	*0* *0*	*15,000* *135,000*	*123.4 ÷ 106.0* *123.4 ÷ 106.0*	*17,460* *157,140*
Incidental costs to acquire the CGT asset	*7,000*	*0*	*7,000*	*0*	*7,000*	*123.4 ÷ 106.6*	*8,106*
Incidental costs that relate to the CGT event[7]	*5,500*	*0*	*5,500*	*0*	*5,500*	*1 (no indexation)*	*5,500*
Non-capital costs of ownership of the CGT asset[8]							
Capital expenditure to increase the asset's value that is reflected in the state or nature of the CGT asset at the time of the CGT event							
Capital costs to establish, preserve or defend title to, or a right over, the CGT asset							
	Cost base unindexed		**$** *162,500*				
			Reduced cost base		**$** *162,500*		
					Cost base indexed		**$** *188,206*

Capital gain calculation

Indexation method		Discount method		'Other' method (CGT asset held less than 12 months)	
Capital proceeds[11]	$ *215,000*	Capital proceeds[11]	$ *215,000*	Capital proceeds[11]	$
Less: cost base indexed	$ *188,206*	*Less:* cost base unindexed	$ *162,500*	*Less:* cost base unindexed	$
Capital gain (a)	**$** *26,794*	**Capital gain (b)***	**$** *52,500*	**Capital gain**	**$**

*In choosing between capital gain **(a)** or **(b)**, remember that the CGT discount will not apply to **(a)** but it will reduce the amount of capital gain remaining after capital losses are deducted from **(b)**.

Transfer the capital gain to part A1 of the *CGT summary worksheet*, except for a capital gain from collectables which is transferred to part A2 of that worksheet.

NOTE
An explanation of all footnotes appears on the back of the worksheet at the back of this publication.

Capital loss calculation

Capital loss	
Reduced cost base	$
Less: capital proceeds[11]	$
Capital loss[12]	**$**

Transfer the capital loss to part B of the *CGT summary worksheet*, except for a capital loss from collectables which is transferred to part A2 of that worksheet.

Capital gain calculation methods

	Indexation method	Discount method	'Other' method
Description of method	Allows you to increase the cost base by applying an **indexation factor** based on CPI up to September 1999	Allows you to discount your capital gain	Basic method of subtracting the cost base from the capital proceeds
When to use the method	Use for an asset owned for 12 months or more if it produces a better result than the discount method. Use only for assets acquired before 11.45am (by legal time in the ACT) on 21 September 1999.	Use for an asset owned for 12 months or more if it produces a better result than the indexation method.	Use when the indexation and discount methods do not apply (for example, if you have bought and sold an asset within 12 months).
How to calculate your capital gain using the method	Apply the relevant indexation factor (see CPI table at appendix 2, then subtract the indexed cost base from the capital proceeds (see worked example for Val on page 16).	Subtract the cost base from the capital proceeds, deduct any capital losses, then reduce by the relevant discount percentage (see worked example for Val on page 16).	Subtract the cost base (or the amount specified by the relevant CGT event) from the capital proceeds (see worked example for Marie-Anne on page 13).

HOW TO CALCULATE A CAPITAL LOSS

Generally, you make a capital loss if your reduced cost base is greater than your capital proceeds. The excess is your capital loss.

EXAMPLE

Antonio acquired a new income-producing asset on 28 September 1999 for $100,000. He sold it for $90,000 in November 2003. During the period he owned it, he was allowed capital works deductions of $7,500. Antonio works out his capital loss as follows.

Cost base	$100,000
less capital works deductions	$7,500
Reduced cost base	$92,500
less capital proceeds	$90,000
Capital loss	$2,500

EXAMPLE

In July 1996, Chandra bought 800 shares at $3 per share. He incurred brokerage and stamp duty of $100. In December 2003, Chandra sold all 800 shares for $2.50 per share. He incurred brokerage of $75. He made a capital loss, calculated as follows.

CALCULATION OF REDUCED COST BASE		
Date expense incurred	**Description of expense**	**Expense**
July 1996	Purchase price	$2,400
July 1996	Brokers fees and stamp duty	$100
December 2003	Brokers fees	$75
Reduced cost base		$2,575

CALCULATION OF CAPITAL LOSS	
Reduced cost base	$2,575
Capital proceeds 800 x $2.50	$2,000
Capital loss	$575

However, the reduced cost base is not relevant for some types of CGT events. In these cases, the particular CGT event explains the amounts to use (see appendix 1: Summary of CGT events).

REDUCED COST BASE

You cannot index a reduced cost base.

CHAPTER 3

Keeping records

You must keep records of everything that affects your capital gains and capital losses. There are penalties if you do not keep the records for at least five years after the relevant capital gains tax (CGT) event. Where you have a net capital loss, you should keep records for five years after the time you apply the net capital loss against a capital gain.

Keeping adequate records of all expenditure will help you correctly work out the amount of capital gain or capital loss you have made when a CGT event happens. It will also help make sure you do not pay more CGT than is necessary.

Keeping good records can help your beneficiaries reduce the impact of CGT after you die. If you leave an asset to another person, the asset may be subject to CGT when a CGT event happens to that asset in the future – for example, if your daughter (the beneficiary) sells the shares (the asset) you have left her in your will.

WHAT RECORDS DO YOU NEED TO KEEP?

You must keep records of every act, transaction, event or circumstance that may be relevant to working out whether you have made a capital gain or capital loss from a CGT event. It does not matter whether the CGT event has already happened or whether it may happen.

The records must be in English (or be readily accessible or convertible to English) and must show:

- 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, and
- how the act, transaction, event or circumstance is relevant to working out the capital gain or capital loss.

The following are examples of records you may need to keep:

- receipts of purchase or transfer
- details of interest on money you borrowed relating to this asset
- records of agent, accountant, legal and advertising costs
- receipts for insurance costs, rates and land taxes
- any market valuations
- receipts for the cost of maintenance, repairs and modifications, and
- accounts showing brokerage on shares.

You should also keep records to establish whether you have claimed an income tax deduction for an item of expenditure. In many cases if you have claimed a deduction for an amount it cannot be taken into account for CGT purposes.

Records relating to real estate

Real estate can include the family home, vacant blocks of land, business premises, rental properties, holiday houses and hobby farms.

Even though your family home is usually exempt, if you acquired it on or after 20 September 1985 it is advisable to keep all records relating to the home, just as you would for other items of real estate. If the home ceases to be fully exempt at some time in the future, you will need to know the full cost of the home so that you do not pay more CGT than necessary. If you do not have sufficient records, reconstructing them later could be difficult. See chapter 6 for details of when your home may not be fully exempt.

You will need to keep a copy of the purchase contract and all receipts for expenses relating to the purchase of the property – for example, stamp duty, legal fees, survey and valuation fees. You will also need to keep all records relating to the CGT event and all relevant expenses – for example, the sale contract and records of legal fees and stamp duty.

Keep a record of capital expenditure on improvements, non-capital costs and capital expenditure on maintaining title or right to the asset that you incurred during your period of ownership. These costs may form part of the cost base in working out whether you have made a capital gain or capital loss at the time the CGT event happens.

Capital expenditure on improvements may include building an extension, addition or improvement, including initial repairs.

Examples of non-capital costs of real estate include interest, rates and land taxes, insurance premiums and cost of repairs – for example, replacing broken items. You may include only non-capital costs incurred on ownership of a CGT asset acquired on or after 21 August 1991 and only if you are not entitled to a tax deduction for them.

If the property is your home and you use it to produce income (for example, by renting out part or all of it), you will need to keep records of the period the home is producing income and the proportion of the home you have used to produce income.

If, after 20 August 1996, you use your home for income-producing purposes for the first time, you will be taken to have acquired your home at that time for its market value. You will use this as your acquisition cost for the purpose of calculating a capital gain or capital loss at the time the CGT event happens. You will still need to keep details of expenses relating to your home after the date that it started producing income.

Records relating to shares in companies and units in unit trusts

Most of the records you need to keep to work out your CGT when you dispose of shares in companies or units in unit trusts (including managed funds) will be given to you by the company, the unit trust manager or your stockbroker. It is important for you to keep everything they give you in relation to your shares and units.

These records will generally provide the following important information:

- the date of purchase of the shares or units
- the amount paid to purchase the shares or units
- details of any non-assessable payments made to you during the time you owned the shares or units
- the date and amount of any calls if shares were partly paid
- the sale price if you sell them, and
- any commissions paid to brokers when you buy or sell them.

There are special CGT rules for certain shares and units which may affect the records you keep – for example, bonus shares and units, rights and options, and employee shares. See chapter 5 for more information.

Records relating to bonus shares

To be safe, if you have received any bonus shares on or after 20 September 1985, keep all the documents the company gives you.

For any bonus shares issued before 1 July 1987, you need to know when the original shares were acquired. If you acquired them on or after 20 September 1985, you will also need to know what they cost. Flowchart 1 in appendix 3 summarises the different rules applying to the treatment of bonus shares.

Keep a record of any amounts you paid to acquire the bonus shares and any amounts taxed as a dividend when they were issued.

Records relating to inheriting an asset

When you inherit an asset as a beneficiary of the estate of a person who died on or after 20 September 1985, you may need to obtain information from the executor or trustee.

If the asset was acquired by the deceased person before 20 September 1985, you need to know the market value of the asset at the date of the person's death and the amount of any relevant costs incurred by the executor or trustee. This is the amount that the asset is taken to have cost you. If the executor or trustee has a valuation of the asset, get a copy of that valuation report. Otherwise you will need to get your own valuation.

If the asset you inherit was acquired by the deceased person on or after 20 September 1985, you need to know full details of all relevant costs incurred by the deceased person and by the executor or trustee. Get those details from the executor or trustee.

Inheriting a main residence

If you inherit a house that was the deceased's main residence, any capital gain on its subsequent disposal may be exempt. However, until this is known, you should keep records of relevant costs incurred by you, the deceased or their trustee or executor.

You will not need to keep records of the deceased's costs if:

- you inherited the house after 20 August 1996
- the house was the deceased's main residence just before they died, and
- the house was not being used to produce income at the time of death.

In those circumstances, you will be taken to have acquired the house at its market value at the date of death. If the executor or trustee has a valuation of the asset, get a copy of that valuation report. Otherwise you will need to get your own valuation.

ASSET REGISTERS

You can choose to enter information from your CGT records into an asset register. Keeping an asset register may enable you to discard records that you might otherwise be required to keep for long periods of time.

If you choose to keep an asset register, transfer the following information to it from the records you generally need to keep for CGT purposes:

- the date of acquisition of an asset
- the cost of the asset
- a description, amount and date for each cost associated with the purchase of the asset (for example, stamp duty and legal fees) – other information contained in a record that may be relevant in calculating your CGT obligation
- the date the CGT event happened to the asset, and
- the capital proceeds received when the CGT event happened.

This information must be certified by a registered tax agent or a person approved by the Commissioner of Taxation – for more information on who can approve, see *Taxation Ruling TR 2002/10 – Capital gains tax: asset register* available on our website at **www.ato.gov.au**

If you use an asset register, you must keep the documents from which you have transferred the information for five years from the date the asset register entry in question has been certified. You must keep the asset register entries for

five years from the date the related CGT event happens. Keep the asset register for a longer period if you need to substantiate any carried forward net capital losses – for five years after any CGT event where you have applied any net capital loss against capital gains.

For more information about asset registers, see *Taxation Ruling TR 2002/10 – Capital gains tax: asset register* available on our website at **www.ato.gov.au**

EXCEPTIONS

You do not need to keep records if, for any CGT event, a capital gain or capital loss is disregarded. For example, you do not need to keep records for a motor vehicle as it is an exempt asset.

IT IS NEVER TOO LATE

If you have acquired assets on or after 20 September 1985 and have not kept records, or your records have inadvertently been destroyed, you can still do something about it.

If you have bought real estate, your solicitor or real estate agent may have copies of most of the records you need. You should be able to get copies if you ask for them.

If you have made improvements to an investment property – for example, if you built an extension, you can ask for a copy of the builder's receipt for payment.

If you have bought shares in a company or units in a unit trust, your stockbroker or investment adviser may be able to supply you with the information you need.

If you receive an asset as a gift and you did not get a market valuation at the time, a professional valuer can tell you what its market value was at the relevant date.

The main thing is to get as many details as possible so you can reconstruct your records. You should make sure you keep sufficient records in the future.

CHAPTER 4

Trust distributions

This chapter explains how distributions from trusts (including managed funds) can affect your capital gains tax (CGT) position. Managed funds include property trusts, share trusts, equity trusts, growth trusts, imputation trusts and balanced trusts.

Distributions from trusts can include different amounts but the following two types of amounts are relevant for CGT purposes:

- capital gains, and
- non-assessable payments.

Distributions of trust capital gains are treated as capital gains that you have made.

Non-assessable payments mostly affect the cost base of units in a unit trust (including managed funds) but can in some cases create a capital gain. Non-assessable payments do not affect beneficiaries of a discretionary trust.

UNFAMILIAR TERMS

There may be terms in this chapter that are not familiar to you. Refer to chapter 1 in **part A** for more information or to **Explanation of terms** at the back of this guide.

Trustees, including fund managers, may use different terms to describe the methods of calculation and other terms used in this guide. For example, they may use the term 'non-discount gains' when they refer to capital gains worked out using the indexation and 'other' methods.

CAPITAL GAINS MADE BY TRUST

STEP 1 Exclude net capital gains from trust income item

If you are a beneficiary of a trust, you may be entitled to (or may have received) a share of the net income of the trust which includes some of the trust's net capital gain. In this case, you do not include your share of the trust's net capital gain at item **12 Partnerships and trusts** on your tax return. Instead, you are treated as having a capital gain (or capital gains) worked out in the way explained in step 2.

ITEM 12 ON TAX RETURN FOR INDIVIDUALS

Question **12** in *TaxPack 2004* asks you to exclude net capital gains from the amount of trust income shown at **U** item **12** on your tax return. In your distribution statement, the trust should state the amount(s) of capital gain in your trust distribution.

If your statement shows that your share of the trust's net capital gain is more than the overall net amount of your share of the trust's net income, do not exclude the whole capital gain component when you complete item **12** on your tax return. In this situation, you exclude instead only the overall net amount of your share of trust income. You also use only this lesser amount in working out your capital gains.

EXAMPLE

Capital gain greater than share of trust net income

Debra's trust distribution shows that she received $2,000 as her share of the net income of a trust.

This is made up of a primary production loss of $5,000, non-primary production income of $2,000 and a net capital gain of $5,000.

At item **12** on her tax return, Debra will show $5,000 loss from primary production at **L** and $5,000 non-primary production income at **U**.

She excludes only $2,000 from item **12** because her share of the net income of the trust ($2,000) is less than her share of the net capital gain. The $2,000 is the amount Debra uses in working out her net capital gain at **A** item **17** on her tax return.

STEP 2 Capital gain you are taken to have made

If you are a beneficiary who is entitled to a share of a trust's net capital gain you are taken to have made the following extra capital gains in addition to those you have made from CGT events.

You may be a beneficiary who is entitled to a share of the income of a trust that includes a capital gain reduced by the CGT discount or the small business 50% active asset reduction. In this case, you need to **gross up** the capital gain by multiplying it by two. This grossed-up amount is an extra capital gain.

You multiply by four your share of any part of the net capital gain from a trust that the trust has reduced by both the CGT discount and the small business 50% active asset reduction. This grossed-up amount is an extra capital gain.

If you are entitled to any part of the net capital gain from a trust that the trust has not reduced by one of these concessions, then that amount is an extra capital gain.

NO DOUBLE TAXATION

You are not taxed twice on these extra capital gains because you did not include your capital gains from the trust at item **12** on your tax return. You can apply the CGT discount to trust gains calculated using the discount method after you have applied your capital losses.

These extra capital gains are taken into account in working out your net capital gain for the income year. You include them at step 2 in part B or part C.

EXAMPLE

Distribution where the trust claimed concessions

Serge is a beneficiary in the Shadows Unit Trust. He receives a distribution of $2,000 from the trust. This distribution includes $250 of net income remaining after a $1,000 capital gain made by the trustee was reduced by the CGT discount and the small business 50% active asset reduction.

Serge has also made a capital loss of $100 from the sale of shares.

He calculates his net capital gain as follows:

Gross up the share of the trust's net capital gain ($250) by multiplying by 4	$1,000
Deduct capital losses	$100
	$900
Apply the CGT discount of 50%	$450
	$450
Apply the 50% active asset reduction	$225
Net capital gain	**$225**

Serge will show $1,000 at **H** item **17** on his tax return, which is his total current year capital gain. His net capital gain to be shown at **A** item **17** on his tax return is $225. He will show a trust distribution of $1,750 ($2,000 – $250) at **U** item **12** on his tax return.

APPLYING THE CONCESSIONS

Remember that you must use the same method as the trust to calculate your capital gain.

This means you cannot apply the CGT discount to capital gains distributed to you from the trust calculated using the indexation method or 'other' method.

Also, you can only apply the small business 50% active asset reduction to grossed-up capital gains to which the trust applied that concession.

NON-ASSESSABLE PAYMENTS FROM A TRUST

It is quite common for a trust to make non-assessable payments to beneficiaries.

If a profit made by the trust is not assessable, any part of that profit distributed to a beneficiary will also be non-assessable in most cases – for example, a share of a profit made on the sale of property acquired by the trust before 20 September 1985.

However, if you receive non-assessable payments from a trust, you may need to make cost base adjustments to your units or trust interest. Those adjustments will affect the amount of any capital gain or capital loss you make on the unit or interest (for example, when you sell it). If certain amounts exceed your cost base, you may also make a capital gain equal to that excess in the year it is paid to you.

NON-ASSESSABLE PAYMENTS UNDER A DEMERGER

If you receive a non-assessable payment under an eligible demerger, you do not deduct the payment from the cost base and the reduced cost base of your shares or units. Instead you adjust your cost base and reduced cost base according to the demerger rules.

You may make a capital gain in respect of the non-assessable payment if it exceeds the cost base of your original share or unit, although you will be able to choose CGT rollover.

An eligible demerger is one that happens on or after 1 July 2002 and satisfies certain tests. The head entity will normally advise shareholders or unit holders if this is the case.

For more information about demergers, see chapter 5.

CAPITAL LOSS

You cannot make a capital loss from a non-assessable payment.

The cost base adjustments you need to make (if any) depend on the category of non-assessable payment you receive.

Non-assessable payments may be shown on your distribution statement as:

- **tax-exempted amounts** – generally made up of exempt income and non-assessable non-exempt income of the trust, amounts on which the trust has already paid tax or income you had to repay to the trust
- **tax-free amounts** – where certain tax concessions allowed to the trust mean it can pay greater distributions to its unit holders
- **tax-deferred amounts** – other non-assessable payments, including indexation allowed to the trust on its capital gains and accounting differences in income, or

- **CGT-concession amounts** – the trust's CGT discount and capital losses components of any actual distribution.

Tax-exempted amounts do not affect your cost base and reduced cost base. However, if your statement shows any tax-deferred or tax-free amounts, you adjust the cost base and reduced cost base as follows:

- cost base – deduct the tax-deferred amounts from the cost base
- reduced cost base – deduct both the tax-deferred amounts and the tax-free amounts.

Before 1 July 2001, a payment of an amount associated with building allowances was treated as a tax-free amount. Payments on or after that date are treated as tax-deferred amounts.

A CGT-concession amount received before 1 July 2001 was treated in the same way as a tax-deferred amount. However, from this date, CGT-concession amounts no longer require a cost base and reduced cost base adjustment.

Generally, you make any adjustment to the cost base and reduced cost base of your unit or trust interest at the end of the income year. However, if some other CGT event happens to the unit or trust interest during the year (for example, you sell your units) you must adjust the cost base and reduced cost base just before the time of that CGT event. The amount of the adjustment is based on the amount of non-assessable payments paid to you up to the date of sale. You use the adjusted cost base and reduced cost base to work out your capital gain or capital loss (see chapter 2 for more information).

The cost base and reduced cost base adjustments are more complex if you deducted capital losses from a grossed-up capital gain where a capital gain made by the trust was reduced by the small business 50% active asset reduction. If this applies to you, you may need to seek advice from the Tax Office on how to make the adjustments.

If the tax-deferred amount is greater than the cost base of your unit or trust interest, you include the excess as a capital gain. You can use the indexation method if you bought your units or trust interest before 11.45am (by legal time in the ACT) on 21 September 1999. However, if you do so, you cannot use the discount method to work out your capital gain when you later sell the units or trust interest.

EXAMPLE

Bob has received a non-assessable amount

Bob owns units in OZ Investments Fund which distributed income to him for the year ending 30 June 2004. The fund gave him a statement showing his distribution included the following capital gains:

- $100 calculated using the discount method (grossed-up amount $200)
- $75 calculated using the indexation method, and
- $28 calculated using the 'other' method.

These capital gains add up to $203.

The statement shows Bob's distribution did not include a tax-free amount but it did include:

- $105 tax-deferred amount.

From his records, Bob knows that the cost base and reduced cost base of his units are $1,200 and $1,050 respectively.

Bob has no other capital gains or capital losses for the 2003–04 income year.

Bob follows these steps to work out the amounts to show on his tax return.

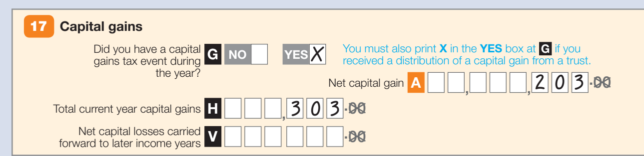
As Bob has a capital gain which the fund reduced under the CGT discount of 50% ($100), he includes the grossed-up amount ($200) in his total current year capital gains.

Bob adds the grossed-up amount to his capital gains calculated using the indexation method and 'other' method to work out his total current year capital gains:

$200 + $75 + $28 = $303

As Bob has no other capital gains or capital losses, and he must use the discount method in relation to the capital gains calculated using the discount method from the trust, his net capital gain is equal to the amount of capital gain included in his distribution from the fund ($203).

Bob completes item **17** on his tax return as follows:


17 Capital gains

Did you have a capital gains tax event during the year? G NO YES X

You must also print X in the YES box at G if you received a distribution of a capital gain from a trust.

Net capital gain A 203.00

Total current year capital gains H 303.00

Net capital losses carried forward to later income years V .00

Records Bob needs to keep

The tax-deferred amount Bob received is not included in his income or his capital gains but it affects the cost base and reduced cost base of his units in OZ Investments Fund for future income years.

Bob deducts the tax-deferred amount from both the cost base and reduced cost base of his units as follows:

Cost base	$1,200
less tax-deferred amount	$105
New cost base	**$1,095**

Reduced cost base	$1,050
less tax-deferred amount	$105
New reduced cost base	**$945**

EXAMPLE

Ilena's capital loss is greater than her non-discounted capital gain

Ilena invested in XYZ Managed Fund. The fund made a distribution to Ilena for the year ending 30 June 2004 and provided her with a statement that shows her distribution included:

- $65 **discounted capital gain**, and
- $90 non-discounted capital gain.

The statement shows Ilena's distribution also included:

- $30 tax-deferred amount, and
- $35 tax-free amount.

Ilena has no other capital gains but made a capital loss of $100 on some shares she sold during the year.

From her records, Ilena knows the cost base and reduced cost base of her units are $5,000 and $4,700 respectively.

Ilena has to treat the capital gain component of her fund distribution as if she made the capital gain. To complete her tax return, Ilena must identify the capital gain component of her fund distribution and work out her net capital gain.

Ilena follows these steps to work out the amount to show at **H** item **17** on her tax return.

As Ilena has a $65 capital gain which the fund reduced by the CGT discount of 50%, she must gross up the capital gain. She does this by multiplying the amount of the discounted capital gain by two:

$65 × 2 = $130

Ilena adds her grossed-up and non-discounted capital gains to work out her total current year capital gains:

$130 + $90 = $220

She shows her total current year capital gains ($220) at **H** item **17** on her tax return.

After Ilena has grossed up the discounted capital gain received from the fund, she subtracts her capital losses from her capital gains.

Ilena can choose which capital gains she subtracts the capital losses from first. In her case, she gets the better result if she:

1. subtracts as much as possible of her capital losses (which were $100) from her non-discounted capital gains ($90).

   $90 – $90 = $0 (non-discounted capital gains)

2. subtracts her remaining capital losses after step 1 ($10) from her discounted capital gains ($130).

   $130 – $10 = $120 (discounted capital gains)

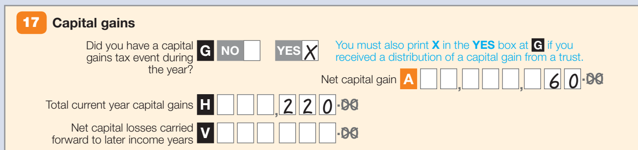
3. applies the CGT discount to her remaining discounted capital gains:

   ($120 × 50%) = $60 (discounted capital gains)

Finally, Ilena adds up the capital gains remaining to arrive at her net capital gain:

$0 (non-discounted) + $60 (discounted)
= $60 net capital gain.

Ilena completes item **17** on her tax return follows:


17 Capital gains

Did you have a capital gains tax event during the year? **G** NO ☐ YES ☒

You must also print **X** in the **YES** box at **G** if you received a distribution of a capital gain from a trust.

Net capital gain **A** 60.00

Total current year capital gains **H** 220.00

Net capital losses carried forward to later income years **V** .00

Records Ilena needs to keep

The tax-deferred and tax-free amounts Ilena received are not included in her income or her capital gain but the tax-deferred amount affects the cost base and reduced cost base of her units in XYZ Managed Fund for future income years. The tax-free amount affects her reduced cost base.

Ilena reduces the cost base and reduced cost base of her units as follows:

Cost base	$5,000
less tax-deferred amount	$30
New cost base	**$4,970**

Reduced cost base	$4,700
less (tax-deferred amount + tax-free amount) ($30 + $35)	$65
New reduced cost base	**$4,635**

CHAPTER 5

Investments in shares and units

This chapter explains your capital gains tax (CGT) obligations if you sold or otherwise disposed of any shares or units in a unit trust (including a managed fund) in 2003–04. It also explains what happens when you have a CGT event under a demerger. For information about distributions from a unit trust (other than under a demerger) in 2003–04, see chapter 4.

MANAGED FUND

A managed fund is a unit trust. Where we refer to a unit trust in this guide we are also referring to a managed fund.

SOME MAJOR SHARE TRANSACTIONS

You may find the information about some major share transactions in appendix 4 useful when completing your income tax return.

HOW CAPITAL GAINS TAX AFFECTS SHARES AND UNITS

For CGT purposes, shares in a company or units in a unit trust are treated in the same way as any other assets.

As a general rule, if you acquire any shares or units on or after 20 September 1985, you may have to pay tax on any capital gain you make when a CGT event happens to them. This would usually be when you sell or otherwise dispose of them. In this case, CGT event A1 would happen. You will find a list of all CGT events at appendix 1.

UNFAMILIAR TERMS

There may be terms in this chapter that are not familiar to you. Refer to chapter 1 in **part A** for more information or to **Explanation of terms** at the back of this guide.

A CGT event might happen to shares even if a change in their ownership is involuntary – for example, if the company in which you hold shares is taken over or merges with another company. This may result in a capital gain or capital loss.

This chapter also deals with the receipt of non-assessable payments from a company (CGT event G1) while chapter 4 deals with non-assessable payments from a trust (CGT event E4). If you own shares in a company that has been placed in liquidation, CGT event G3 explains how you can choose to make a capital loss when the liquidator declares the shares worthless.

There are a number of special CGT rules if you receive such things as bonus shares, **bonus units**, rights, options or non-assessable payments from a company or trust. Special rules also apply if you buy convertible notes or participate in an **employee share scheme** or a dividend reinvestment plan.

The rest of this chapter explains these rules and contains examples showing how they work in practice. The flowcharts at appendix 3 will also help you work out whether the special rules apply to you.

If you need more information about how other income tax provisions affect your share investments, get the publication *You and your shares* (see the inside back cover).

IDENTIFYING SHARES OR UNITS SOLD

Sometimes taxpayers own shares or units that they may have acquired at different times. This can happen as people decide to increase their investment in a particular company or unit trust. A common question people ask when they dispose of only part of their investment is how to identify the particular shares or units they have disposed of.

This can be very important because shares or units bought at different times may have different amounts included in their cost. In calculating the capital gain or capital loss when disposing of only part of an investment, you need to be able to identify which ones you have disposed of. Also, when you dispose of any shares or units you acquired before 20 September 1985, any capital gain or capital loss you make is generally disregarded.

If you have the relevant records (for example, share certificates), you may be able to identify which particular shares or units you have disposed of. In other cases, the Commissioner will accept your selection of the identity of shares disposed of.

Alternatively, you may wish to use a 'first in, first out' basis where you treat the first shares or units you bought as being the first you disposed of.

In limited circumstances, the Tax Office will also accept an average cost method to determine the cost of the shares disposed of. This average cost method can be used only when:

- the shares are in the same company
- the shares are acquired on the same day
- the shares have identical rights and obligations, and
- you are not required to use market value for cost base purposes.

EXAMPLE

Identifying when shares or units were acquired

Boris bought 1,000 shares in WOA Ltd on 1 July 1997. He bought another 3,000 shares in the company on 1 July 2002.

In December 2002, WOA Ltd issued Boris with a CHESS statement for his 4,000 shares. When he sold 1,500 of the shares on 1 January 2004, he was not sure whether they were the shares he bought in 2002 or whether they included the shares bought in 1997.

Because Boris could not identify when he bought the particular shares he sold, he decided to use the 'first in, first out' method and nominated the 1,000 shares bought in 1997 plus 500 of the shares bought in 2002.

DEMUTUALISATION OF INSURANCE COMPANIES

If you hold a policy in an insurance company that **demutualises**, you may be subject to CGT either at the time of the demutualisation or when you sell your shares. A company demutualises when it changes its membership interests to shares (for example, AMP and NRMA). There are similar rules if you are a member of a non-insurance organisation which demutualises.

The insurance company may give you an option either to keep your share entitlement or to take cash by selling the shares under contract through an entity set up by the company.

If it is an Australian insurance company and you choose to keep the shares, you will not be subject to CGT until you eventually sell them. However, if you elect to sell your share entitlement and take cash, you need to include any capital gain on your tax return in the income year in which you entered into the contract to sell the shares, even though you may not receive the cash until a later income year.

The demutualising company will write to all potential 'shareholders' and advise them of the acquisition cost in each instance, sometimes referred to as the 'embedded value'. Even though you did not pay anything to acquire the shares, they have a value that is used for CGT purposes.

If you hold a policy in an overseas insurance company that demutualises, you may be subject to CGT at the time of the demutualisation. You should contact the Tax Office for advice if this applies to you.

SHARE BUY-BACKS

As a shareholder, you may have received an offer from the company to buy back some or all of your shares in the company. If you disposed of shares back to the company under a buy-back arrangement, you may have made a capital gain or capital loss from that CGT event.

Some of the buy-back price may also be treated as a dividend for tax purposes. The time you make the capital gain or capital loss will depend on the conditions of the particular buy-back offer. It may be the time you lodge your application to participate in the buy-back, or if it is a conditional offer of buy-back, the time the offer is accepted.

EXAMPLE

Buy-back offer

Sam bought 4,500 shares in Company A in January 1994 at a cost of $5 per share. In February 2004, Sam applied to participate in a buy-back offer to dispose of 675 shares (15%). Company A approved a buy-back of 10% (450) of the shares on 15 June 2004. The company sent Sam a cheque on 5 July 2004 for $4,050 (450 shares x $9). No part of the distribution is a dividend.

Sam works out his capital gain for 2003–04 as follows.

If he chooses to use the indexation method:	
Capital proceeds	$4,050
Cost base 450 shares × $5 ($2,250 × 1.118 including indexation)	$2,515
Capital gain	**$1,535**

If he chooses to use the discount method:	
Capital proceeds	$4,050
Cost base	$2,250
Capital gain (before applying any discount)	**$1,800**

Sam has no capital losses to apply against this capital gain and decides that the discount method will provide him with the better result. He will include $900 ($1,800 × 50%) in his assessable income.

SHARES IN A COMPANY IN LIQUIDATION

Where a company is placed in liquidation, company law restricts the transfer of shares in the company. This means that, in the absence of special CGT rules, you may not be able to realise a capital loss on shares that have become worthless.

In certain circumstances, you can choose to realise a capital loss on worthless shares prior to dissolution (if you had acquired the shares on or after 20 September 1985). This applies if you own shares in a company and the liquidator declares in writing that there is no likelihood you will receive any further distribution in the course of winding up the company. The liquidator's declaration can still be made after you receive a distribution during the winding-up.

If you make this choice, you will make a capital loss equal to the reduced cost base of the shares at the time of the liquidator's declaration. The cost base and reduced cost base of the shares are reduced to nil just after the liquidator makes the declaration.

These rules do not apply:

- where a company is placed in receivership or is de-listed, or
- to units in unit trusts.

EXAMPLE

Liquidator's declaration that shares are worthless

The liquidators of HIH Insurance Ltd made a written declaration on 10 October 2001 that they had reasonable grounds to believe that there was no likelihood that the shareholders of HIH Insurance Ltd would receive any distribution in the course of the winding up.

Hillary purchased shares in HIH Insurance Ltd on 1 August 1999. CGT event G3 happened in relation to her shares on 10 October 2001 when the liquidator made the declaration. Hillary chose to make capital losses equal to the reduced cost bases of her shares as at 10 October 2001. She claimed the capital losses in her 2001–02 tax return.

If CGT event G3 has not happened or you have not chosen for it to apply, you may make a capital loss on shares when a court order is given to dissolve the company. Also, if a company is wound up voluntarily, shareholders may realise a capital loss either three months after a liquidator lodges a return showing that the final meeting of the company has been held, or on another date declared by a court. The cancellation of shares as a result of the dissolution of the company is an example of CGT event C2.

On 11 May 2004, the Government announced it intends changing the law so that shareholders can choose to make a capital loss where any insolvency practitioner (not just a liquidator) declares shares are worthless – see **What's new** on page v.

TAKEOVERS AND MERGERS

If a company in which you own shares is taken over or merges with another company, you may have a CGT obligation if you are required to dispose of your existing shares or they are cancelled.

In certain circumstances, if you acquire new shares in the takeover or merged company, you may be able to defer paying CGT until a later CGT event happens. For more information, see **Scrip-for-scrip rollover** on this page.

Some takeover or merger arrangements involve an exchange of shares. In these cases, when you calculate your capital gain or capital loss, your capital proceeds will be the market value of the shares received in the takeover or merged company at the time of disposal of your original shares.

If you receive a combination of money and shares in the takeover or merged company, your capital proceeds are the total of the money and the market value of the shares you received at the time of disposal of the shares.

The cost of acquiring the shares in the takeover or merged company is the market value of your original shares at the time you acquire the other shares, reduced by any cash proceeds.

To correctly calculate the capital gain or capital loss for your original shares, you will need to keep records (in addition to the usual records) showing the parties to the arrangement, the conditions of the arrangement and the capital proceeds.

As each takeover or merger arrangement will vary according to its own particular circumstances, you need to get full details of the arrangement from the parties involved.

EXAMPLE

Takeover

We are assuming with this example that **scrip-for-scrip rollover** does not apply (see below).

Desiree owns 500 shares in ABC Ltd. These shares are currently worth $2 each. Their cost base, with indexation, is $1.50.

XYZ Ltd offers to acquire each share in ABC Ltd for one share in XYZ Ltd and 75 cents cash. The shares in XYZ Ltd are valued at $1.25 each. Accepting the offer, Desiree receives 500 shares in XYZ Ltd and $375 cash.

The capital proceeds received for each share in ABC Ltd is $2 ($1.25 market value of each XYZ Ltd share plus 75 cents cash). Therefore, as the cost base of each ABC Ltd share is $1.50, Desiree will make a capital gain of 50 cents ($2 – $1.50) on each share, a total of $250.

The cost base of the newly acquired XYZ Ltd shares is the market value of the shares in ABC Ltd ($2) less the cash amount received ($0.75), that is, $1.25 each or a total of $625 (500 × $1.25).

SCRIP-FOR-SCRIP ROLLOVER

If a company in which you owned shares was taken over and you received new shares in the takeover company, you may be entitled to scrip-for-scrip rollover. You may also be eligible for this rollover if you exchange a unit or other interest in a fixed trust, for a similar interest in another fixed trust.

Scrip-for-scrip rollover is not available if a share is exchanged for a unit or other interest in a fixed trust, or if a unit or other interest in a fixed trust is exchanged for a share.

You can only choose the rollover if you have made a capital gain from such an exchange on or after 10 December 1999. Rollover does not apply to a capital loss.

Rollover is only available if the exchange is in consequence of an arrangement that results in the acquiring entity (or the wholly owned group of which it is a member) becoming the owner of 80% or more of the original company or trust.

For companies, the arrangement must be one in which all owners of voting shares in the original entity can participate. For trusts, this means all owners of trust voting interests in the original entity or, where there are no voting interests, all owners of units or other fixed interests can participate.

There are special rules if a company or trust has a small number of shareholders or beneficiaries or there is a significant common stakeholder. You will need to seek information from the company or trust about whether the conditions have been satisfied.

The rollover allows you to disregard the capital gain made from the original shares, units or other interest. You are taken to have acquired the replacement shares, units or other interest for the cost base of the original interest.

You can apply the CGT discount when you dispose of new shares providing the combined period that you owned the original shares and the new shares is at least 12 months. The same applies to units in a trust. Note that you have to deduct any capital losses (including capital losses from earlier years) from your capital gains before applying the CGT discount.

You may only be eligible for partial rollover if you exchange shares, units or interests for similar interests in another entity (replacement interest) plus something else, usually cash.

This is because rollover applies only to the replacement interest. You will need to apportion the cost base of the original interest between the replacement interest and the cash (or other proceeds not eligible for rollover).

If your original shares, units or other interests were acquired before 20 September 1985 (pre-CGT), you are not eligible for scrip-for-scrip rollover. Instead, you acquire the replacement interest at the time of the exchange and the replacement interest is no longer a pre-CGT asset. However if the arrangement is one that would otherwise qualify for scrip-for-scrip rollover, the cost base of the replacement interest is its market value just after the acquisition.

EXAMPLE

Partial scrip-for-scrip rollover

Gunther owns 100 shares in Windsor Ltd, each with a cost base of $9. He accepts a takeover offer from Regal Ltd which provides for Gunther to receive one Regal share plus $10 cash for each share in Windsor. Gunther receives 100 shares in Regal and $1,000 cash. Just after Gunther is issued shares in Regal, each share is worth $20.

Gunther has received $10 cash for each of his Windsor shares and so has $1,000 to which rollover does not apply.

In this case, it is reasonable to allocate a portion of the cost base of the original shares having regard to the proportion that the cash bears to the total proceeds. That is:

$1,000	÷	$3,000	×	$900	=	$300
(cash)		(total proceeds – cash and value of shares received)		(cost base of original shares)		(proportion of cost base for which cash was received)

Gunther's capital gain is as follows:

$1,000	–	$300	=	$700
(cash)		(cost base)		(capital gain)

Gunther calculates the cost base of each of his Regal shares as follows:

$900 – $300 ÷ 100 = $6

EXAMPLE

Scrip-for-scrip rollover

Stephanie owns ordinary shares in Reef Ltd. On 28 February 2004, she accepted a takeover offer from Starfish Ltd under which she received one ordinary share and one preference share for each Reef share. The market value of the Starfish shares just after Stephanie acquired them was $20 for each ordinary share and $10 for each preference share.

The cost base of each Reef share just before Stephanie ceased to own them was $15.

The offer made by Starfish Ltd satisfied all the requirements for scrip-for-scrip rollover.

If rollover did not apply, Stephanie would have made a capital gain per share of:

$30	–	$15	=	$15
capital proceeds		cost base		capital gain

Scrip-for-scrip rollover allows Stephanie to disregard the capital gain. The cost base of the Starfish shares is the cost base of the Reef Ltd shares.

Apportioning the cost base

As the exchange is one share in Reef Ltd for two shares in Starfish Ltd, the cost base of the Reef Ltd share needs to be apportioned between the ordinary share and the preference share.

Cost base of ordinary share:

$20 ÷ 30 × $15 = $10

Cost base of preference share:

$10 ÷ 30 × $15 = $5

DEMERGERS

A demerger involves the restructuring of a corporate or fixed trust group by splitting its operations into two or more entities or groups. Under a demerger the owners of the head entity of the group (that is, the shareholders of the company or unit holders of the trust) acquire a direct interest (shares or units) in an entity that was formerly part of the group (the demerged entity).

EXAMPLE

Demerger

Peter owns shares (his original interest) in Company A. Company B is a wholly owned subsidiary of Company A. Company A undertakes a demerger by transferring all of its shares in Company B to its shareholders. Following the demerger, all of the shareholders in Company A, including Peter, will own all of the shares in Company B (their new interests) in the same proportion that they hold their shares in Company A.

New rules for demergers

There are new rules that apply to eligible demergers that happen on or after 1 July 2002. The following demergers are subject to these new rules – you will find specific details in appendix 4:

- BHP Billiton Ltd demerger of BHP Steel Ltd (now known as BlueScope)
- WMC Ltd (renamed Alumina) demerger of WMC Resources Ltd
- Sonic Healthcare Ltd demerger of SciGen Ltd
- CSR Ltd demerger of Rinker Group Ltd, and
- Mincor Resources NL demerger of Tethyan Copper Company Ltd.

AMP DEMERGER

The AMP demerger is not subject to the new rules.

See our factsheet, *AMP group demerger*, and calculator, available on our website at **www.ato.gov.au**

In addition, there were a number of demergers that happened before 1 July 2002. These demergers also have different tax consequences for shareholders – some of these demergers are covered in appendix 4.

Demergers that happen on or after 1 July 2002

If you received new interests in a demerged entity under an eligible demerger that happened on or after 1 July 2002, you need to be aware of the following CGT consequences:

- you may be entitled to choose rollover for any capital gain or capital loss you make under a demerger, and
- you are required to calculate the cost base and reduced cost base of your interests in the head entity and your new interests in the demerged entity immediately after the demerger.

NOTE

The head entity will normally advise you whether it has undertaken an eligible demerger. The Tax Office may have provided advice to the head entity in the form of a class ruling.

Rollover relief available

To choose rollover relief, the demerger must be an eligible demerger. The head entity will usually advise you of this.

If you choose rollover relief:

- you disregard any capital gain or capital loss made under the demerger, and
- your new interests in the demerged entity are acquired on the date of the demerger. However, if a proportion of your original interests was acquired before 20 September 1985 (pre-CGT), the same proportion of your new interests in the demerged entity is treated as pre-CGT assets.

If you do not choose rollover relief:

- you cannot disregard any capital gain or capital loss made under the demerger, and
- all your new interests in the demerged entity are acquired on the date of the demerger.

Cost base calculations

You must recalculate the first element of the cost base and reduced cost base of your remaining **original** interests in the head entity and calculate your **new interests** in the demerged entity. You must make these calculations whether you choose rollover or not, or if no CGT event happens to your original interests under the demerger.

The calculation will depend on whether you have pre-CGT original interests in the head entity.

Cost base calculations where you do not have pre-CGT interests

You work out the cost base and reduced cost base of your remaining post-CGT original interests and your post-CGT new interests immediately after the demerger. You do this by spreading the total cost base of your post-CGT original interests (immediately **before** the demerger) over both your remaining post-CGT original interests and your post-CGT new interests. The following steps explain how to do this.

Step 1 Add the cost bases of your post-CGT original interests immediately before the demerger. (Do not reduce your total cost base by any capital amounts returned to you under the demerger and do not include indexation.)

Step 2 Use the relevant percentages to apportion the step 1 amount between:

- your post-CGT original interests in the head entity, and
- your post-CGT new interests in the demerged entity.

The head entity should advise you of the relevant percentages to use.

Step 3 Divide the cost base apportioned to the head entity interests (from step 2) by the number of remaining post-CGT original interests you own.

Step 4 Divide the cost base apportioned to the demerged entity interests (from step 2) by the number of post-CGT new interests you own.

These amounts will form the first element of the cost base and reduced cost base of your post-CGT original interests and post-CGT new interests.

EXAMPLE

No pre-CGT interests

Under the BHP Billiton Ltd demerger of BHP Steel Ltd, shareholders received one BHP Steel share for every five BHP Billiton shares they owned at the date of the demerger.

Anita owned 280 BHP Billiton shares (all post-CGT) with a cost base of $2,500 immediately before the demerger. Under the demerger, Anita received 56 BHP Steel shares. Anita works out the cost base and reduced cost base of her BHP Billiton shares and BHP Steel shares as follows:

Step 1 The total cost base of the BHP Billiton shares immediately before the demerger was $2,500.

Step 2 BHP Billiton advised shareholders to apportion 94.937% of the total cost base from step 1 to BHP Billiton shares and 5.063% to BHP Steel shares:

(a) BHP Billiton: 94.937% × $2,500 = $2,373.43

(b) BHP Steel: 5.063% × $2,500 = $126.58

Step 3 Divide the step 2(a) amount by the 280 BHP Billiton shares:

$$\frac{\$2,373.43}{280} = \$8.48 \text{ per share}$$

Step 4 Divide the step 2(b) amount by the 56 BHP Steel shares

$$\frac{\$126.58}{56} = \$2.26 \text{ per share}$$

Cost base calculations where you have pre-CGT interests

Where you choose rollover

Where you choose rollover and a proportion of your original interests are pre-CGT, the same proportion of your new interests will be treated as pre-CGT interests. It is not necessary to calculate the cost base and reduced cost base for your pre-CGT interests.

The cost base and reduced cost base of your remaining post-CGT original interests and your post-CGT new interests are calculated in the same way as shown in the example above.

There is no change to the acquisition date of your original interests.

Where you do not or cannot choose rollover

Where you do not or you cannot choose rollover (for example, because a CGT event did not happen to your original interests), the new interests that you receive in relation to your pre-CGT original interests are treated as post-CGT interests. The cost base of these new interests will be worked out under the ordinary cost base rules (this will generally be equal to the capital return and dividend distributed from the head entity that is applied to acquire those new interests).

The cost base and reduced cost base of your remaining post-CGT original interests and your post-CGT new interests (other than those received in relation to pre-CGT original interests) are calculated in the same way as shown in the example above – except that you ignore the new interests received in relation to pre-CGT original interests in the calculation.

There is no change to the acquisition date of your original interests.

EXAMPLE

With pre-CGT interests

Anita owned 400 BHP Billiton shares immediately before the demerger:

- 120 pre-CGT shares, and
- 280 post-CGT shares (the cost base of which, immediately before the demerger, was $2,500).

(i) If Anita chose rollover, the 24 BHP Steel shares she received in relation to the 120 pre-CGT BHP Billiton shares will also be pre-CGT. Immediately after the demerger, the cost base and reduced cost base of her 280 post-CGT BHP Billiton shares and the 56 BHP Steel shares she received in relation to those BHP Billiton shares are calculated in the same way as shown in the example above.

(ii) If Anita did not choose rollover, the 24 BHP Steel shares she received in relation to the 120 pre-CGT BHP shares are post-CGT shares acquired on the date of demerger. Immediately after the demerger, the cost base and reduced cost base of the 24 BHP Steel shares are $3.45 per share (the capital return of $0.69 per share x 5). Immediately after the demerger, the cost base and reduced cost base of her 280 post-CGT BHP Billiton shares and the 56 BHP Steel shares she received in relation to those BHP Billiton shares is calculated in the same way as shown in the example above.

In either case, there is no change to the pre-CGT status of Anita's 120 BHP BIlliton shares.

Using the discount method if you sell your shares after the demerger

Where you sell your new interests in the demerged entity after the demerger, you must have owned those interests for at least 12 months from the date you acquired the corresponding original interests in the head entity in order to use the discount method.

EXAMPLE

You received BHP Steel Ltd shares under the demerger on 22 July 2002. They related to shares you acquired in BHP Billiton Ltd on 15 August 2001. You can only use the discount method to work out your capital gain on these shares if you dispose of them after 15 August 2002 – that is, more than 12 months after the date you acquired the BHP Billiton shares.

However, you calculate the 12 months from the date of demerger where you:

- did not choose rollover relief and you received new interests in the demerged entity which relate to pre-CGT interests in the head entity, or
- acquired your new interests without a CGT event happening to your original interests.

EXAMPLE

You received BHP Steel Ltd shares under the demerger where you calculated the cost base as $3.45 per share (because they related to pre-CGT shares you owned in BHP Billiton Ltd and you did not choose rollover). You can only use the discount method to work out your capital gain on these shares if you disposed of them after 22 July 2003 – that is, more than 12 months after the demerger.

DEMERGERS CALCULATOR AND OTHER PRODUCTS AND INFORMATION

The Tax Office has a **demergers calculator** to help you make these calculations.

We also have other products to assist you, such as a question and answer sheet for BHP Billiton shareholders.

You can access these from the demergers homepage on our website at **www.ato.gov.au/demergers** (follow the link under 'Shareholder information').

DIVIDEND REINVESTMENT PLANS

Some companies ask their shareholders whether they would like to participate in a dividend reinvestment plan. Under these plans, shareholders can choose to use their dividend to acquire additional shares in the company instead of receiving a cash payment. These shares are usually issued at a discount on the current market price of the shares in the company.

For CGT purposes, if you participate in a dividend reinvestment plan you are treated as if you had received a cash dividend and then used the cash to buy additional shares.

Each share (or parcel of shares) acquired in this way – on or after 20 September 1985 – is subject to CGT. The cost base of the new shares includes the price you paid to acquire them – that is, the amount of the dividend.

EXAMPLE

Dividend reinvestment plans

Natalie owns 1,440 shares in PHB Ltd. The shares are currently worth $8 each. In November 2003, the company declared a dividend of 25 cents per share.

Natalie could either take the $360 dividend as cash (1,440 x 25 cents) or receive 45 additional shares in the company (360 ÷ 8).

Natalie decided to participate in the dividend reinvestment plan and received 45 new shares on 20 December 2003. She included the $360 dividend in her 2003–04 assessable income.

For CGT purposes, she acquired the 45 new shares for $360 on 20 December 2003.

BONUS SHARES

Bonus shares are additional shares a shareholder receives in relation to an existing holding of shares in a company. If you dispose of bonus shares received on or after 20 September 1985, then you may make a capital gain. You may also have to modify the cost base and reduced cost base of your existing shares in the company if you receive bonus shares.

The cost base and reduced cost base of bonus shares depend on whether the bonus shares are assessable as a dividend.

As a result of changes to the company law and taxation laws, the paid-up value of bonus shares is now generally not assessable as a dividend. An exception to this rule is where you have the choice of being paid a cash dividend or of being issued shares under a dividend reinvestment plan. These shares are treated as dividends and the amount of the dividend is included in your assessable income.

The following table explains how the time of issue of your bonus shares affects whether the paid-up value of the bonus shares is assessed as a dividend.

Date	Implications of timing of bonus shares
From 20 September 1985 to 30 June 1987 inclusive	Many bonus shares issued were paid out of a company's asset revaluation reserve or from a share premium account. These bonus shares are not usually assessable dividends.
From 1 July 1987 to 30 June1998 inclusive	The paid-up value of bonus shares issued is assessed as a dividend unless paid from a share premium account.
From 1 July 1998	The paid-up value of bonus shares issued is not assessed as a dividend unless part of the dividend was paid in cash or paid as part of a dividend reinvestment plan.

There are other, less common circumstances where bonus shares will be assessed as a dividend – for example, where:

- the bonus shares are being substituted for a dividend to give a tax advantage, or
- the company directs bonus shares to some shareholders and dividends to others to give them a tax benefit.

Flowchart 1 in appendix 3 summarises the different rules applying to different bonus shares issued on or after 20 September 1985.

For more information about bonus shares, refer to the sources of further information listed at the back of this guide.

Bonus shares issued where no amount is assessed as a dividend

Original shares acquired on or after 20 September 1985

If your bonus shares relate to other shares that you acquired on or after 20 September 1985 (referred to as your original shares) your bonus shares are taken to have been acquired on the date you acquired your original shares. If you acquired your original shares at different times, you will have to work out how many of your bonus shares are taken to have been acquired at each of those times.

The cost base and reduced cost base of the bonus shares are calculated by apportioning the cost base and reduced cost base of the original shares over both the original and the bonus shares. Effectively, this results in a reduction of the cost base and reduced cost base of the original shares. Any calls paid on partly paid bonus shares are also included as part of the cost base and reduced cost base that is apportioned between the original and the bonus shares.

Original shares acquired before 20 September 1985

Your CGT obligations depend on when the bonus shares were issued and whether they are fully paid or partly paid. For more information see flowchart 1 in appendix 3.

EXAMPLE

Fully paid bonus shares

Chris bought 100 shares in MAC Ltd for $1 each on 1 June 1985. He bought 300 more shares for $1 each on 27 May 1986. On 15 November 1986, MAC Ltd issued Chris with 400 bonus shares from its capital profits reserve, fully paid to $1. Chris did not pay anything to acquire the bonus shares and no part of the value of the bonus shares was assessed as a dividend.

For CGT purposes, the acquisition date of 100 of the bonus shares is 1 June 1985 (pre-CGT). Therefore, those bonus shares are not subject to CGT.

The acquisition date of the other 300 bonus shares is 27 May 1986. Their cost base is worked out by spreading the cost of the 300 shares Chris bought on that date over both those original shares and the remaining 300 bonus shares. As the 300 original shares cost $300, the cost base of each share will now be 50 cents.

EXAMPLE

Partly paid bonus shares

Klaus owns 200 shares in MAC Ltd which he bought on 31 October 1984 and 200 shares in PUP Ltd bought on 31 January 1985.

On 1 January 1987, both MAC Ltd and PUP Ltd made their shareholders a one-for-one bonus share offer of $1 shares partly paid to 50 cents. Klaus elected to accept the offer and acquired 200 new partly paid shares in each company. No part of the value of the bonus shares was taxed as a dividend.

On 1 April 1989, PUP Ltd made a call for the balance of 50 cents outstanding on the partly paid shares, payable on 30 June 1989. Klaus paid the call payment on that date. MAC Ltd has not yet made any calls on its partly paid shares.

For CGT purposes, Klaus is treated as having acquired his bonus PUP Ltd shares on the date he became liable to pay the call (1 April 1989). The cost base of the bonus shares in PUP Ltd includes the amount of the call payment (50 cents) plus the market value of the shares immediately before the call was made.

The MAC Ltd bonus shares will continue to have the same acquisition date as the original shares (31 October 1984) and are therefore not subject to CGT. However, this will not be the case if Klaus makes any further payments to the company on calls made by the company for any part of the unpaid amount on the bonus shares. In this case, the acquisition date of the bonus shares will be when the liability to pay the call arises and the bonus shares will then be subject to CGT.

Bonus shares issued where the paid-up value is assessed as a dividend

Where the paid-up value of bonus shares is assessed as a dividend, you may have to pay CGT when you dispose of the bonus shares, regardless of when you acquired the original shares.

Original shares acquired on or after 20 September 1985

If your bonus shares relate to original shares that you acquired on or after 20 September 1985, the acquisition date of the bonus shares is the date they were issued. Their cost base and reduced cost base includes the amount of the dividend, plus any call payments you made to the company if they were only partly paid.

EXCEPTION – BONUS SHARES RECEIVED BEFORE 1 JULY 1987

The exception to this rule is bonus shares you received before 1 July 1987. Their cost base is calculated as if the amount was not taxed as a dividend (see **Bonus shares issued where no amount is assessed as a dividend** on this page).

Original shares acquired before 20 September 1985

The rules that apply where your original shares were acquired before 20 September 1985 depend on when the bonus shares were issued and whether they were partly paid or fully paid. For further details see flowchart 1 in appendix 3.

EXAMPLE

Cost base of bonus shares

Mark owns 1000 shares in RIM Ltd, which he bought on 30 September 1984 for $1 each.

On 1 February 1997, the company issued him with 500 bonus shares partly paid to 50 cents. The paid-up value of bonus shares ($250) is an assessable dividend to Mark.

On 1 May 1997, the company made a call for the 50 cents outstanding on each bonus share, which Mark paid on 1 July 1997.

The total cost base of the bonus shares is $500, consisting of the $250 dividend received on the issue of the bonus shares on 1 February 1997 plus the $250 call payment made on 1 July 1997.

The bonus shares have an acquisition date of 1 February 1997. If Mark holds the bonus shares for 12 months from that date, when he sells them he can use the indexation method to calculate his capital gain. Indexation for amounts payable to a company on shares in the company can be indexed only from the date of actual payment. In Mark's case, the $250 call payment can be indexed only from the date it was paid (1 July 1997).

However, indexation on the $250 dividend included in his assessable income on the issue of the bonus shares was available from 1 February 1997. This is different from the indexation treatment of amounts paid to acquire assets in other circumstances where indexation is available from the time the liability to make the payment arises. The indexation rules are explained in more detail in chapter 2.

If Mark disposes of the shares after 11.45am (by legal time in the ACT) on 21 September 1999, he can calculate his capital gain using either the indexation method or the discount method.

BONUS UNITS

If you have received bonus units on or after 20 September 1985, you may make a capital gain when you dispose of them.

The CGT rules for bonus units are similar to those for bonus shares. However, the rules do not apply if the bonus units are issued by a corporate unit trust or a public trading trust.

When the unit trust issues the bonus units, they will generally tell you what amount (if any) you have to include in your assessable income. You need to keep a record of that information to work out your CGT obligation when you dispose of them.

Flowchart 2 in appendix 3 summarises the rules applying to bonus units issued on or after 20 September 1985.

Bonus units issued where no amount is included in assessable income

Original units acquired on or after 20 September 1985

If your bonus units relate to other units that you acquired on or after 20 September 1985, your bonus units are taken to have been acquired on the date you acquired your original units. If you have original units that you acquired at different times, you will have to work out how many of your bonus units are taken to have been acquired at each of those times.

The cost base and reduced cost base of the bonus units are calculated by apportioning the cost base and reduced cost base of the original units over the original units and the bonus units. Effectively, this results in a reduction of the cost base and reduced cost base of the original units. Any calls paid on partly paid bonus units are also included as part of the cost base and reduced cost base that are apportioned between the original units and the bonus units.

Original units acquired before 20 September 1985

The rules that apply where your original units were acquired before 20 September 1985 depend on when the bonus units were issued and whether they were partly paid or fully paid. For further details see flowchart 2 in appendix 3.

EXAMPLE

Unit trusts

Sarah is a unit holder in the CPA Unit Trust. She bought 1,000 units on 1 September 1985 for $1 each and 1,000 units on 1 July 1996 for $2 each. On 1 March 1997, the unit trust made a one-for-one bonus unit issue to all unit holders. Sarah received 2,000 new units. She did not include any amount in her assessable income as a result.

The 1,000 new units issued for the original units she acquired on 1 September 1985 are also treated as having been acquired on that date and are therefore not subject to CGT.

However, the 1,000 new units issued for the original units she acquired on 1 July 1996 are subject to CGT. Their cost base is worked out by spreading the cost of the original units ($2,000) acquired on that date over both the original units and the bonus units. Each of the units therefore has a cost base of $1.

Bonus units issued where an amount is included in assessable income

If you include any amount in your assessable income as a result of the issue of bonus units, their acquisition date is the date they were issued, regardless of when you acquired the original units.

If the bonus units were issued before 20 September 1985 any capital gain or capital loss is disregarded as they are pre-CGT assets.

The cost base and reduced cost base of the bonus units is the amount included in your assessable income as a result of the issue of those units, plus any calls you made if they were only partly paid.

RIGHTS OR OPTIONS TO ACQUIRE SHARES OR UNITS

If you own shares or units, you may be issued rights or options to acquire additional shares or units at a specified price.

Rights and options issued directly to you from a company or trust for no cost

You are taken to have acquired the rights and options at the same time as you acquired the original shares or units. Therefore, if you acquired the original shares or units before 20 September 1985, any capital gain or capital loss you make when the rights or options expire or are sold is disregarded as they are pre-CGT assets.

If you acquired the original shares or units on or after 20 September 1985, you make a capital gain if the capital proceeds on the sale or expiry of the rights or options are more than their cost base. You make a capital loss if the reduced cost base of the rights or options is more than those capital proceeds.

Rights and options you paid to acquire from a company or trust – or that you acquired from another person

If you acquired your rights or options on or after 20 September 1985, they are treated much like any other CGT asset and are subject to CGT.

Flowcharts 3 and 4 in appendix 3 summarise the different rules applying to the treatment of rights or options to acquire shares or units.

EXERCISING RIGHTS OR OPTIONS TO ACQUIRE SHARES OR UNITS

Many people decide to exercise their rights or options to acquire new shares or units rather than sell them. In this case, no CGT is payable at the time you exercise the rights or options unless the right or option is to acquire units and was issued by the trustee prior to 28 January 1988.

The acquisition date of the shares or units is the date of exercise of the rights or options.

If you exercise the rights or options on or after 20 September 1985, some special rules apply for calculating the cost base and reduced cost base of shares or units acquired as a result. These rules are outlined below (but do not apply to a right or option to acquire units that was issued by the trustee prior to 28 January 1988).

Rights or options issued directly to you from a company or trust for no cost

The amount included in the cost base and reduced cost base of the shares or units you acquire depends on when you acquired your original shares or units.

Where original shares or units were acquired before 20 September 1985

The first element of the cost base and reduced cost base for the shares or units you acquire on exercising your rights or options is the sum of:

- the market value of the rights or options at the time you exercise them, plus
- the amount you pay for the shares or units, plus
- if the rights or options are exercised on or after 1 July 2001 and, as a result, an amount is included in your assessable income – that amount.

Where original shares or units were acquired on or after 20 September 1985

The first element of the cost base and reduced cost base for the shares or units you acquire on exercising your rights or options is simply:

- the amount you pay for the shares or units, plus
- if the rights or options are exercised on or after 1 July 2001 and, as a result, an amount is included in your assessable income – that amount.

Rights or options issued directly to you from a company or trust that you paid to acquire

The amount included in the cost base and reduced cost base of the shares or units you acquire depends on when you acquired your rights or options.

Where the rights or options were acquired before 20 September 1985

If the rights or options were exercised on or after 20 September 1985 the first element of the cost base and reduced cost base for the shares or units is the sum of:

- the market value of the rights or options at the time you exercise them, plus
- the amount you paid for the shares or units.

Where the rights or options were acquired on or after 20 September 1985

The first element of the cost base and reduced cost base for the shares or units you acquire on exercising your rights or options is the sum of:

- the amount you pay for the rights or options, plus
- the amount you pay for the shares or units on exercising the rights or options.

Rights or options you acquired from an entity other than the company or trust that issued them

The following rules apply if you acquired the rights or options to acquire shares or units from an entity other than the company or unit trust which issued the rights or options – for example, from a shareholder of the company.

The amount included in the cost base and reduced cost base of the shares or units you acquire depends on when you acquired your rights or options.

Where the rights or options were acquired before 20 September 1985

If the rights or options were exercised on or after 20 September 1985 the first element of the cost base and reduced cost base for the shares or units is the sum of:

- the market value of the rights or options at the time you exercise them, plus
- the amount you pay for the shares or units, plus
- if the rights or options are exercised on or after 1 July 2001 and, as a result, an amount is included in your assessable income – that amount.

Where the rights or options were acquired on or after 20 September 1985

If you did not pay anything to acquire the rights or options from another entity, the first element of the cost base and reduced cost base for the shares or units you acquire on exercising them is simply:

- the amount you paid for the shares or units, plus
- if the rights or options are exercised on or after 1 July 2001 and, as a result, an amount is included in your assessable income – that amount.

If you did pay to acquire the rights or options, the first element of the cost base and reduced cost base of the shares or units you acquire on exercising them is the sum of:

- the amount you actually paid for the rights or options, plus
- the amount you paid for the shares or units, plus
- if the rights or options are exercised on or after 1 July 2001 and, as a result, an amount is included in your assessable income – that amount.

Flowcharts 3 and 4 in appendix 3 summarise the different rules applying to the treatment of rights or options to acquire shares or units.

EXAMPLE

Sale of rights

Shanti owns 2,000 shares in ZAC Ltd. She bought 1,000 shares on 1 June 1985 and 1,000 shares on 1 December 1996.

On 1 July 1998, ZAC Ltd offered each of its shareholders one right for each four shares owned to acquire shares in the company for $1.80 each. Shanti therefore received 500 rights in total. At that time, shares in ZAC Ltd were worth $2. Each right was therefore worth 20 cents.

Shanti decided that she did not wish to buy any more shares in ZAC Ltd, so she sold all her rights for 20 cents each – a total amount of $100. Only those rights issued for the shares she bought on 1 December 1996 are subject to CGT. As Shanti did not pay anything for the rights, she has made a $50 taxable capital gain on their sale.

The $50 Shanti received on the sale of her rights for the shares she bought on 1 June 1985 is not subject to CGT as those rights are taken to have been acquired at the same time as the shares – that is, before 20 September 1985.

EXAMPLE

Rights exercised

Assume that, in the previous example, Shanti wished to acquire more shares in ZAC Ltd. She therefore exercised all 500 rights on 1 August 1998 when they were still worth 20 cents each.

There are no CGT consequences arising from the exercise of the rights.

However, the 500 shares Shanti acquired on 1 August 1998 when she exercised the rights are subject to CGT and are acquired at the time of the exercise.

When Shanti exercised the rights issued for the shares she bought on 1 December 1996, the cost base of the 250 shares Shanti acquired is the amount she paid to exercise each right – $1.80 for each share.

When she exercised the rights for the shares she bought before 20 September 1985, Shanti's cost base for each of the 250 shares she acquired includes not only the exercise price of the right ($1.80) but also the market value of the right at that time – 20 cents. The cost base of each share is therefore $2.

CGT discount on shares or units acquired from exercise of rights or options

You can only use the discount method to calculate your capital gain from an asset if you own it for at least 12 months. In calculating any capital gain on shares or units you acquire from the exercise of a right or option, the 12-month period applies from the date you acquire the shares or units (not the date you acquired the right or option).

CONVERTIBLE INTERESTS

Convertible notes

A convertible note (which is one type of convertible interest) is another type of investment you can make in a company or unit trust. A convertible note earns interest on the amount you pay to acquire the note until the note's expiry date. On expiry of the note, you can either ask for the return of the money paid or convert that amount to acquire new shares or units.

Convertible notes you acquired after 10 May 1989 will generally not be subject to CGT if you sold or disposed of them before they were converted into shares. Instead, any gain you make is included on your tax return as ordinary income and any loss you make is included as a deduction. For more information, get the publication *You and your shares* (see the inside back cover).

If you have sold or disposed of a convertible note that you acquired before 11 May 1989, please phone the Business Tax Infoline on **13 28 66**.

When you phone, make sure you know the date you acquired the convertible note as this may affect the tax treatment.

Conversion of notes to shares

The tax treatment that applies when your convertible notes are converted to shares depends on when you acquired the convertible notes, the type of convertible note, when the conversion occurred and when the convertible note was issued.

Shares acquired by the conversion of a convertible note on or after 20 September 1985 will be subject to CGT when they are sold or disposed of as the shares are taken to be acquired when the conversion happens.

You may have acquired the convertible note on or after 20 September 1985 and, as a traditional security or qualifying security, the gain you made on the conversion of the note was already included on your tax return as income (or as a deduction if you made a loss).The way you calculate the cost base of the shares varies depending on whether the notes converted to shares before 1 July 2001 or on or after that date. The table below provides a summary.

Convertible notes issued after 14 May 2002

There has been a change to the tax treatment of convertible notes issued by a company after 14 May 2002 if the notes are traditional securities.

Under the change:

- any gains you make when these notes are converted or exchanged for ordinary shares in a company will not be ordinary income at the time of conversion or exchange, and any losses you make will not be deductible
- instead, any gains or losses you make on the later sale or disposal of the shares (incorporating any gain or loss that would have been made on the conversion or exchange of the notes) will be:
  - subject to CGT if you are an ordinary investor, or
  - ordinary income (or deductible, in the case of a loss) if you are in the business of trading in shares and other securities.

If you are an individual who is an ordinary investor, this change means you will be able to get the benefit of the CGT discount if you own the shares for more than 12 months. The table below sets out how you calculate the cost base.

Conversion of notes to units

Convertible notes – converted before 1 July 2001

Where the convertible note is a traditional security, the first element of the cost base and reduced cost base of the units is their market value at the time of conversion. Any capital gain or capital loss made on their conversion to units in the unit trust is disregarded.

Where the convertible note is not a traditional security and was issued by the unit trust after 28 January 1988, the first element of the cost base and reduced cost base of the units includes both the cost of the convertible note and any further amount payable on the conversion. Any capital gain or capital loss made on their conversion to units in the unit trust is disregarded.

TREATMENT OF CONVERTIBLE NOTES ACQUIRED AFTER 10 MAY 1989

Convertible note	Converted before 1 July 2001	Converted on or after 1 July 2001
The note is a traditional security* that was issued before 15 May 2002.	Gain on conversion is included as income (or loss on conversion is deducted). Cost base of shares includes their market value at the date the convertible notes were converted.	Gain on conversion is included as income (or loss on conversion is deducted). Cost base of shares includes cost base of the convertible note, any amount paid on conversion and any amount included in your assessable income on conversion.
The note is a traditional security* that was issued after 14 May 2002.		Gain (or loss) on conversion is disregarded. Cost base of shares includes cost base of the convertible note and any amount paid on conversion.
The note is a qualifying security**.	Accrued gains are included as income and any gain on conversion is included as income (or loss on conversion is deducted). Cost base of shares includes amount paid to acquire the note and any amount paid on conversion.	Accrued gains are included as income and any gain on conversion is included as income (or loss on conversion is deducted). Cost base of shares includes cost base of the convertible note, any amount paid on conversion and any amount included in your assessable income on conversion.

* A traditional security is one that is not issued at a discount of more than 1.5%, does not bear deferred interest and is not capital indexed. It may be, for example, a bond, a debenture, a deposit with a financial institution or a secured or unsecured loan.

** A qualifying security is one that has a deferred income element – that is, it is issued under terms such that the investor's return on investment (other than periodic interest) will be greater than 1.5% per annum.

Convertible notes – converted after 1 July 2001

Where the convertible note is a traditional security the first element of the cost base and reduced cost base of the units includes:

- the cost base of the convertible note, plus
- any amount paid on conversion, plus
- any amount included in your assessable income on conversion.

Any capital gain or capital loss made on their conversion to units in the unit trust is disregarded.

Similarly, where the convertible note is not a traditional security and was issued by the unit trust after 28 January 1988, the first element of the cost base and reduced cost base of the units includes:

- the cost base of the convertible note, plus
- any amount paid on conversion, plus
- any amount included in your assessable income on conversion.

Any capital gain or capital loss made on their conversion to units in the unit trust is disregarded.

EXAMPLE

Converting notes to shares

David bought 1,000 convertible notes in DCS Ltd on 1 July 1997 (that is, notes that were issued before 15 May 2002). The notes cost $5 each. Each convertible note is convertible into one DCS Ltd share. On expiry of the notes on 1 July 2000, shares in the company were worth $7 each. David converted the notes to shares, which are subject to CGT. No further amount was payable on conversion of the notes. David sold the shares on 4 December 2003 for $10 each.

The $2 ($7 – $5) gain David made on the conversion of each the notes to shares was assessable to David as ordinary income at the time of conversion – that is, in the 2000–2001 income year. As such, David has no capital gain in that year.

The $3 ($10 – $7) gain David made on the sale of each of the shares is subject to CGT. The $7 cost base is the market value per share on the date the notes converted to shares. Because he sold the shares after 11.45am (by legal time in the ACT) on 21 September 1999 and owned them for at least 12 months, David can claim the CGT discount. David calculates his capital gain as follows:

$3 per share × 1,000 shares =	$3,000
Less CGT discount of 50%	$1,500
Net capital gain	**$1,500**

David includes the capital gain on his 2003–04 income tax return.

EMPLOYEE SHARE SCHEMES

Some companies encourage employees to participate in employee share schemes by offering them discounted shares or rights (including options) to acquire shares. Where the scheme complies with the employee share scheme income tax rules (ESS rules), an employee can choose when they include the discount given on the shares or rights in their assessable income.

The employee includes the discount in their assessable income:

- In the income year they acquire shares or rights, if the employee makes an election under the ESS rules. The discount is calculated at the date the shares or rights were acquired,

  or
- In the income year that cessation time of the shares or rights occurs. For shares, this is usually the earlier of employment ceasing or when the disposal restrictions cease and forfeiture conditions expire on the shares. For rights, this is usually the earlier of employment ceasing or the exercise of the rights to acquire the shares. The discount is calculated at the date of cessation time.

The first element of the cost base of the shares or rights is their market value as determined under the ESS rules at the date the discount was calculated. If a CGT event happens in relation to the shares or rights, the capital gain or capital loss is calculated under the rules that apply to that event.

If an arm's length CGT event A1 (sale or disposal of a CGT asset) happens or a CGT event E1 (creating a trust over a CGT asset), E2 (transferring a CGT asset to a trust) or E5 (beneficiary becoming entitled to a trust asset) happens in relation to the shares or rights (or any shares acquired as a result of exercise of the rights) within 30 days of cessation time, the capital gain or capital loss is disregarded.

If an employee makes an election, special rules apply to employee shares or rights that a trust acquires on their behalf after 5.00pm (by legal time in the ACT) on 27 February 2001. Under the rules:

- capital gains or capital losses that arise while the shares or rights are held in trust are attributed to the employee and recognised when the employee disposes of those shares or rights, and
- for the employee, the 12-month ownership requirement for the 50% CGT discount commences from the date the shares or rights are acquired by the trustee on behalf of the employee.

Elections made under the ESS rules must be by the employee in writing and should be kept with their tax return for the relevant income year.

For more information, refer to *Employee share schemes – answers to frequently asked questions by employees* available on our website at **www.ato.gov.au**

NON-ASSESSABLE PAYMENTS

The cost base of shares or units for CGT calculations may need to be adjusted if you receive a non-assessable payment without disposing of your shares or units. A payment or distribution can include money and property.

You need to keep accurate records of the amount and date of any non-assessable payments in relation to your shares and units.

Non-assessable payments from a company (CGT event G1)

Non-assessable payments to shareholders are not very common and would generally be made only where a company has shareholder approval to reduce its share capital – for example, to refund part of the paid-up value of shares to shareholders. Before 1 July 1998, a company needed court approval to reduce its share capital.

If you receive a non-assessable payment from a company (that is, a payment that is not a dividend), you need to adjust the cost base of the shares at the time of the payment. If the amount of the non-assessable payment is not more than the cost base of the shares at the time of payment, the cost base and reduced cost base are reduced by the amount of the payment.

You make a capital gain if the amount of the non-assessable payment is more than the cost base of the shares. The amount of the capital gain is equal to the excess. If you make a capital gain, the cost base and reduced cost base of the shares are reduced to nil. You cannot make a capital loss from the making of a non-assessable payment.

Interim liquidation distributions that are not dividends can be treated in the same way as other non-assessable payments under CGT event G1.

From the 1998–99 income year, interim distributions by a liquidator are not treated in this manner provided the company is deregistered within 18 months of the interim distribution. These payments will form part of the capital proceeds for the ending of the shares.

In preparing a tax return a shareholder may assume that the company will cease to exist within 18 months of an interim distribution, unless advised to the contrary by the liquidator in writing.

EXAMPLE

Non-assessable payments

Rob bought 1,500 shares in RAP Ltd on 1 July 1994 for $2 each. On 30 November 2003, as part of a shareholder-approved scheme for the reduction of RAP's share capital, he received a non-assessable payment of 50 cents per share. At that date, the cost base of each share (without indexation) was $2.20.

As the amount of the payment is not more than the cost base (without indexation), the cost base of each share at 30 November 2003 is reduced by the amount of the payment to $1.70 ($2.20 – 50 cents). As Rob has chosen not to index the cost base, he can claim the CGT discount if he disposes of the shares in the future.

Non-assessable payments from a unit trust (CGT event E4)

It is quite common for a unit trust to make non-assessable payments to unit holders. Your CGT obligations in this situation are explained in chapter 4.

When you sell the units, you must adjust their cost base and reduced cost base. The amount of the adjustment is based on the amount of non-assessable payments you received during the income year up to the date of sale. You use the adjusted cost base and reduced cost base to work out your capital gain or capital loss.

NON-ASSESSABLE PAYMENTS UNDER A DEMERGER

If you receive a non-assessable payment under an eligible demerger, you do not deduct the payment from the cost base and the reduced cost base of your shares or units. Instead you adjust your cost base and reduced cost base under the demerger rules. You may make a capital gain in respect of the non-assessable payment if it exceeds the cost base of your original share or unit, although you will be able to choose CGT rollover.

An eligible demerger is one that happens on or after 1 July 2002 and satisfies certain tests. The head entity will normally advise shareholders or unit holders if this is the case.

For more information about demergers, see chapter 5 page 29.

INVESTMENTS IN FOREIGN HYBRIDS

If you have an investment in a foreign hybrid, the Government has introduced legislation into Parliament which will change the tax treatment from 1 July 2003 or optionally from 1 July 2002. A foreign hybrid is an entity that was taxed in Australia as a company but taxed overseas as a partnership. This can include a limited partnership, a limited liability partnership and a US limited liability company. Investors in these entities are now treated for Australian tax purposes as having a partnership interest. Previously, the investors were treated as shareholders and distributions they received were taxed as dividends. When the change becomes law, more information will be available on our website at **www.ato.gov.au**

GENERAL VALUE SHIFTING REGIME (GVSR)

If you own shares in a company or units (or other fixed interests) in a trust, you may be affected by value shifting rules. The value shifting rules may apply to you if:

- you have interests in a company or trust in which equity or loan interests have been issued or bought back at other than market value, or varied such that the values of some interests have increased while others have decreased (direct value shifts on interests), or
- you have interests in an entity whose dealings (such as providing loans or other services, or transferring assets) with another entity are neither at market value nor arm's length and both entities are under the same control or ownership (indirect value shifting).

For more information on whether the GVSR rules apply to you, refer to the publication *General value shifting regime in brief* (see the inside back cover). For detailed information on the operation of the rules, refer to the *Guide to the general value shifting regime* on our website at **www.ato.gov.au**

USING THE CAPITAL GAIN OR CAPITAL LOSS WORKSHEET FOR SHARES

In the example on this page, Tony uses the indexation method, the discount method and the 'other' method to calculate his capital gain so he can decide which method gives him the best result. This example shows you how to complete the **Capital gain or capital loss worksheet** at the back of this guide to calculate your capital gain when you acquire or dispose of shares.

Refer to chapter 2 for a description of each method and when you can use each one.

Remember that if you bought and sold your shares within 12 months, you must use the 'other' method to calculate your capital gain. If you owned your shares for 12 months or more, you may be able to use either the discount method or the indexation method, whichever gives you the better result.

Because each share in a parcel of shares is a separate CGT asset, you can use different methods to work out the amount of any capital gain for shares within a parcel. This may be to your advantage if you have capital losses to apply.

For example, Belinda acquired a parcel of 1,000 shares on 1 December 1992. She sold them on 31 July 2003. Because she has capital losses, Belinda chooses to work out her capital gain from 460 of her shares using the indexation method. She uses the discount method to work out the capital gain from the other 540 shares.

EXAMPLE

Using all three methods to calculate a capital gain

On 1 July 1993, Tony bought 10,000 shares in Kimbin Ltd for $2 each. He paid stockbrokers fee of $250 and stamp duty of $50.

On 1 July 2003, Kimbin Ltd offered each of its shareholders one right for each four shares owned to acquire shares in the company for $1.80 each. The market value of the shares at the time was $2.50. On 1 August 2003, Tony exercised all rights and paid $1.80 per share.

On 1 December 2003, Tony sold all his shares in Kimbin Ltd for $3.00 each. He incurred stockbrokers fee of $500 and stamp duty of $50.

SEPARATE RECORDS

Tony has two parcels of shares – those he acquired on 1 July 1993 and those he acquired at the time he exercised all rights, 1 August 2003. He needs to keep separate records for each parcel and apportion the stockbrokers fee of $500 and stamp duty of $50.

The completed **Capital gain or capital loss worksheets** on the following pages show how Tony can evaluate which method gives him the best result.

He uses the 'other' method for the shares he owned for less than 12 months, as he has no choice:

$7,500 – $4,610 = $2,890

For the shares he has owned for 12 months or more, his capital gain using the indexation method would be:

$30,000 – $23,257 = $6,743

This means his net capital gain would be:

$2,890	+	$6,743	=	$9,633
'other' method		indexation method		net capital gain

If Tony uses the discount method instead (assuming he has no losses), his capital gain would be:

$30,000 – $20,740 = $9,260

He applies the CGT discount of 50%:

$9,260 x 50% = $4,630

This means his net capital gain would be:

$2,890	+	$4,630	=	$7,520
'other' method		discount method		net capital gain

In this case he would choose the discount method rather than the indexation method, as it gives him the better result (less capital gains).

CAPITAL GAIN OR CAPITAL LOSS WORKSHEET

This worksheet helps you calculate a capital gain for each CGT asset or any other CGT event[1] using the indexation method[2], the discount method[3] and/or the 'other' method. It also helps you calculate a capital loss.

CGT asset type or CGT event

- Shares and units (in unit trusts) [X]
- Real estate [ ]
- Other CGT assts and any other CGT events[4] [ ]
- Collectables[5] [ ]

Description of CGT asset or CGT event: *Tony's 2,500 shares in Kimbin Ltd - Exercise of rights, given 1.7.2003, exercised 1.8.2003*

Date of acquisition: *01/08/2003* **Date of CGT event:** *01/12/2003*

Elements of the cost base or reduced cost base	**1** Amount	**2** Amounts to be deducted for cost base[9]	**3** Cost base (1 – 2)	**4** Amounts to be deducted for reduced cost base[9]	**5** Reduced cost base (1 – 4)	**6** Indexation factor[10]	**7** Cost base indexed (3 x 6)
Acquisition or purchase cost of the CGT asset[6]	*4,500*	*0*	*4,500*				
Incidental costs to acquire the CGT asset	*110*	*0*	*110*				
Incidental costs that relate to the CGT event[7]							
Non-capital costs of ownership of the CGT asset[8]							
Capital expenditure to increase the asset's value that is reflected in the state or nature of the CGT asset at the time of the CGT event							
Capital costs to establish, preserve or defend title to, or a right over, the CGT asset							
	Cost base unindexed		**$** *4,610*				
			Reduced cost base		**$**		
					Cost base indexed		**$**

Capital gain calculation

Indexation method		**Discount method**		**'Other' method (CGT asset held less than 12 months)**	
Capital proceeds[11]	$	Capital proceeds[11]	$	Capital proceeds[11]	$ *7,500*
Less: cost base indexed	$	*Less:* cost base unindexed	$	*Less:* cost base unindexed	$ *4,610*
Capital gain (a)	**$**	**Capital gain (b)***	**$**	**Capital gain**	**$** *2,890*

*In choosing between capital gain **(a)** or **(b)**, remember that the CGT discount will not apply to **(a)** but it will reduce the amount of capital gain remaining after capital losses are deducted from **(b)**.

Transfer the capital gain to part A1 of the *CGT summary worksheet*, except for a capital gain from collectables which is transferred to part A2 of that worksheet.

NOTE
An explanation of all footnotes appears on the back of the worksheet at the back of this publication.

Capital loss calculation

Capital loss	
Reduced cost base	$
Less: capital proceeds[11]	$
Capital loss[12]	**$**

Transfer the capital loss to part B of the *CGT summary worksheet*, except for a capital loss from collectables which is transferred to part A2 of that worksheet.

CAPITAL GAIN OR CAPITAL LOSS WORKSHEET

This worksheet helps you calculate a capital gain for each CGT asset or any other CGT event[1] using the indexation method[2], the discount method[3] and/or the 'other' method. It also helps you calculate a capital loss.

CGT asset type or CGT event

Shares and units (in unit trusts)	X	Other CGT assts and any other CGT events[4]	
Real estate		Collectables[5]	

Description of CGT asset or CGT event: Tony's 10,000 shares in Kimbin Ltd

Date of acquisition: 01/07/1993 **Date of CGT event:** 01/12/2003

Elements of the cost base or reduced cost base	1 Amount	2 Amounts to be deducted for cost base[9]	3 Cost base (1 – 2)	4 Amounts to be deducted for reduced cost base[9]	5 Reduced cost base (1 – 4)	6 Indexation factor[10]	7 Cost base indexed (3 x 6)
Acquisition or purchase cost of the CGT asset[6]	20,000	0	20,000			1.124	22,480
Incidental costs to acquire the CGT asset	300	0	300			1.124	337
Incidental costs that relate to the CGT event[7]	440	0	440			1	440
Non-capital costs of ownership of the CGT asset[8]							
Capital expenditure to increase the asset's value that is reflected in the state or nature of the CGT asset at the time of the CGT event							
Capital costs to establish, preserve or defend title to, or a right over, the CGT asset							
	Cost base unindexed		$ 20,740				
			Reduced cost base		$		
					Cost base indexed		$ 23,257

Capital gain calculation

Indexation method		Discount method		'Other' method (CGT asset held less than 12 months)	
Capital proceeds[11]	$ 30,000	Capital proceeds[11]	$ 30,000	Capital proceeds[11]	$
Less: cost base indexed	$ 23,257	*Less:* cost base unindexed	$ 20,740	*Less:* cost base unindexed	$
Capital gain (a)	**$** 6,743	**Capital gain (b)***	**$** 9,260	**Capital gain**	**$**

*In choosing between capital gain **(a)** or **(b)**, remember that the CGT discount will not apply to **(a)** but it will reduce the amount of capital gain remaining after capital losses are deducted from **(b)**.

Transfer the capital gain to part A1 of the *CGT summary worksheet*, except for a capital gain from collectables which is transferred to part A2 of that worksheet.

NOTE
An explanation of all footnotes appears on the back of the worksheet at the back of this publication.

Capital loss calculation

Capital loss	
Reduced cost base	$
Less: capital proceeds[11]	$
Capital loss[12]	**$**

Transfer the capital loss to part B of the *CGT summary worksheet*, except for a capital loss from collectables which is transferred to part A2 of that worksheet.

Dividends paid by listed investment companies (LIC) that include LIC capital gain

If a LIC pays a dividend to you that includes a LIC capital gain amount, you may be entitled to an income tax deduction.

You can claim a deduction if:

- you are an individual
- you were an Australian resident when a LIC paid you a dividend
- the dividend was paid to you after 1 July 2001, and
- the dividend included a LIC capital gain amount.

The amount of the deduction is 50% of the LIC capital gain amount. The LIC capital gain amount will be shown separately on your dividend statement.

You do not show the LIC capital gain amount at item **17** on your tax return (or item **9** if you use the tax return for retirees).

EXAMPLE

LIC capital gain

Ben, an Australian resident, was a shareholder in XYZ Ltd, a LIC. For the 2003–04 income year, Ben received a fully franked dividend from XYZ Ltd of $70,000 including a LIC capital gain amount of $50,000. Ben includes on his tax return the following amounts:

Franked dividend (shown at T item **11** in *TaxPack 2004*)	$70,000
Plus franking credit (formerly called imputation credit) (shown at U item **11** in *TaxPack 2004*)	$30,000
	$100,000
Less deduction for LIC capital gain (shown as deduction at item **D7** in *TaxPack 2004*)	$25,000
Net amount included in taxable income	**$75,000**

NOTE

If Ben uses the tax return for retirees, he shows the amounts as follows: franked dividend at T item **8**; franking credit at U item **8**; deduction for LIC capital gain at item **12**.

CHAPTER 6
Real estate and main residence

This chapter explains your capital gains tax (CGT) obligations in relation to real estate. Real estate includes vacant blocks of land, business premises, rental properties, holiday houses and hobby farms. The CGT exemption for a main residence is also explained in this chapter.

Apart from the main residence rules, capital gains and capital losses on real estate are worked out under the rules set out earlier in this publication.

Land is a CGT asset. In some cases improvements made to land are treated as separate CGT assets – see **Separate assets** on page 4. A depreciating asset that is part of a building (for example, carpet or a hot water system) is also taken to be a separate CGT asset from the building. When a CGT event happens to your property you are required to work out a capital gain or capital loss in respect of each CGT asset it comprises (or balancing adjustment in the case of depreciating assets sold with the property).

The most common CGT event that happens to real estate is its sale or disposal – **CGT event A1**. The time of the event is:

- when you enter into the contract for the disposal
- if there is no contract – when the change of ownership occurs, or
- if the asset is compulsorily acquired by an entity – the earliest of:
  - when you received compensation from the entity
  - when the entity became the asset's owner
  - when the entity entered it under a power of compulsory acquisition, or
  - when the entity took possession under that power.

Where land is disposed of under a contract the disposal is deemed to have taken place when the contract is made. However, you are not required to include any capital gain or capital loss on your income tax return for the relevant year until an actual change of ownership occurs. When settlement occurs, you are required to include any capital gain or capital loss in the year of income in which the contract was made. If an assessment has already been made for that year of income, you may need to have that assessment amended.

UNFAMILIAR TERMS

There may be terms in this chapter that are not familiar to you. Refer to chapter 1 in **part A** for more information or to **Explanation of terms** at the back of this guide.

RULES TO KEEP IN MIND

There are a few rules that you may need to keep in mind when you calculate your capital gain or capital loss from real estate, in particular rules relating to:

- the non-capital costs of ownership, and
- cost base adjustments for capital works deductions.

Non-capital costs of ownership

Rates, insurance, land tax, maintenance and interest on money you borrowed to buy the property or finance improvements to it are not included in the reduced cost base. They are only included in the cost base if:

- the property was acquired under a contract entered into after 20 August 1991 (or if you didn't acquire it under a contract, you became the owner after that date), and
- you could not claim a deduction for the costs because the property was not used to produce assessable income – for example, it was vacant land, your main residence or a holiday home during the period.

Cost base adjustments for capital works deductions

In working out a capital gain in respect of property that you used to produce assessable income – such as a rental property or business premises – capital works deductions you claimed, or were entitled to claim, may need to be excluded from the cost base and reduced cost base.

For information on when property (for example, a building, structure or other capital improvement to land) is treated for CGT purposes as a CGT asset separate from the land, see chapter 1 and **Major capital improvements to a dwelling acquired before 20 September 1985** on page 61.

You must exclude from the cost base of a CGT asset (including a building, structure or other capital improvement to land that is treated as a separate asset for CGT purposes) the amount of capital works deductions you claimed or were entitled to claim in respect of the asset if:

- you acquired the asset after 7.30pm (by legal time in the ACT) on 13 May 1997, or
- you acquired the asset before that time and the expenditure that gave rise to the capital works deductions was incurred after 30 June 1999.

Reduced cost base

The amount of the capital works deductions you claimed or were entitled to claim for expenditure you incurred in respect of an asset is excluded from the reduced cost base.

EXAMPLE

Capital works deduction

Zoran acquired a rental property on 1 July 1997 for $200,000. Before disposing of the property on 30 June 2004, he had claimed $10,000 in capital works deductions.

At the time of disposal, the cost base of the property was $210,250. Zoran must reduce the cost base of the property by $10,000 to $200,250.

Rollover

Rollover may be available – in particular for destruction or compulsory acquisition of property (see chapter 7) and marriage breakdown (see chapter 8).

Keeping records

You should keep appropriate records, see **Records relating to real estate** on page 19.

SALE OF A RENTAL PROPERTY

The following example shows how you would calculate your capital gain on the sale of your rental property.

The sample worksheet on the next page shows how you would complete the **Capital gain or capital loss worksheet** for this example.

EXAMPLE

Sale of a rental property

Brett purchased a rental property on 1 July 1997. The price he paid was $150,000 of which $6,000 was attributable to depreciating assets. He also paid $20,000 in total for stamp duty and solicitors fees.

He rented out the property after spending $2,500 on initial repairs.

In the next few years, Brett incurred the following expenses on the property:

Interest on money borrowed	$10,000
Rates and land tax	$8,000
Deductible (non-capital) repairs	$15,000
Total	**$33,000**

When Brett decided to sell the property, a real estate agent advised him that if he spent around $30,000 on major structural repairs, the property would be valued at around $500,000. He had the repairs done and put the property on the market.

On 1 April 2004, he sold the property for $500,000 (of which $4,000 was attributable to depreciating assets).

Brett's real estate agents fees and solicitors fees for the sale of the property totalled $12,500.

Brett could not claim any capital works deductions as construction of the property began before 22 August 1979 and, as a result, the repairs he made did not qualify. For information about capital works that qualify for a deduction, get the publication *Rental properties* (see the inside back cover). For information about how capital works deductions affect the CGT cost base, see the previous page.

This is Brett's only capital gain for the year – and he has no capital losses to offset from this year or previous years. Brett works out his cost base as follows:

Purchase price of property (not including depreciating assets)	$144,000
Plus	
Stamp duty and solicitors fees on purchase of the property	$20,000
Capital expenditure (initial repairs)	$2,500
Capital expenditure (major structural repairs)	$30,000
Real estate agents fees and solicitors fees on sale of the property	$12,500
Cost base unindexed	**$209,000**
Brett deducts his cost base from his capital proceeds (sale price):	
Proceeds from selling the house (not including depreciating assets)	$496,000
Less	
Cost base unindexed	$209,000
	$287,000

He decides the discount method will give him the best result, so he uses this method to calculate his capital gain:

$287,000 x 50% = $143,500

Brett shows $143,500 at **A** item **17** on his tax return (or item **9** if he uses the tax return for retirees).

Brett shows $287,000 at **H** Total current year capital gains at item **17** on his tax return (or at item **9** if he uses the tax return for retirees). Brett must also make balancing adjustment calculations in relation to his depreciating assets. Because he used the property 100% for taxable purposes he will not make a capital gain or capital loss from the depreciating assets.

CAPITAL GAIN OR CAPITAL LOSS WORKSHEET

This worksheet helps you calculate a capital gain for each CGT asset or any other CGT event[1] using the indexation method[2], the discount method[3] and/or the 'other' method. It also helps you calculate a capital loss.

CGT asset type or CGT event

- Shares and units (in unit trusts) ☐
- Real estate ☒
- Other CGT assts and any other CGT events[4] ☐
- Collectables[5] ☐

Description of CGT asset or CGT event: Brett's property at 30 Jones St, Oldtown

Date of acquisition: 01/07/1997 **Date of CGT event:** 01/04/2004

Elements of the cost base or reduced cost base	1 Amount	2 Amounts to be deducted for cost base[9]	3 Cost base (1 – 2)	4 Amounts to be deducted for reduced cost base[9]	5 Reduced cost base (1 – 4)	6 Indexation factor[10]	7 Cost base indexed (3 x 6)
Acquisition or purchase cost of the CGT asset[6]	144,000	0	144,000			123.4 ÷ 119.7 = 1.031	148,464
Incidental costs to acquire the CGT asset	20,000	0	20,000			1.031	20,620
Incidental costs that relate to the CGT event[7]	12,500	0	12,500			1	12,500
Non-capital costs of ownership of the CGT asset[8]	33,000	33,000	0				0
Capital expenditure to increase the asset's value that is reflected in the state or nature of the CGT asset at the time of the CGT event	2,500 30,000	0 0	2,500 30,000			1.031 1	2,577.50 30,000
Capital costs to establish, preserve or defend title to, or a right over, the CGT asset							
	Cost base unindexed		**$** 209,000				
			Reduced cost base		**$**		
					Cost base indexed		**$** 214,161.50

Capital gain calculation

Indexation method		Discount method		'Other' method (CGT asset held less than 12 months)	
Capital proceeds[11]	$ 496,000	Capital proceeds[11]	$ 496,000	Capital proceeds[11]	$
Less: cost base indexed	$ 214,162	*Less:* cost base unindexed	$ 209,000	*Less:* cost base unindexed	$
Capital gain (a)	**$** 281,838	**Capital gain (b)***	**$** 287,000	**Capital gain**	**$**

*In choosing between capital gain **(a)** or **(b)**, remember that the CGT discount will not apply to **(a)** but it will reduce the amount of capital gain remaining after capital losses are deducted from **(b)**.

Transfer the capital gain to part A1 of the *CGT summary worksheet*, except for a capital gain from collectables which is transferred to part A2 of that worksheet.

> **NOTE**
> An explanation of all footnotes appears on the back of the worksheet at the back of this publication.

Capital loss calculation

Capital loss	
Reduced cost base	$
Less: capital proceeds[11]	$
Capital loss[12]	**$**

Transfer the capital loss to part B of the *CGT summary worksheet*, except for a capital loss from collectables which is transferred to part A2 of that worksheet.

Other CGT events affecting real estate

CGT event B1 happens to real estate if you enter into a terms contract. Generally speaking, a terms contract is one where the purchaser is entitled to possession of the land or the receipt of rents and profits before becoming entitled to a transfer or conveyance of the land (that is, before completing the purchase by paying the balance of the purchase price and receiving the instrument of transfer and title deeds).

CGT event B1 happens when use and enjoyment of the land is first obtained by the purchaser. Use and enjoyment of the land from a practical point of view takes place at the time the purchaser gets possession of the land or the date the purchaser becomes entitled to the receipt of rents and profits.

If the contract falls through before completion and title to the land does not pass to the purchaser, you may be entitled to amend your assessment for the year in which CGT event B1 happened.

CGT event C1 happens if an asset is lost or destroyed. This event may happen if, for example, a building on your land is destroyed by fire. Your capital proceeds for CGT event C1 happening include any insurance proceeds you may receive in relation to the loss or destruction. The market value substitution rule for capital proceeds that generally applies if you receive no capital proceeds does not apply if CGT event C1 happens. For more information, see chapter 7.

CGT event D1 happens if you give someone a right to reside in a dwelling. The capital proceeds include money (but not rent) and the value of any property you receive.

The market value substitution rule for capital proceeds (see **Explanation of terms** at the back of this guide) applies if:

- the amount of capital proceeds you receive is more or less than the market value of the right, and
- you and the person you granted the right to were not dealing with each other at arm's length in connection with the event.

CGT event D2 happens if you grant an option to a person or an entity or renew or extend an option that you had granted.

The amount of your capital gain or capital loss from CGT event D2 is the difference between what you receive for granting the right and any expenditure you incurred in relation to it. The CGT discount does not apply to CGT event D2.

> **EXAMPLE**
>
> ***Granting of an option***
>
> You were approached by Colleen who was interested in buying your land. On 30 June 2003, you granted her an option to purchase your land within 12 months for $200,000. Colleen pays you $10,000 in respect of the grant of the option. You incur legal fees of $500. You made a capital gain in the 2002–03 income year of $9,500.

Exercise of an option

If the option you granted is later exercised any capital gain or capital loss you made from the grant, renewal or extension is ignored. You may have to amend your income tax assessment for an earlier income year.

Similarly, any capital gain or capital loss that the grantee would otherwise make from the exercise of the option is disregarded.

The effect of the exercise of an option depends on whether the option was a call option or a put option. A call option is one that binds the grantor to dispose of an asset. A put option binds the grantor to acquire an asset.

> **EXAMPLE**
>
> ***Granting of an option (cont)***
>
> On 1 February 2004, Colleen exercised the option. The capital gain that you made in 2003 is disregarded and you request an amendment of your income tax assessment to exclude that amount. The $10,000 you received for the grant of the option is considered to be part of the capital proceeds for the sale of your property in the 2003–04 income year. Your capital gain or capital loss from the property is the difference between its cost base/reduced cost base and $210,000.

CGT event D4 happens if you enter into a conservation covenant after 15 June 2000 over land that you own and if you receive capital proceeds for entering into the covenant.

From 1 July 2002, CGT event D4 also happens if you receive no capital proceeds for entering into the covenant and you can claim a tax deduction for entering into the covenant. One of the conditions for a tax deduction is that the covenant is entered into with a deductible gift recipient or an Australian government agency (that is, the Commonwealth, a state, a territory or one of their authorities).

A 'conservation covenant' is a covenant that:

- restricts or prohibits certain activities on the land that could degrade the environmental value of the land
- is permanent and binding on current and future land owners (by way of registration on the title to the land where possible), and
- is approved by the Minister for the Environment and Heritage (including those entered into under a program approved by that Minister).

If CGT event D4 happens, you calculate your capital gain by comparing your capital proceeds from entering into the covenant with the portion of the cost base of the land that is attributable to the covenant.

Similarly, you calculate your capital loss by comparing your capital proceeds from entering into the covenant with the portion of the reduced cost base of the land that is attributable to the covenant.

(Note that the market value substitution rule for capital proceeds that generally applies if you receive no consideration for a CGT event does not apply if CGT event

D4 happens. Instead, the capital proceeds are equal to the amount you can claim as a tax deduction for entering into the covenant.)

The relevant portion of the cost base and reduced cost base attributable to the covenant is calculated using this formula:

$$\text{Cost base (reduced cost base)} \times \frac{\text{capital proceeds from entering into the covenant over land}}{\text{those capital proceeds plus the market value of the land just after you enter into the covenant}}$$

As the conservation covenant will affect the value of the entire land you must use the cost base of the entire land in calculating the cost base apportioned to the covenant. This is the case even if the covenant specifically states within its terms that the restrictions as to use only apply to part of the land.

If CGT event D4 does not apply to a conservation covenant you enter into, CGT event D1 will apply.

CGT events involving leases

There are a number of CGT events that might apply in relation to the lease of land.

CGT event F1 happens if you grant a lease to a person or entity or if you extend or renew a lease that you had previously granted. In the case of a long-term lease (one that may be expected to continue for at least 50 years) you can choose to treat the grant (renewal or extension) of the lease as a part disposal of the underlying leased property.

EXAMPLE

Receiving an amount for granting a lease

Elisabeth operates a profitable footwear retailing business, and wishes to lease some shop space in a prestigious location in the Sydney CBD. However, the demand for shop space in the locality is great, and competition between prospective tenants is fierce. In order to ensure that she secures the lease of the particular shop space that she wants, Elisabeth pays John Rich (the owner of the shop space) a premium of $6,000 in consideration for the grant of that particular lease.

The lease is entered into on 6 September 2003, and John Rich incurs stamp duty of $300 and solicitors fees of $500 on the grant of the lease.

John makes a capital gain of $5,200 from CGT event F1

Capital proceeds:	$6,000
Incidental costs:	$800 (that is, stamp duty of $300 and solicitors fees of $500)

Note: For Elisabeth, this transaction results in CGT event C2 when the lease expires.

The amount of your capital gain or capital loss from CGT event F1 is the difference between any premium you got for granting the lease and the expenditure you incurred in granting it. The CGT discount does not apply to CGT event F1. The market value substitution rule for capital proceeds that generally applies if you receive no consideration for a CGT event does not apply if CGT event F1 happens.

You can choose for CGT event F2 to apply (rather than CGT event F1) when you grant, renew or extend a long-term lease. It can apply if you are the owner of the underlying land or if you grant a sub-lease.

Your capital proceeds if CGT event F2 happens are the greatest of:

- the market value of the freehold or head lease (at the time you grant, renew or extend the lease)
- the market value if you had not granted, renewed or extended the lease, and
- any premium from the grant, renewal or extension.

There are special cost base rules that apply if you choose for CGT event F2 to apply.

For any later CGT event that happens to the land or the lessor's lease of it, its cost base and reduced cost base (including the cost base and reduced cost base of any building, part of a building, structure or improvement that is treated as a separate CGT asset) excludes:

- any expenditure incurred before CGT event F2 happens, and
- the cost of any depreciating asset for which the lessor has deducted or can deduct an amount for its decline in value.

The fourth element of the property's cost base and reduced cost base includes any payment by the lessor to the lessee to vary or waive a term of the lease or for the forfeiture or surrender of the lease, reduced by the amount of any input tax credit to which the lessor is entitled for the variation or waiver.

CGT event F3 happens if you make a payment to a lessee to vary a lease. You can only make a capital loss from this CGT event. Your capital loss is equal to the expenditure you incurred to change the lease.

CGT event F4 happens if you (as lessee) receive a payment from the lessor for agreeing to vary or waive a term of the lease.

You cannot make a capital loss from this CGT event. You will only make a capital gain from CGT event F4 if the amount of the payment you received exceeds the cost base of your lease at the time when the term is varied. In other cases, you will be required to adjust the cost base of your lease.

The market value substitution rule for capital proceeds that applies if you do not receive market value for a CGT event does not apply if CGT event F4 happens.

EXAMPLE

Payment to lessee for change in lease

Sam is the lessor of a commercial property. His tenant, Peter, currently holds a three-year lease over the property, which has another 26 months to run. A business associate of Sam's wishes to lease the property from Sam for a 10-year period, beginning in six months' time, for twice the rent that Peter is currently paying. Sam approaches Peter with an offer of $5,000 cash for Peter to agree to vary the terms of the lease so that the lease will expire in six months' time. Peter agrees to vary the terms on 10 August 2003.

Sam will make a capital loss of $5,000 from CGT event F3 happening:

Capital proceeds:	$0
Incidental costs/expenditure incurred:	$5,000

For Peter this transaction results in CGT event F4 happening. The cost base of Peter's lease at the time of the variation was $500. He makes a capital gain of $4,500 ($5,000 – $500).

CGT event F5 happens if you as lessor receive a payment for changing a lease.

The amount of your capital gain or capital loss from CGT event F5 is the difference between what you receive for changing the lease and any expenditure you incurred in relation to it. The CGT discount does not apply to CGT event F5.

SUBDIVISION OF LAND

If you subdivide a block of land, each block that results is registered with a separate title. For CGT purposes, the original land parcel is divided into two or more separate assets. Subdividing land does not result in a CGT event if you retain ownership of the subdivided blocks. Therefore, you do not make a capital gain or a capital loss at the time of the subdivision.

However, you may make a capital gain or capital loss when you sell the subdivided blocks. The date you acquired the subdivided blocks is the date you acquired the original parcel of land and the cost base of the original land is divided between the subdivided blocks on a reasonable basis.

WHEN THE PROFIT IS ORDINARY INCOME

You may have made a profit from the subdivision and sale of land which occurred in the ordinary course of your business or which involved a commercial transaction or business operation entered into with the purpose of making a profit. In this case, the profit is ordinary income (see *Taxation Ruling TR 92/3 – Whether profits on isolated transactions are income*). Any capital gain from the land is reduced by the amount otherwise included in your assessable income.

EXAMPLE

Land purchased before 20 September 1985, land subdivided after that date and house built on subdivided land

In 1983, Mike bought a block of land that was less than 2 hectares. He subdivided the land into two blocks in May 2003 and began building a house on the rear block, which he finished in August 2003. He sold the rear block (including the house) in October 2003 for $150,000. Mike got a valuation from a qualified valuer who valued the rear block at $70,000 and the house at $80,000. The construction cost of the house was $65,000.

Mike acquired the rear block before 20 September 1985, so it is not subject to CGT. As the new house was constructed after 20 September 1985 on land purchased before that date, the house is taken to be a separate asset from the land. Mike is taken to have acquired the house in May 2003 when he began building it. Mike made a capital gain of $15,000 ($80,000 – $65,000) when he sold the house because he did not use it as his main residence.

As Mike had owned the house for less than 12 months, he used the 'other' method to calculate his capital gain.

EXAMPLE

Dwelling purchased on or after 20 September 1985 and land subdivided after that date

Kym bought a house on a 0.1 hectare block of land in June 2003 for $250,000. The house was valued at $80,000 and the land at $170,000. Kym lived in the house as her main residence. In January 2004, she subdivided the land into two blocks of equal size. She incurred $10,000 in survey, legal and subdivision application fees and $1,000 to connect water and drainage to the rear block. In March 2004, she sold the rear block for $100,000.

As Kym sold the rear block of land separately, the **main residence exemption** does not apply to that land. She contacted several local real estate agents who advised her that the value of the front block was $15,000 higher than the rear block. Kym apportioned the $170,000 original cost base into $77,500 for the rear block (45.6%) and $92,500 for the front block (54.4%).

The cost base of the rear block is calculated as follows:

Cost of the land	$77,500
45.6% of the cost of survey, legal and application fees	$4,560
Cost of connecting water and drainage	$1,000
Total	**$83,060**

The capital gain on the sale of the rear block is $16,940. As Kym had owned the land for less than 12 months, she used the 'other' method to calculate her capital gain.

Kym will get the full exemption for her house and the front block if they are used as her main residence for the full period she owns them.

AMALGAMATION OF TITLE

The amalgamation of the titles to various blocks of land that you own does not result in a CGT event happening.

Land you acquire before 20 September 1985 that is amalgamated with land acquired on or after that date retains its pre-CGT status.

> **EXAMPLE**
>
> ***Amalgamation of title***
>
> On 1 April 1984, Robert bought a block of land. On 1 June 1999, he bought another block adjacent to the first one. Robert amalgamated the titles to the two blocks into one title.
>
> Robert is taken to have two separate assets. The first block continues to be treated as a pre-CGT asset.

Examples of CGT calculations affecting real estate

There are a number of other examples in this publication that explain how to calculate your capital gain or capital loss on the sale of real estate:

- calculation of capital gain (including worksheet) where a person can choose the indexation or discount method to calculate their capital gain – see example of Val on page 16
- calculation of capital gain on property owned for 12 months or less – see example of Marie-Anne on page 13
- recoupment of expenditure affecting CGT cost base calculation – see example of John on page 7
- deductions affecting CGT cost base calculations – see example of Zoran on page 45.

MAIN RESIDENCE

Generally, you can ignore a capital gain or capital loss from a CGT event that happens to your **ownership interest** in a dwelling that is your main residence (also referred to as 'your home').

To get full exemption from CGT:

- the dwelling must have been your home for the whole period you owned it
- the dwelling must not have been used to produce assessable income, and
- any land on which the dwelling is situated must be 2 hectares or less.

If you are not fully exempt, you may be partially exempt if:

- the dwelling was your main residence during only part of the period you owned it
- you used the dwelling to produce assessable income, or
- the land on which the dwelling is situated is more than 2 hectares.

Short absences from your home – for example, annual holidays, do not affect your exemption.

Special rules

There are some special CGT rules that are not covered in this chapter that may affect you if your home was:

- destroyed and you receive money or another asset as compensation or under an insurance policy (see chapter 7)
- transferred by you as a result of the breakdown of your marriage (see chapter 8)
- transferred to you as a result of its conversion to strata title, or
- compulsorily acquired by an Australian government agency (see chapter 7).

If you own more than one dwelling during a particular period, only one of them can be your main residence at any one time.

The exception to this rule is if you move from one main residence to another. In this case you can treat two dwellings as your main residence for a limited time (see page 55 for more information). Special rules apply if you have a different main residence from your spouse or dependent children (see page 60).

WHAT IS A DWELLING?

A dwelling is anything that is used wholly or mainly for residential accommodation. Certain mobile homes can also be a dwelling. Examples of a dwelling are:

- a home or cottage
- an apartment or flat
- a strata title unit
- a unit in a retirement village, and
- a caravan, houseboat or other mobile home.

Any land the dwelling is on is included as part of the dwelling but it only qualifies for the main residence exemption if the land and the dwelling are sold together. Land adjacent to the dwelling may also qualify for exemption (see page 52 for more information).

WHAT IS AN OWNERSHIP INTEREST?

In the case of a flat or home unit, you have an ownership interest if you have:

- a legal or equitable interest in a strata title in the flat or home unit
- a licence or right to occupy the flat or home unit, or
- a share in a company that owns a legal or equitable interest in the land on which the flat or home unit is constructed and that share gives you a right to occupy the flat or home unit.

In the case of a dwelling that is not a flat or home unit, you have an ownership interest if you have:

- a legal or equitable interest in the land on which it is constructed, or
- a licence or right to occupy it.

In the case of land, you have an ownership interest if you have:

- a legal or equitable interest in it, or
- a right to occupy it.

An equitable interest may include life tenancy of a dwelling that you acquire – for example, under a deceased's will.

When do you acquire an ownership interest?

For the purposes of the main residence exemption, you have an ownership interest in a dwelling or land you acquire under a contract from the time you get legal ownership (unless you have a right to occupy it at an earlier time).

You have legal ownership of a dwelling or land from the date of settlement of the contract of purchase (or if you have a right to occupy it at an earlier time, that time) until the date of settlement of the contract of sale. This period is called your ownership period. If the home is your main residence for the whole of the ownership period and you do not use it to produce assessable income, the home is fully exempt.

EXAMPLE

Full exemption

Frank signed a contract on 14 August 1999 to purchase land from a developer and to have a house constructed on the land. Under the contract, settlement did not occur until construction was completed on 26 October 2000.

Frank moved into the house immediately upon settlement of the contract he had with the developer – that is, on 26 October 2000. He did not have a right to occupy the house at an earlier time under the purchase contract. He signed the contract to sell it on 25 May 2004 and settlement occurred on 20 July 2004. The house was Frank's main residence for the full period he owned it and he did not use any part of it to produce income.

For CGT purposes, Frank is taken to have acquired the land on which the house was constructed on the date he entered into the contract – 14 August 1999. However, because the house was Frank's main residence for the whole period between settlement of the purchase contract and settlement of the sale contract, it is fully exempt.

The period between when Frank entered into the purchase contract and started to live in the house – 14 August 1999 to 25 October 2000 – is ignored. This is because the relevant dates for the main residence exemption are the settlement dates or, if you had a right under the purchase contract to occupy the dwelling at an earlier time, that time until settlement of the sale contract.

Even though the settlement dates are used to calculate the period for which the main residence exemption applies, the dates you enter into the purchase and sale contracts are important if your main residence is not fully exempt.

A CGT event occurs when you enter into the sale contract. Any capital gain is included on your tax return for the year of income in which the CGT event occurs. The contract date is also relevant for determining what method you can use to work out your capital gain from your main residence.

EXAMPLE

Part exemption

The facts are the same as in the previous example except that Frank rented out the house from 26 October 2000 – the date of settlement of the purchase contract – until 2 March 2002.

Frank makes a capital gain of $30,000 on the house. To work out the part of the capital gain that is exempt, Frank must determine how many days in his ownership period the dwelling was not his main residence.

Frank had an ownership interest in the property from settlement of the purchase contract (26 October 2000) until settlement of the sale contract (20 July 2004) – a total of 1,364 days.

The period between the dates the purchase contract was signed (14 August 1999) and settled (25 October 2000) is ignored. Because the house was not Frank's main residence from 26 October 2000 to 2 March 2002 (493 days), he does not get the exemption for this period.

Frank calculates his capital gain as follows:

$$\underset{\text{capital gain}}{\$30{,}000} \times \frac{493 \text{ days}}{1{,}364 \text{ days}} = \underset{\text{taxable portion}}{\$10{,}843}$$

Because Frank entered into the purchase contract before 11.45am (by legal time in the ACT) on 21 September 1999 and entered into the sale contract after this time (and he owned the house for at least 12 months), he can choose either the indexation or the discount method to calculate his capital gain. Frank decides to reduce his capital gain by the CGT discount of 50% after applying any capital losses.

Because Frank signed the sale contract on 25 May 2004, the CGT event occurred in the 2003–04 income year, even though settlement occurred in the next income year. Frank shows the capital gain on his 2003–04 income tax return.

IS THE DWELLING YOUR MAIN RESIDENCE?

The following factors may be relevant in working out whether a dwelling is your main residence:

- the length of time you live there – there is no minimum time a person has to live in a home before it is considered to be their main residence
- whether your family lives there
- whether you have moved your personal belongings into the home
- the address to which your mail is delivered
- your address on the electoral roll
- the connection of services (for example, phone, gas or electricity)
- your intention in occupying the dwelling.

A mere intention to construct or occupy a dwelling as your main residence – without actually doing so – is not sufficient to get the exemption.

In certain circumstances, you may choose to treat a dwelling as your main residence even though:

- you no longer live in it (for more information, see **Continuing main residence status after dwelling ceases to be your main residence** on page 56), or
- you are yet to live in it but will do so as soon as practicable after it is constructed, repaired or renovated and you will continue to live in it for at least three months (for more information, see **Constructing, renovating or repairing a dwelling on land you already own** on page 58).

MOVING INTO A DWELLING

A dwelling is considered to be your main residence from the time you acquired your ownership interest in it if you moved into it as soon as practicable after that time. This would generally be the date of settlement of the purchase contract. This means that, if there is a delay in moving in because of illness or other reasonable cause, the exemption is still available from when you acquired your ownership interest in the dwelling.

If you could not move in because the dwelling was being rented to someone, you are not considered to have moved in as soon as practicable after you acquired your ownership interest.

As mentioned earlier, there is a special rule that allows you to treat more than one dwelling as your main residence for a limited time if you are changing main residences (see **Moving from one main residence to another** on page 55).

LAND ADJACENT TO THE DWELLING

The land adjacent to a dwelling is also exempt if:

- during the period you owned it, the land is used mainly for private and domestic purposes in association with the dwelling, and
- the total area of the land around the dwelling, including the land on which it stands, is not greater than 2 hectares (4.94 acres). If the land used for private purposes is greater than 2 hectares, you can choose which 2 hectares are exempt.

Land is adjacent to your dwelling if it is close to, near, adjoining or neighbouring the dwelling.

If you sell any of the land adjacent to your dwelling separately from the dwelling, the land is not exempt. It is only exempt when sold with the dwelling. There is an exception if the dwelling is accidentally destroyed and you sell the vacant land (see **Destruction of dwelling and sale of land** on page 59).

Any part of the land around a dwelling used to produce income is not exempt, even if the total land is less than 2 hectares. However, the dwelling and any buildings and other land used in association with it remain exempt if you do not use them to produce income.

EXAMPLE

Land used for private purposes

Tim bought a home with 15 hectares of land in November 2000. He uses 10 hectares of the land to produce income and 5 hectares for private purposes. Tim can get the main residence exemption for the home and 2 hectares of land he selects out of the 5 hectares that are used for private purposes.

Tim gets a valuation which states that the home and 2 hectares of land that he has selected are worth two-thirds of the total value of the property. The relative values of the different parts of the property remained the same between the time of purchase and the time of sale.

Tim entered into a contract to sell the property on 8 May 2004. The capital gain from the property is $15,000. Tim may claim the main residence exemption on the two-thirds of the capital gain attributable to the house and 2 hectares of land, that is, $10,000.

Because he entered into the contract to acquire the property after 11.45am (by legal time in the ACT) on 21 September 1999 and owned it for at least 12 months, Tim reduces his remaining $5,000 gain (attributable to the land) by the CGT discount of 50% after applying any capital losses.

OTHER STRUCTURES ASSOCIATED WITH THE DWELLING

A flat or home unit often includes areas (for example, a laundry, storeroom or garage) that are physically separate from the flat or home unit. As long as these areas are used primarily for private or domestic purposes in association with the flat or home unit for the whole period you own it, they are exempt on the same basis that the flat or home unit is exempt.

However, if you dispose of one of these structures separately from the flat or home unit, they are not exempt.

PART EXEMPTION

Main residence for only part of the period you owned it

If a CGT event happens in relation to a dwelling you acquired on or after 20 September 1985 and that dwelling was not your main residence for the whole time you owned it, you get only a part exemption.

The part of the capital gain that is taxable is calculated as follows:

$$\text{Total capital gain made from the CGT event} \times \frac{\text{number of days in your ownership period when the dwelling was not your main residence}}{\text{total number of days in your ownership period}}$$

EXAMPLE

Main residence for part of the ownership period

Andrew bought a house under a contract that was settled on 1 July 1990 and moved in immediately. On 1 July 1993, he moved out and began to rent out the house. He did not choose to treat the house as his main residence for the period after he moved out, although he could have done this under the 'continuing main residence status after dwelling ceases to be your main residence' rule (see page 56). The 'home first used to produce income' rule (explained on the next page) does not apply because Andrew used the home to produce income before 21 August 1996.

The contract for the sale of the house was settled on 1 July 2003 and Andrew made a capital gain of $10,000. As he is entitled to a part exemption, Andrew's capital gain is as follows:

$$\$10{,}000 \times \frac{3{,}653 \text{ days}}{4{,}749 \text{ days}} = \$7{,}692$$

As Andrew entered into the contract to acquire the house before 11.45am (by legal time in the ACT) on 21 September 1999 but the CGT event occurred after this date, Andrew can choose to use the discount method or the indexation method to calculate his capital gain.

If a dwelling was not your main residence for the whole time you owned it, some special rules may entitle you to a full exemption or extend the part exemption you would otherwise get. These rules apply to land or a dwelling if:

- you choose to treat the dwelling as your main residence, even though you no longer live in it (see **Continuing main residence status after dwelling ceases to be your main residence** on page 56)
- you moved into the dwelling as soon as practicable after its purchase (see **Moving into a dwelling** on page 52)
- you are changing main residences (see **Moving from one main residence to another** on page 55)
- you are yet to live in the dwelling but will do so as soon as practicable after it is constructed, repaired or renovated and you will continue to live in it for at least three months (see **Constructing, renovating or repairing a dwelling on land you already own** on page 58), or
- you sell vacant land after your main residence is accidentally destroyed (see **Destruction of dwelling and sale of land** on page 59).

Dwelling used to produce income

Usually you cannot get the full main residence exemption if you:

- acquired your dwelling on or after 20 September 1985 and used it as your main residence
- used any part of it to produce income during all or part of the period you owned it, and
- would be allowed a deduction for interest had you incurred it on money borrowed to acquire the dwelling (interest deductibility test).

The interest deductibility test applies regardless of whether you actually borrowed money to acquire your dwelling. You must apply it on the assumption that you did borrow money to acquire the dwelling.

If you rent out part of your home, you would be entitled to deduct part of the interest if you had borrowed money to acquire the dwelling.

If you run a business or professional practice in part of your home, you would be entitled to deduct part of the interest on money you borrowed to acquire the dwelling if:

- part of the dwelling is set aside exclusively as a place of business and is clearly identifiable as such, and
- that part of the home is not readily adaptable for private use – for example, a doctor's surgery located within the doctor's home.

You would not be entitled to deduct any interest expenses if, for convenience, you use a home study to undertake work usually done at your place of work. Similarly, you would not be entitled to deduct interest expenses if you do paid child-minding at home (unless a special part of the home was set aside exclusively for that purpose). In these situations, you would still get a full main residence exemption.

EXAMPLE

Renting out part of a home

Thomas purchased a home under a contract that was settled on 1 July 1997 and sold it under a contract that was settled on 30 June 2004. The home was his main residence for the entire seven years.

Throughout the period Thomas owned the home, a tenant rented one bedroom, which represented 20% of the home. Both Thomas and the tenant used the living room and kitchen which represented 30% of the home. Only Thomas used the remainder of the home. Therefore Thomas would be entitled to a 35% deduction for interest if he had incurred it on money borrowed to acquire his home. The 'home first used to produce income' rule (explained below) does not apply because Thomas used the home to produce income from the date he purchased it.

Thomas made a capital gain of $20,000 when he sold the home. Of this total gain, the following proportion is not exempt:

Capital gain	×	percentage of floor area	=	taxable portion
$20,000	×	35%	=	$7,000

As Thomas entered into the contract to acquire the home before 11.45am (by legal time in the ACT) on 21 September 1999 and entered into the contract to sell it after that time, and held it for at least 12 months, he can use either the indexation or the discount method to calculate his capital gain.

If you set aside and use part of the dwelling exclusively as a place of business, you cannot get a CGT exemption for that part of the dwelling by not claiming a deduction for the interest. Nor can you include interest in the cost base if you are entitled to a deduction but do not claim it.

You can still get a full main residence exemption if someone else uses part of your home to produce income and you receive no income from that person.

When a CGT event happens in relation to the home, the proportion of the capital gain or capital loss that is taxable is an amount that is reasonable having regard to the extent to which you would have been able to deduct the interest on money borrowed to acquire the home.

In most cases this is the proportion of the floor area of the home that is set aside to produce income and the period the home is used to produce income. This includes if the dwelling is available (for example, advertised) for rent.

EXAMPLE

Running a business in part of a home for part of the period of ownership

Ruth bought her home under a contract that was settled on 1 January 1999. She sold it under a contract that was entered into on 1 November 2003 and was settled on 31 December 2003. It was her main residence for the entire five years.

From the time she bought it until 31 December 2001, Ruth used part of the home to operate her photographic business. The rooms were modified for that purpose and were no longer suitable for private and domestic use. They represented 25% of the total floor area of the home.

When she sold the home, Ruth made a capital gain of $8,000. The following proportion of the gain is taxable:

Capital gain	×	percentage of floor area not used as main residence	×	percentage of period of ownership that that part of the home was not used as main residence	=	taxable portion
$8,000	×	25%	×	60%	=	$1,200

As Ruth entered into the contract to acquire the home before 11.45am (by legal time in the ACT) on 21 September 1999 and entered into the contract to sell it after that time, and held it for at least 12 months, she can use either the indexation or discount method to calculate her capital gain.

The ‘home first used to produce income’ rule (explained on this page) does not apply because Ruth used the home to produce income from the date she purchased it.

For more information on rental properties (for example, negative gearing and deductions), get the publication *Rental properties* (see the inside back cover).

Home first used to produce income

If you start using your main residence to produce income for the first time after 20 August 1996, a special rule affects the way you calculate your capital gain or capital loss.

In this case, you are taken to have acquired the dwelling at its market value at the time it is first used to produce income if all of the following apply:

- you acquired the dwelling on or after 20 September 1985
- you first used the dwelling to produce income after 20 August 1996
- when a CGT event happens in relation to the dwelling, you would get only a part exemption because the dwelling was used to produce assessable income during the period you owned it, and
- you would have been entitled to a full exemption if the CGT event happened to the dwelling immediately before you first used it to produce income.

If a deceased’s main residence passed to you as a beneficiary or as trustee of their estate on or after 20 September 1985, you are taken to have acquired the dwelling at its market value at the time it was first used to produce your income only if:

- you first used the dwelling to produce income after 20 August 1996
- when a CGT event happens in relation to the dwelling, you would get only a part exemption because the dwelling was used to produce assessable income during the period you owned it
- you would have been entitled to a full exemption if the CGT event happened to the dwelling immediately before you first used it to produce income, and
- the CGT event did not happen in relation to the dwelling within two years of the person’s date of death.

FULL EXEMPTION

You may have made the choice to treat a dwelling as your main residence after the dwelling ceases to be your main residence (see **Continuing main residence status after dwelling ceases to be your main residence** on page 56). In this case, if the dwelling is fully exempt, the ‘home first used to produce income’ rule does not apply.

In working out the amount of capital gain or capital loss, the period before the dwelling is first used by you to produce income is not taken into account. The extent of the exemption depends on the period after that time and the proportion of the home used to produce income. The example on the next page explains this.

EXAMPLE

Home first used to produce income after 20 August 1996

Louise purchased a home in December 1991 for $200,000. The home was her main residence. On 1 November 2002, she started to use 50% of the home for a consultancy business. At that time the market value of the house was $220,000.

She decided to sell the property in August 2003 for $250,000. As Louise had not ceased living in the home, she could not get a full exemption under the 'continuing main residence status after dwelling ceases to be your main residence' rule (see the next page). The capital gain is 50% of the proceeds less the cost base.

Percentage of use	×	(proceeds – cost base)	=	capital gain
50%	×	($250,000 – $220,000)	=	$15,000

Louise is taken to have acquired the property on 1 November 2002 at a cost of $220,000. Because she is taken to have acquired it at this time, Louise is taken to have owned it for less than 12 months and must use the 'other' method to calculate her capital gain.

MOVING FROM ONE MAIN RESIDENCE TO ANOTHER

If you acquire a new home before you dispose of your old one, both dwellings are treated as your main residence for up to six months if:

- the old dwelling was your main residence for a continuous period of at least three months in the 12 months before you disposed of it
- you did not use it to produce assessable income in any part of that 12 months when it was not your main residence, and
- the new dwelling becomes your main residence.

If you dispose of the old dwelling within six months of acquiring the new one, both dwellings are exempt for the whole period between when you acquire the new one and dispose of the old one.

If you disposed of your old home before 1 July 1998, both homes are exempt for a maximum of three months.

EXAMPLE

Exemption for both homes

Jill and Norman bought their new home under a contract that was settled on 1 January 2004 and moved in immediately. They sold their old home under a contract that was settled on 15 April 2004. Both the old and new homes are treated as their main residence for the period 1 January to 15 April even though they did not live in the old home during that period.

If it takes longer than six months to dispose of your old home, both homes are exempt only for the last six months before you dispose of the old one. You get only a part exemption when a CGT event happens in relation to your old home.

EXAMPLE

Part exemption for a first home

Jeneen and John bought their first home under a contract that was settled on 1 January 1997 and moved in immediately. It was their main residence until they bought their second home under a contract that was entered into on 2 November 2002 and settled on 1 January 2003.

They retained the first home after moving into the new one but did not use it to produce income. They sold the first home under a contract that was settled on 1 October 2003. They owned this home for a total period of 2,465 days.

Both homes are treated as their main residence for the period 1 April 2003 to 1 October 2003, the last six months that Jeneen and John owned their first home. Therefore, their first home is treated as their main residence only for the period before they moved into their new home and during the last six months before its sale.

The 89 days from 1 January 2003 to 30 March 2003, when it was not their main residence, are taken into account in calculating the proportion of their capital gain that is taxable (89 ÷ 2,465).

Because they entered into the contract to acquire their old home before 11.45am (by legal time in the ACT) on 21 September 1999 and entered into the contract to sell it after that time, and held it for at least 12 months, Jeneen and John can use either the indexation or the discount method to calculate their capital gain.

CONTINUING MAIN RESIDENCE STATUS AFTER DWELLING CEASES TO BE YOUR MAIN RESIDENCE

In some cases you can choose to treat a dwelling as your main residence even though you no longer live in it. You cannot make this choice for a period before a dwelling first becomes your main residence.

EXAMPLE

Not main residence until you move in

Therese bought a house and rented it out immediately. Later she stopped renting it out and moved in.

Therese cannot choose to treat the house as her main residence during the period she was absent under the continuing main residence rule because the house was not her main residence before she rented it out. She will only be entitled to a part exemption if she sells the dwelling.

This choice needs to be made only for the income year that the CGT event happens to the dwelling – that is, the year that you enter into a contract to sell it. If you make this choice, you cannot treat any other dwelling as your main residence for that period (except for a limited time if you are changing main residences, see **Moving from one main residence to another** on the previous page).

If you do not use it to produce income, you can treat the dwelling as your main residence for an unlimited period after you cease living in it.

If you do use it to produce income, you can choose to treat it as your main residence for up to six years after you cease living in it. If, as a result of you making this choice, the dwelling is fully exempt, the 'home first used to produce income' rule (explained on page 54) does not apply.

If you are absent more than once during the period you own the home, the six-year maximum period that you can treat it as your main residence while you use it to produce income applies separately to each period of absence.

EXAMPLE

One period of absence of 10 years

Home ceases to be the main residence and is used to produce income for one period of six years

Lisa buys a house after 20 September 1985 but ceases to use it as her main residence for the 10 years immediately before she sells it. During this period, she rents it out for six years and leaves it vacant for four years.

Lisa chooses to treat the dwelling as her main residence for the period after she ceased living in it, so any capital gain or capital loss she makes on the sale of the dwelling is disregarded. The maximum period the dwelling can continue to be her main residence while it is used to produce income is six years. However, while the house is vacant, the period is unlimited, which means the exemption applies for the whole 10 years.

In addition to this, because the dwelling is fully exempt as a result of Lisa making this choice, the 'home first used to produce income' rule (explained on page 54) does not apply.

Home used to produce income for more than one period totalling six years

In the 10-year period after Lisa stopped living in the dwelling she rents it out for three years, leaves it vacant for two years, rents it out for the next three years, then once more leaves it vacant for two years.

If she chooses to treat the dwelling as her main residence for the period after she ceased living in it, any capital gain or capital loss she makes on selling it is again disregarded. This is because the period the home was used to produce income during each absence is not more than six years. (See the example on the next page for more detail.)

EXAMPLE

Home ceases to be the main residence and is used to produce income for more than six years during a single period of absence

1 July 1990

Ian bought a home in Sydney and used it as his main residence.

1 January 1992

Ian was posted to Brisbane and bought another home there.

1 January 1992 to 31 December 1996

Ian rented out his Sydney home during the period he was posted to Brisbane.

31 December 1996

Ian sold his Brisbane home and the tenant in his Sydney home left.

The period of five years from 1992 to 1996 is the first period the Sydney home was used to produce income for the purpose of the six-year test.

1 January 1997

Ian was posted from Brisbane to Melbourne for three years and bought a home in Melbourne. He did not return to his Sydney home at this time.

1 March 1997

Ian again rented out his Sydney home – this time for two years.

28 February 1999

The tenant of his Sydney home left.

The period of two years from 1997 to 1999 is the second period the Sydney home was used to produce income under the six-year test.

31 December 1999

Ian sold his home in Melbourne.

31 December 2000

Ian returned to his home in Sydney and it again became his main residence.

28 February 2004

Ian sold his Sydney home.

Ian chooses to treat the Sydney home as his main residence for the period after he ceased living in it. The effect of making this choice is that any capital gains Ian made on the sale of both his Brisbane home in 1996–97 and his Melbourne home in 1999–2000 are not exempt.

Ian cannot get the main residence exemption for the whole period of ownership of the Sydney home because the combined periods it was used to produce income (1 January 1992 to 31 December 1996 and 1 March 1997 to 28 February 1999) during his one absence was more than six years.

As a result, the Sydney house is not exempt for the period it was used to produce income that exceeds the six-year period – that is, one year.

If the capital gain on the disposal of the Sydney home is $50,000, the amount of the gain that is taxable is calculated as follows:

Period of ownership of the Sydney home:	
1 July 1990 to 28 February 2004	4,991 days
Periods the Sydney home was used to produce income after Ian ceased living in it:	
1 January 1992 to 31 December 1996	1,827 days
1 March 1997 to 28 February 1999	730 days
	2,557 days
First six years the Sydney home was used to produce income:	
1 January 1992 to 31 December 1996	1,827 days
1 March 1997 to 28 February 1998	365 days
	2,192 days
Income producing for more than six years after Ian ceased living in it:	365 days

Proportion of capital gain taxable in 2003–04

$$\$50,000 \times \frac{365}{4,991} = \$3,657$$

Because Ian entered into the contract to acquire the house before 11.45am (by legal time in the ACT) on 21 September 1999 and entered into the contract to sell it after that time, and owned it for at least 12 months, he can use either the indexation or the discount method to calculate his capital gain.

21 AUGUST 1996 IMPORTANT

The ‘home first used to produce income’ rule explained on page 54 does not apply because the home was first used by Ian to produce income before 21 August 1996.

HOME USED TO PRODUCE INCOME AND THEN YOU CEASE LIVING IN IT

If you use any part of your home to produce income before you cease living in it, you cannot apply the 'continuing main residence status after dwelling ceases to be your main residence' rule (see page 56) to that part. This means you cannot get the main residence exemption for that part of the dwelling either before or after you cease living in it.

EXAMPLE

Ceasing to live in a home after part of it is used to produce income

Helen purchased a home under a contract that was settled on 1 July 1992 and she moved in immediately. She used 75% of the home as her main residence and the remaining 25% as a doctor's surgery, which she used until 30 June 1997.

On 1 July 1998, she moved out and rented out the home until it was sold under a contract that was settled on 30 June 2004. Helen chose to treat the dwelling as her main residence for the six years it was rented out. She made a capital gain of $10,000 when the home was sold.

As 25% of the home was not used as her main residence during the period before Helen ceased living in it, part of the capital gain is taxable, calculated as follows:

$10,000 x 25% = $2,500

Because Helen entered into the contract to acquire the house before 11.45am (by legal time in the ACT) on 21 September 1999 and sold it after that time, and owned it for at least 12 months, she can use either the indexation or the discount method to calculate her capital gain.

The 'home first used to produce income rule' does not apply because she used it to produce income from the time she purchased it.

CONSTRUCTING, RENOVATING OR REPAIRING A DWELLING ON LAND YOU ALREADY OWN

Generally, if you build a dwelling on land you already own, the land does not qualify for exemption until the dwelling becomes your main residence. However, you can choose to treat land as your main residence for up to four years before the dwelling becomes your main residence in certain circumstances.

You can choose to have this exemption apply if you acquire an ownership interest (other than a life interest) in land and you:

- build a dwelling on the land
- repair or renovate an existing dwelling on the land, or
- finish a partly constructed dwelling on the land.

There are a number of conditions that must be satisfied before you can claim the exemption. You must first finish building, repairing or renovating the dwelling and then:

- move into the dwelling as soon as practicable after it is finished, and
- continue to use the dwelling as your main residence for at least three months after it becomes your main residence.

The land, including the dwelling that is being built, renovated, repaired or finished on it, is exempt for the shorter of the following periods:

- the four-year period immediately before the date the dwelling becomes your main residence, or
- the period between the date you acquired the land and the date the dwelling becomes your main residence.

However, if after you acquired the land you or someone else occupied a dwelling that was already on the land, the period of exemption starts from the date that dwelling was vacated.

If a newly constructed dwelling is built to replace a previous dwelling that was demolished or destroyed, a full exemption is available when you dispose of the property if:

- the original dwelling was your main residence for the full period you owned it, it was not used by you to produce assessable income and it was on land covering an area of 2 hectares or less
- the new dwelling becomes your main residence as soon as practicable after it is completed, it continues to be your main residence until you dispose of it and that period is at least three months
- you make a choice to treat the vacant land and new dwelling as your main residence in the period starting when you ceased occupying the previous dwelling and ending when the new dwelling becomes your main residence, and this period is four years or less, and
- you dispose of the land and new dwelling together.

If you make this choice, you cannot treat any other dwelling as your main residence for the period, except for a limited time under the 'moving from one main residence to another' rule (explained on page 55).

Therefore, if you have a dwelling you acquired on or after 20 September 1985 and you live in it while you build your new home, you must decide whether to:

- maintain the exemption for your old home, or
- have the exemption apply to the land (including the dwelling that is being built, renovated, repaired or finished on it) for the shorter of:
  - the time from when you acquire the land until the new home becomes your main residence, or
  - the four-year period immediately before the date on which the new home becomes your main residence.

If you acquired your old main residence before 20 September 1985, it is exempt. This means you will benefit from choosing to treat the land on which your new dwelling is to be built, renovated, repaired or finished as your main residence for the relevant dates above.

You cannot choose to have a shorter period of exemption for the new home in order to exempt the old home for part of the construction period.

EXAMPLE

Choosing to claim exemption for the land from the date of construction

Grant bought vacant land on which he intended to build a new home under a contract that was settled on 3 September 1999. He bought his previous home under a contract that was settled on 3 November 1991.

Grant finished building his new home on 8 September 2003. He moved into it on 7 October 2003, which was as soon as practicable after completion. He sold his previous home under a contract that was settled on 1 October 2003.

If Grant wants to, he can:

- treat the new home as his main residence from 3 September 1999, and
- claim the exemption for his previous home from 3 November 1991 to 2 September 1999.

Both homes are also exempt from 1 April 2003 to 1 October 2003, the date Grant disposed of the old home. This is because the maximum six-month exemption outlined in the section **Moving from one main residence to another** on page 55 also applies.

If you were to die at any time between entering into contracts for the construction work and the end of the first three months of residence in the new home, this exemption can still apply.

If you owned the land as a joint tenant and you die, the surviving joint tenant (or if none, the trustee of your estate) can choose to treat the land and the dwelling as your main residence for the shorter of:

- four years before your death, or
- the period starting when you acquired the land and ending when you die.

DESTRUCTION OF DWELLING AND SALE OF LAND

If your home is accidentally destroyed and you then dispose of the vacant land on which it was built, you can choose to apply the main residence exemption as if the home had not been destroyed and continued to be your main residence.

A full exemption for the land will apply where it has been used solely for private purposes in association with your home and does not exceed 2 hectares. You cannot claim the main residence exemption for this period for any other dwelling, except for a limited time if you are changing main residences (see **Moving from one main residence to another** on page 55).

HAVING A DIFFERENT HOME FROM YOUR SPOUSE OR DEPENDENT CHILD

If you and a dependent child under 18 years old have different homes for a period, you must choose one of the homes as the main residence for both of you for the period.

If you and your spouse have different homes for a period, you and your spouse must either:

- choose one of the homes as the main residence for both of you for the period, or
- nominate the different homes as your main residences for the period.

If you nominate different homes for the period and you own 50% or less of the home you have nominated, you qualify for an exemption for your share. If you own more than 50%, your share is exempt for half the period you and your spouse had different homes.

The same applies to your spouse. If your spouse owns 50% or less of the home they have nominated, they qualify for an exemption for their share. However, if your spouse owns more than 50% of the home, their share is exempt for only half the period you had different homes.

This rule applies to each home the spouses own whether they have sole ownership or own the home jointly (either as joint tenants or tenants in common).

This rule applies also if you choose to treat a dwelling as your main residence when you no longer live in it (see **Continuing main residence status after dwelling ceases to be your main residence** on page 56), and this choice results in you having a different main residence from your spouse or a dependent child for a period.

EXAMPLE

Spouses with different main residences

Under a contract that was settled on 1 July 1996, Kathy and her spouse Grahame purchased a townhouse where they lived together. Grahame owns 70% of the townhouse while Kathy owns the other 30%.

Under a contract that was settled on 1 August 1998, they purchased a beach house which they own in equal shares. From 1 May 1999, Kathy lives in their beach house while Grahame keeps living in the townhouse. Grahame nominated the townhouse as his main residence and Kathy nominated the beach house as her main residence.

Kathy and Grahame sold the beach house under a contract that was settled on 15 April 2004. As it is Kathy's home and she owns 50% of it, her share of any capital gain or capital loss is disregarded for the period she and Grahame had different homes (1 May 1999–15 April 2004).

As Grahame did not live in the beach house or nominate it as his main residence when he and Kathy had different homes, his share of any capital gain or capital loss is not ignored for any of the period he owned it.

Grahame and Kathy also sold the townhouse under a contract that was settled on 15 April 2004.

Because Grahame owns more than 50% of the townhouse, it is taken to have been his main residence for half of the period when he and Kathy had different homes.

If the total capital gain on the sale of the townhouse is $10,000, Grahame's share of the capital gain is $7,000 (reflecting his 70% ownership interest). The portion of the gain that Grahame disregards under the main residence exemption is:

$$\$7{,}000 \times \frac{1{,}034 \text{ days}^{*}}{2{,}846 \text{ days}^{**}} = \$2{,}543$$

plus

$$\$7{,}000 \times 50\% \times \frac{1{,}812 \text{ days}^{***}}{2{,}846 \text{ days}^{**}} = \$2{,}228$$

* townhouse was Grahame's home and he and Kathy did not have different homes

** total ownership period

*** when Grahame and Kathy had the different homes

The total amount disregarded by Grahame is:

$2,543 + $2,228 = $4,771

As Grahame bought the townhouse before 11.45am (by legal time in the ACT) on 21 September 1999 and entered into the contract to sell it after that time, and owned his share for at least 12 months, he can use either the indexation or the discount method to calculate his capital gain.

Kathy's share of the $10,000 capital gain on the townhouse is $3,000, reflecting her 30% ownership interest. The portion she disregards is:

$$\$3{,}000 \times \frac{1{,}034 \text{ days}^{*}}{2{,}846 \text{ days}^{**}} = \$1{,}090$$

* period before 1 May 1999 when the townhouse was Kathy's home

** total ownership period

As Kathy entered into the contract to buy the townhouse before 11.45am (by legal time in the ACT) on 21 September 1999 and entered into the contract to sell it after that time, and owned her share for at least 12 months, she can use either the indexation or the discount method to calculate her capital gain.

EXAMPLE

Different main residences

Anna and her spouse Mark jointly purchased a townhouse under a contract that was settled on 5 February 1999 and both lived in it from that date until 29 April 2004, when the contract of sale was settled. Anna owned more than 50% of the townhouse.

Before 5 February 1999, Anna had lived alone in her own flat which she rented out after moving to the townhouse. She then sold her flat and settled the sale on 11 March 2000. Anna chose to treat the flat as her main residence from 5 February 1999 until she sold it under the 'continuing main residence status after dwelling ceases to be your main residence' rule (see page 56).

Because of Anna's choice, Mark had a different main residence from Anna for the period 5 February 1999 to 11 March 2000. Therefore, Mark must either:

- treat Anna's flat as his main residence for that period, or
- nominate the townhouse as his main residence for that period.

If he chooses to treat Anna's flat as his main residence, a part of any gain Mark makes when he sells the townhouse will be taxable. He will not get an exemption for the townhouse for the period that he nominated Anna's flat as his main residence (that is, 5 February 1999–11 March 2000).

If Mark nominates the townhouse as his main residence, he qualifies for a full exemption on any capital gain he makes when it is sold because he owned 50% or less of it. However, because Mark and Anna have different main residences as a result of Mark's choice, and Anna owns more than 50% of the flat, her gain on the flat will only qualify for a 50% exemption for the period from 5 February 1999 to 11 March 2000.

Any capital gain Anna makes on the townhouse is taxable except for the period from 12 March 2000 to 29 April 2004 and the part that is ignored under the 'moving from one main residence to another' rule (see page 55).

MAJOR CAPITAL IMPROVEMENTS TO A DWELLING ACQUIRED BEFORE 20 SEPTEMBER 1985

If you acquired a dwelling before 20 September 1985 and you make major capital improvements after that date, part of any capital gain you make when a CGT event happens in relation to the dwelling could be taxable. Even though you acquired the dwelling before CGT started, major capital improvements are considered to be separate CGT assets from the original asset and may therefore be subject to CGT in their own right if they are made on or after 20 September 1985.

If the dwelling is your main residence and the improvements are used as part of your home, they are still exempt. This includes improvements on land adjacent to the dwelling (for example, installing a swimming pool) if the total land, including the land on which the home stands, is 2 hectares or less.

However, if the dwelling is not your main residence or you used the improvements to produce income for any period, the part of any gain that is attributable to the improvements for that period is taxable.

A capital improvement is taken to be major if its original cost (indexed for inflation if the improvements were made under a contract entered into before 11.45am – by legal time in the ACT – on 21 September 1999) is:

- more than 5% of the amount you receive when you dispose of the dwelling, and
- is greater than a certain threshold. The threshold increases every year to take account of inflation. Improvement thresholds for 1985–86 to 2003–04 are shown in the table on page 4.

When you dispose of the dwelling, the capital gain or capital loss on the major improvements is calculated by taking away the cost base of the improvements from the proceeds of the sale that are reasonably attributable to the improvements:

Capital gain on major improvements	=	proceeds of sale attributable to improvements	–	cost base of improvements

You can choose to calculate the capital gain made on the improvements using either the indexation or the discount method if:

- the improvements were made under a contract entered into before 11.45am (by legal time in the ACT) on 21 September 1999
- the dwelling was sold after that time, and
- you owned the improvements for at least 12 months.

If you entered into the contract to make the improvements after 11.45am (by legal time in the ACT) on 21 September 1999 and you owned them for more than 12 months, you can calculate your capital gain using the CGT discount of 50%.

In calculating the amount of capital proceeds to be attributed to the improvements, you must take whatever steps are appropriate to work out their value. If you make an estimate of this amount, it must be reasonable and you must be able to show how you arrived at the estimated amount.

EXAMPLE

Improvement on land acquired before 20 September 1985

Martin bought a home in 1984. On 1 December 1993, he undertook major capital improvements worth $95,000. He sold the home for $500,000 under a contract that was settled on 1 December 2003. At the date of sale, the indexed cost base of the improvements was $106,590.

Of the $500,000 he received for the home, $120,000 could be attributed to the improvements. The improvements were used by Martin to produce income from the time they were finished until the time they were sold with the home.

The 'home first used to produce income' rule (explained on page 54) does not apply to the improvements because they were first used to produce income before 21 August 1996.

Test 1 Is the cost base of the improvements more than 5% of $500,000, that is, $25,000? **Yes**

Test 2 Is the cost base of the improvements more than the 2003–04 threshold of $104,377? **Yes**

(Because the improvements were made under a contract entered into before 11.45am – by legal time in the ACT – on 21 September 1999 the indexed cost base is used for the purpose of these tests.)

As the answer to both questions is YES and the improvements were used to produce income, the capital gain on the improvements is taxable.

As Martin acquired the improvements before 11.45am (by legal time in the ACT) on 21 September 1999 and sold the home after that time, and had held the improvements for at least 12 months, he could use either the indexation method or the discount method to calculate his capital gain on the improvements.

Martin's capital gain using the indexation method is calculated as follows:

Amount of proceeds attributable to the improvements	$120,000
less cost base of improvements indexed for inflation	$106,590
Taxable capital gain	**$13,410**

Martin's capital gain using the discount method (assuming he has no capital losses or capital gains in the 2003–04 income year and does not have any prior year net capital losses) is:

Amount of proceeds attributable to the improvements	$120,000
less cost base of improvements (without indexation)	$95,000
Capital gain	$25,000
less 50% discount	$12,500
Net capital gain	**$12,500**

Martin chooses the discount method because this gives him a lower capital gain.

Note: If the improvements had been used as part of Martin's main residence, this gain would be exempt. However, if the home (including the improvements) had been rented out for one-third of the period, one-third of the capital gain made on the improvements would have been taxable.

Buildings or structures constructed on land acquired before 20 September 1985

Buildings or structures constructed on or after 20 September 1985 on land acquired before that date are also considered to be separate CGT assets from the original land. The major capital improvement threshold and 5% of capital proceeds rules (see page 61) do not apply to them. Therefore, they may be subject to CGT if they are used other than as your main residence.

INHERITED MAIN RESIDENCE

If you inherit a deceased person's dwelling, you may be exempt or partially exempt when a CGT event happens in relation to it. The same exemptions apply if a CGT event happens in relation to a deceased's estate of which you are the trustee.

Full exemption

Deceased died before 20 September 1985

As you acquired the dwelling before 20 September 1985, any capital gain you make is exempt. However, major capital improvements you make to the dwelling on or after 20 September 1985 may be taxable (see **Major capital improvements to a dwelling acquired before 20 September 1985** on page 61).

Deceased died on or after 20 September 1985

a) *The deceased acquired the dwelling before 20 September 1985 (it does not matter whether the dwelling was the main residence of the deceased person).*

You may have an ownership interest in a dwelling that passed to you as a beneficiary in a deceased estate or you may have owned it as trustee of a deceased estate. In either case, any capital gain or capital loss you make from a CGT event that happens in relation to the dwelling is disregarded if either of the following applies:

1. You disposed of your ownership interest within two years of the person's death. This applies whether or not you used the dwelling as your main residence or to produce income during the two-year period.
   OR
2. From the deceased's death until you disposed of your ownership interest, the dwelling was not used to produce income and was the main residence of one or more of:
   - a person who was the spouse of the deceased immediately before the deceased's death (but not a spouse who was permanently separated from the deceased)
   - an individual who had a right to occupy the home under the deceased's will, or
   - you, as a beneficiary, if you disposed of the dwelling as a beneficiary.

The dwelling can be the main residence of one of the above people (even though they may have ceased living in it) if they choose to treat it as their main residence under the 'continuing main residence status after dwelling ceases to be your main residence' rule (explained on page 56).

The Tax Office has no discretion to extend the two-year period.

b) *The deceased acquired the dwelling on or after 20 September 1985.*

Any capital gain or capital loss you make when a CGT event happens in relation to the dwelling or your ownership interest in the dwelling will be disregarded if:

- Condition 2 in (a) above is met and the dwelling passed to you as beneficiary or trustee on or before 20 August 1996. For this to apply, the deceased must have used the dwelling as their main residence from the date they acquired it until their death and they must not have used it to produce income.
  OR
- One of the conditions in (a) above is met and the dwelling passed to you as beneficiary or trustee after 20 August 1996, and just before the date the deceased died it was their main residence and was not being used to produce income.

A dwelling can still be regarded as the deceased's main residence even though they ceased living in it if they or their trustee chose to treat the dwelling as the deceased's main residence. This may happen if, for example, the person moved to a nursing home. You may need to contact the trustee or the deceased's tax adviser to find out whether this choice was made.

If it was, the dwelling can still be regarded as the deceased's main residence:

- for an indefinite period if the dwelling was not used to produce income after the deceased stopped living in it, or
- if it was used to produce income, for a maximum of six years after the deceased stopped living in it.

EXAMPLE

Full exemption

Rodrigo was the sole occupant of a home he bought in April 1990. He did not live in or own another home.

He died in January 2003 and left the house to his son, Petro. Petro rented out the house and then disposed of it 15 months after his father died.

Petro is entitled to a full exemption from CGT as he acquired the house after 20 August 1996 and disposed of it within two years of his father's death.

Part exemption

If you do not qualify for a full exemption from CGT for the home you may be entitled to a part exemption.

You calculate your capital gain or capital loss as follows:

$$\text{Capital gain or capital loss amount} \times \frac{\text{non-main residence days}}{\text{total days}}$$

Non-main residence days

'Non-main residence days' is the number of days that the dwelling was not the main residence.

a) If the deceased acquired the dwelling before 20 September 1985, non-main residence days is the number of days in the period from their death until settlement of your contract for sale of the dwelling when it was not used to produce income and was not the main residence of one of the following:
   - a person who was the spouse of the deceased (except a spouse who was permanently separated from the deceased)
   - an individual who had a right to occupy the dwelling under the deceased's will, or
   - you, as a beneficiary, if you disposed of the dwelling as a beneficiary.

b) If the deceased acquired the dwelling on or after 20 September 1985, non-main residence days is the number of days calculated under (a) plus the number of days in the deceased's period of ownership when the dwelling was not their main residence.

Total days

a) If the deceased acquired their ownership interest before 20 September 1985, 'total days' is the number of days from their death until you disposed of your ownership interest.

b) If the deceased acquired the ownership interest on or after 20 September 1985, total days is the number of days in the period from when the deceased acquired the dwelling until you disposed of your ownership interest.

EXAMPLE

Part exemption

Vicki bought a house under a contract that was settled on 12 February 1995 and she used it solely as a rental property. When she died on 17 November 1998, the house became the main residence of her beneficiary, Lesley. Lesley sold the property under a contract that was settled on 27 November 2003.

As Vicki had never used the property as her main residence, Lesley cannot claim a full exemption from CGT. However, as Lesley used the house as her main residence, she is entitled to a part exemption from CGT.

Vicki owned the house for 1,375 days and Lesley then lived in the house for 1,837 days, a total of 3,212 days. Assuming Lesley made a capital gain of $10,000, the taxable portion is:

$$\$10,000 \times \frac{1,375}{3,212} = \$4,281$$

As Lesley is taken to have acquired the property before 11.45am (by legal time in the ACT) on 21 September 1999 and entered into the contract to sell it after that time, and held the property for at least 12 months, she can use either the indexation or the discount method to calculate her capital gain.

If you dispose of your ownership interest in a dwelling within two years of the person's death, you can ignore the main residence days and total days in the period from the person's death until you dispose of the dwelling if this lessens your tax liability.

Also any non-main residence days before the deceased's death are ignored in calculating the capital gain or capital loss if:

- you acquired the dwelling after 20 August 1996
- the dwelling was the deceased's main residence just before their death, and
- the dwelling was not being used to produce income at the time of their death.

Cost to you of acquiring the dwelling

If you acquire a dwelling the deceased had owned, there are special rules for calculating your cost base.

These rules apply in calculating any capital gain or capital loss when a CGT event happens in relation to the dwelling.

The first element of the cost base and reduced cost base of a dwelling – its acquisition cost – is its market value at the date of death if either:

- the dwelling was acquired by the deceased before 20 September 1985, or
- the dwelling passes to you after 20 August 1996 and it was the main residence of the deceased immediately before their death and was not being used to produce income at that date.

In any other case, your acquisition cost is the deceased's cost base and reduced cost base on the day they died. If that cost base includes indexation you must recalculate it to exclude the indexation component if you prefer to use the discount method to work out you capital gain from the property.

If you are a beneficiary, the cost base and reduced cost base also includes amounts that the trustee of the deceased's estate would have been able to include in the cost base and reduced cost base.

Continuing main residence status

If the deceased was not living in the home at the date of their death, they or their trustee may have chosen to continue to treat it as their main residence. You may need to contact the trustee or the deceased's tax adviser to find out whether this choice was made. If it was, the dwelling can still be regarded as the deceased's main residence:

- for an indefinite period – if the dwelling was not used to produce income after the deceased stopped living in it, or
- for a maximum of six years after they ceased living in it – if it was used to produce income after they ceased living in it.

EXAMPLE

Continuing main residence status

Aldo bought a house in March 1995 and lived in it.

He moved into a nursing home in December 1998 and left the house vacant. He chose to treat the house as his main residence after he ceased living in it under the 'continuing main residence status after dwelling ceases to be your main residence' rule (explained on page 56).

Aldo died in February 2004 and the house passed to his beneficiary, Con who uses the house as a rental property.

As the house was Aldo's main residence immediately before his death and was not being used to produce income at that time, Con can get a full exemption for the period Aldo owned it.

If Con rented out the house and sold it more than two years after Aldo's death, the capital gain for the period from the date of Aldo's death until Con sold it is taxable.

If Con had sold the house within two years of Aldo's death, he could have ignored the main residence days and total days between Aldo's death and him selling it – which would have given him exemption for this period.

If Aldo had rented out the house after he ceased living in it he could choose to continue to treat it as his main residence (see **Continuing main residence status after dwelling ceases to be your main residence** on page 56). The house would be considered to be his main residence until his death because he rented it out for less than six years.

If this choice had been made, Con would get an exemption for the period Aldo owned the house.

For more information about deceased estates, see chapter 9.

DEATH DURING CONSTRUCTION

If an individual entered into a contract to construct, repair or renovate a home on land they already owned, and they die before certain conditions are met, the trustee may choose that the home and land be treated as the deceased's main residence for up to four years before the home became (or was to become) their main residence.

This choice can be made if the deceased dies:

- before the home is finished
- before it was practicable for the home to be their main residence, or
- before they had lived in the home for three months.

If the trustee makes this choice, no other dwelling can be treated as the deceased's main residence during that time.

ACQUISITION OF A DWELLING FROM A COMPANY OR TRUST UPON MARRIAGE BREAKDOWN

If a dwelling or a share in a dwelling was transferred to you from a company or trustee of a trust as a result of your marriage breakdown, and marriage breakdown rollover applied to the transfer, you are treated as having owned the dwelling while it was owned by the company or trustee. However, you cannot get the main residence exemption during any part of the period that the company or trustee owned it (even if you lived in the dwelling during that time).

Therefore, if a dwelling is transferred to you by a company or trustee as a result of your marriage breakdown, you will be entitled to the exemption only for the period after it was transferred when it was your main residence. This is calculated by dividing the period after the transfer that it was your main residence by the combined period you and the company or trustee owned it.

For more information about CGT assets and marriage breakdown, see chapter 8.

CHAPTER 7
Loss, destruction or compulsory acquisition of an asset

This chapter explains your capital gains tax (CGT) obligation if your CGT asset is lost, destroyed or compulsorily acquired.

Generally, there is no CGT obligation for assets acquired before 20 September 1985 (pre-CGT).

UNFAMILIAR TERMS

There may be terms in this chapter that are not familiar to you. Refer to chapter 1 in **part A** for more information or to **Explanation of terms** at the back of this guide.

There may be a situation where you receive money or another CGT asset (or both) as compensation when you dispose of an asset involuntarily (or under an insurance policy against the risk of such an event happening). In this case, you may be able to choose to:

- defer your liability to pay tax on any capital gain arising on the disposal, and
- get a CGT exemption for any replacement asset if you acquired the original asset before 20 September 1985.

This concession is known as rollover. It may be available if one of the following events happens:

- all or part of your CGT asset is lost or destroyed
- your CGT asset is compulsorily acquired by an Australian government agency (that is, the Commonwealth, a state, a territory or one of their authorities)
- you dispose of your CGT asset to an Australian government agency after they serve a notice on you inviting you to negotiate a sale agreement. They must have informed you that, if the negotiations are unsuccessful, the asset will be compulsorily acquired, or
- a lease that had been granted to you by an Australian government agency under a Commonwealth, state or territory law expires and is not renewed.

This rollover is not available for plant disposed of after 11.45am (by legal time in the ACT) on 21 September 1999 and other depreciating assets from 1 July 2001. Instead, where a depreciating asset is lost or destroyed or an Australian government agency acquires it compulsorily or by forced negotiation, the capital allowances provisions may allow for a balancing charge offset.

This means that rather than including an amount in your assessable income by way of a balancing adjustment, you can offset that amount against the cost of a replacement asset (or assets).

If you choose to take rollover, you do not need to lodge a written election stating your choice – it will be clear from the way you prepare your tax return.

You cannot choose to defer a capital loss but you can use it to reduce any capital gain made in the current income year or a later year.

For rollover relief to apply, the replacement asset you receive cannot be a car, motor cycle or similar vehicle.

Further, from 1 July 2001, for rollover relief to apply, the replacement asset you receive cannot become an item of your trading stock nor can it be a depreciating asset.

TIME OF THE CGT EVENT

You need to know the time of a CGT event to work out in which income year a capital gain or capital loss affects your income tax.

If an asset is lost or destroyed and you receive compensation, the time of the CGT event is when you first receive the compensation.

If you do not receive any compensation, the time of the CGT event is when the loss is discovered or the destruction occurred.

If an Australian government agency compulsorily acquires your asset, the time of the CGT event is when:

- you first received compensation from the agency, or
- the agency enters the asset (for example, land) or takes possession of it.

If an Australian government agency acquires your asset following negotiation (rather than compulsorily acquiring it), the time of the CGT event is:

- the date the contract to acquire it is made, or
- the date of the change of ownership if there is no contract.

If a lease that had been granted to you by an Australian government agency expires and is not renewed, the time of the CGT event is when the lease expires.

IF YOU RECEIVE MONEY

If you receive money because a CGT event happens, you can choose rollover only if:

- you incur expenditure in acquiring another CGT asset that is used:
  - in your business for a reasonable period if the original asset was a business asset, or
  - otherwise, for a reasonable period for the same or a similar purpose as the original asset, or
- part of the original asset is lost or destroyed and you incur expenditure of a capital nature in repairing or restoring it.

You must incur at least some of the expenditure:

- no earlier than one year before the event happens, or
- within one year after the end of the income year in which the event happens.

This period may be extended in special circumstances.

> **EXAMPLE**
>
> ***Rollover applies***
>
> Trish paid for the repair of an asset for which she was compensated after part of it was destroyed on 1 September 2002. Trish's expenditure qualifies for the rollover concession if it was incurred any time during the period 1 September 2001 to 30 June 2004.
>
> The replacement asset need not be identical to the one it is replacing. However, for rollover to apply, you must use it in the same business or for the same (or a similar) purpose as the one for which you used the original asset. Also, your replacement asset cannot become an item of trading stock nor can it be a depreciating asset.

> **EXAMPLE**
>
> ***Rollover does not apply***
>
> Denise receives money when her manufacturing business premises are destroyed. She buys a rental property with this money.
>
> Denise cannot access the rollover concession because she does not use the rental property for the same or similar purpose as her old business premises.

Consequences of receiving money

If you receive money and choose to take a rollover, the consequences depend on whether:

- the original asset was acquired before 20 September 1985
- the original asset was acquired on or after 20 September 1985, and
  - the money received for the asset is more than the cost of repair or replacement
  - the money received does not exceed the cost of repair or replacement.

Original asset acquired before 20 September 1985

If you acquired the original asset before 20 September 1985, you are taken to have acquired the repaired or replacement asset before that day if:

- you repair or restore the original asset, or
- you replace the original asset:
  - at a cost of no more than 120% of its market value at the time of the event, or
  - at any cost, provided it (or part of it) was lost or destroyed by a natural disaster and the replacement asset is substantially the same.

This means you disregard any capital gain or capital loss you make when a later CGT event happens to the repaired or replacement asset.

Original asset acquired on or after 20 September 1985

If you acquired the original asset on or after 20 September 1985, the way rollover applies will depend on whether the money you received is more or less than the cost of repairing or replacing the asset. If it is more, it also depends on whether the capital gain you make when the event happens is:

- more than that excess, or
- less than or equal to that excess.

Money received is more than the cost of repair or replacement

If you do not use all of the money you received to repair or replace the original asset, this affects your CGT obligation. The amount of capital gain you include on your tax return depends on whether the capital gain is more or less than the difference between the amount you received and the cost of the repair or replacement.

If the capital gain is more than that difference, your capital gain is reduced to the amount of the excess. Include this amount on your tax return in the year the event happens. This gain may be eligible for the CGT discount (see chapter 2 for more information).

When a later CGT event happens, the expenditure to include in the cost base of the asset is reduced by the difference between the gain before it is reduced and the excess. This enables you to defer part of your CGT liability until a later CGT event happens.

If the capital gain is less than or equal to the excess (the compensation amount less the cost of the repair or replacement), the capital gain and the expenditure on the repair or replacement are not reduced.

(See example on the next page.)

Money received does not exceed the cost of repair or replacement

If the amount of money you received is less than or equal to the expenditure you incurred to repair or replace the original asset, any capital gain is disregarded. The expenditure you include in the cost base of the asset when a later CGT event happens is reduced by the amount of the gain. (See example on the next page.)

EXAMPLE

Money received is less than expenditure incurred

Gerard's business premises were destroyed by fire on 15 March 2004. He received $46,000 in compensation from his insurance company.

It cost him $57,000 to reconstruct the premises, $11,000 more than the amount of compensation he received.

Gerard made a capital gain of $2,000 because his cost base apportioned to the building was $44,000 at the time of the fire.

Money received	$46,000
Cost base	$44,000
Capital gain	$2,000
Money received	$46,000
Replacement expenditure	$57,000
Shortfall	$11,000

As the compensation money does not exceed the repair expenditure, the capital gain is disregarded.

However, the amount of expenditure that Gerard can include in the cost base of the repaired building is reduced by the amount of the capital gain ($2,000) to $55,000.

EXAMPLE

Money received is more than the expenditure incurred

Assume that in the above example, Gerard incurred only $40,000 for repairs and the cost attributed to the building was $30,000.

Money received	$46,000
Cost base	$30,000
Capital gain	$16,000
Money received	$46,000
Replacement expenditure	$40,000
Excess	$6,000

The compensation money ($46,000) is $6,000 more than the replacement expenditure ($40,000). The capital gain ($16,000) is $10,000 more than the excess of $6,000. The capital gain is reduced to the excess amount of $6,000.

Gerard's capital gain (before applying the CGT discount of 50%) is $6,000. Therefore, assuming he has not made any other capital losses or capital gains in the 2003–04 income year (and does not have any prior year net capital losses) Gerard must include $3,000 ($6,000 x 50%) as his net capital gain for the 2003–04 income year.

Also, the expenditure he incurred on the replacement asset is reduced by the balance of the capital gain ($10,000) to $30,000. This means $10,000 of the capital gain is deferred.

IF YOU RECEIVE AN ASSET

If you receive a replacement asset when the event happens, you can choose a rollover only if:

- the replacement asset is not a depreciating asset or held as trading stock when you acquire it, and
- the market value of the replacement asset is more than the cost base of the original asset just before the event happened.

Consequences of receiving an asset

If you choose to take a rollover when you receive a replacement asset, any capital gain you make from the original asset is disregarded. The other consequences are outlined below.

Original asset acquired before 20 September 1985

If you acquired the original asset before 20 September 1985, you are taken to have acquired the new asset before that day.

Original asset acquired on or after 20 September 1985

If you acquired the original asset on or after 20 September 1985, the first element of the cost base and reduced cost base of the replacement asset is taken to be the cost base and reduced cost base of the original asset at the time of the event.

However, you may have to recalculate the first element of the cost base of your replacement asset if the cost base of the original asset included an amount of indexation and you are seeking to apply the CGT discount to a capital gain from the replacement asset.

EXAMPLE

Asset received

Jon acquired land after 19 September 1985 that the state government compulsorily acquired on 14 July 2003. The cost base of the land at the time it was compulsorily acquired was $180,000. As compensation, Jon received another piece of land with a market value of $200,000.

Because the market value of the replacement land was greater than the cost base of the original land just before it was compulsorily acquired, the capital gain Jon made on the disposal of the original land is disregarded. Jon is taken to have paid $180,000 to acquire the replacement land (that is, the cost base of the original land at the time it was compulsorily acquired).

IF YOU RECEIVE BOTH MONEY AND AN ASSET

If you receive both money and an asset and choose to take a rollover, the requirements and consequences are different for each part of the compensation.

EXAMPLE

Money and an asset received as compensation

The state government compulsorily acquires land Kris bought in 2002. Its cost base at the time was $150,000 but Kris received compensation worth $160,000.

Half of the total compensation is money ($80,000) and half is replacement land (market value $80,000).

Therefore, the cost base of the original land attributable to each part of the compensation is $75,000 (50% x $150,000). Kris bought additional replacement land for $82,000.

The total capital gain is $10,000 which is capital proceeds of cash and property totalling $160,000 less the cost base of $150,000. Half of this capital gain can be attributed to the money and half to the asset (the replacement land).

The money Kris received as compensation is less than the amount he paid to buy the additional land. He can therefore disregard the $5,000 of the capital gain that is attributable to the money compensation. The expenditure on the additional land is reduced by $5,000, so the first element of its cost base is only $77,000.

As the market value of the replacement land is more than that part of the cost base of the original land, Kris can choose to take rollover relief and disregard the capital gain of $5,000 relating to the land.

As a result, the value of the replacement land ($75,000) forms the first element of its cost base, not its market value ($80,000) when it was acquired.

Consequences of receiving both money and an asset

You need to separately determine what happens in relation to the replacement asset and the money, having regard to the proportion of the original asset attributable to each type of compensation.

The rules are then applied separately to the money and to the asset.

INDEXATION OR CGT DISCOUNT

If a CGT event happens to the replacement asset (for example, a later disposal), you may be able to use the indexation method or the discount method to calculate your capital gain. This applies only if the periods of ownership of the original asset and the replacement asset add up to at least 12 months. For indexation to apply, you must have acquired the asset before 11.45am (by legal time in the ACT) on 21 September 1999.

CHAPTER 8
Marriage breakdown

Read this chapter if your legal or de facto marriage ended on or after 20 September 1985 and:

- you transfer an asset or a share of an asset to your spouse
- you receive an asset or a share of an asset from your spouse, or
- a company or trustee of a trust transfers an asset to you or your spouse.

> **UNFAMILIAR TERMS**
>
> There may be terms in this chapter that are not familiar to you. Refer to chapter 1 in **part A** for more information or to **Explanation of terms** at the back of this guide.
>
> When we talk about 'your spouse', this includes your de facto spouse. 'Transfer' of an asset includes disposing of an asset to the transferee spouse or 'creating' an asset in their favour (such as a right to use property). Where we talk about 'an asset', this includes a share of an asset.
>
> The term 'transferee spouse' refers to the spouse to whom an asset is transferred, while the 'transferor' is the person (or a company or the trustee of a trust) who transfers an asset to the transferee spouse.

As a general rule, capital gains tax (CGT) applies to all changes of ownership of assets on or after 20 September 1985. However, if you transfer an asset to your spouse as a result of a marriage breakdown, there is automatic rollover in certain cases (you cannot choose whether or not it applies).

This rollover ensures the transferor spouse disregards a capital gain or capital loss that would otherwise arise. In effect, the one who receives the asset (the transferee spouse) will make the capital gain or capital loss when they dispose of the asset. If you are the transferee spouse, the cost base and other attributes of the asset are transferred to you.

You must keep all relevant records, as explained in chapter 3.

CONDITIONS FOR MARRIAGE BREAKDOWN ROLLOVER

For the rollover conditions to be met, a CGT event must have happened because of:

- an order of a court or court order made by consent under the *Family Law Act 1975* or a similar law of a foreign country
- a maintenance agreement approved by a court under section 87 of that Act or a similar agreement under a foreign law, or
- a court order under a state, territory or foreign law relating to de facto marriage breakdowns.

Please note that from 27 December 2000 maintenance agreements are no longer approved under section 87 of the *Family Law Act 1975*. Therefore rollover does not apply to agreements entered into after this date unless a court order (including a consent order) has been obtained. CGT events happening because of maintenance agreements registered under section 86 of the *Family Law Act 1975* have never qualified for rollover.

If you transfer assets under a private arrangement that does not meet any of these conditions, rollover is not available. (See **Where there is no court approval** on page 72.)

Relevant CGT events

For rollover to apply, one of the following events must happen. The transferor:

- disposes of an asset to the transferee spouse (CGT event A1)
- enters into an agreement with the transferee spouse under which:
  - the right to use and enjoy a CGT asset passes to them
  - title in the asset will or may pass to them at the end of the agreement (CGT event B1). There is no rollover if title in the CGT asset does not pass to them when the agreement ends
- creates a contractual or other right in favour of the transferee spouse (CGT event D1)
- grants an option to the transferee spouse or renews or extends an option granted to them (CGT event D2)
- owns a prospecting or mining entitlement, or an interest in one, and grants the transferee spouse a right to receive income from operations carried on by the entitlement (CGT event D3), or
- is a lessor and grants, renews or extends a lease to the transferee spouse (CGT event F1).

There is no rollover for the transfer of trading stock.

CONSEQUENCES OF ROLLOVER

Where you transfer the asset

Where you transfer the asset, the consequences of rollover are:

- for assets acquired before 20 September 1985: any capital gain or capital loss is disregarded, and
- for assets acquired on or after 20 September 1985: marriage breakdown rollover ensures you disregard any capital gain or capital loss you make from the CGT event that involves you and the transferee spouse.

Where the asset is transferred to you

Assets acquired before 20 September 1985

If a CGT asset, including a share of a jointly owned asset, was transferred to you because of the breakdown of your marriage and it was acquired by the transferor before 20 September 1985, you are also taken to have acquired the asset before that date. Any capital gain or capital loss you make when you later dispose of the asset will be disregarded.

However, if you make a major capital improvement to that asset after 20 September 1985, you may be subject to CGT when a CGT event happens to that asset (see **Other capital improvements to pre-CGT assets** on page 4).

Assets acquired on or after 20 September 1985

The rules are different if the asset was acquired by the transferor on or after 20 September 1985. In this case, if you receive the CGT asset (or a share of a jointly owned asset) and there is a marriage breakdown rollover, you are taken to have acquired the asset (or share of the asset) at the time it was transferred from your spouse (or the company or trustee).

To calculate your capital gain or capital loss when a later CGT event happens, the first element of your cost base and reduced cost base will be the same as the cost base and reduced cost base of your spouse (or the company or trustee) at the time of the transfer.

If the transferor's cost base includes an amount of indexation, you may later have to recalculate the first element of your cost base to exclude that amount if you want to apply the CGT discount to your capital gain.

Transfer costs incurred by your spouse (or the company or trustee) – for example, conveyancing fees and stamp duty – are included in the cost base.

If you acquired the asset from your spouse (or the company or trustee) before 11.45am (by legal time in the ACT) on 21 September 1999, you may be able to use the indexation method when calculating your capital gain. This can only apply if the total ownership period of you and your spouse (or the company or trustee) is 12 months or more.

If you acquired the asset after 11.45am (by legal time in the ACT) on 21 September 1999, you cannot use the indexation method when calculating your capital gain but you may be able to use the discount method. You can use the discount method to calculate your capital gain if the combined period of ownership of the asset for you and your spouse is 12 months or more. If the period is less than 12 months, you use the 'other' method.

Collectables or personal use assets remain collectables or personal use assets when they are transferred from your spouse (or the company or trustee) in the case of a marriage breakdown rollover.

For information about collectables and personal use assets, see **What is a CGT asset?** on page 3.

As explained earlier, there are several instances where your spouse (or a company or trustee) may create an asset in your favour. The table below explains how to calculate the first element of your cost base and reduced cost base of that asset in each case.

CGT event	Cost base and reduced cost base
Creating contractual or other rights (D1)	Incidental costs incurred by the transferor that relate to the event
Granting an option (D2)	Expenditure incurred by the transferor to grant the option
Granting a right to income from mining (D3)	Expenditure incurred by the transferor to grant the right
Granting a lease (F1)	Expenditure incurred by the transferor on the grant renewal or extension of the lease

You are taken to have acquired the asset at the time specified by the CGT event. For example, for CGT event D1, you acquire the asset at the time you enter into the contract or if there is no contract, the time the right is created. For more information, see appendix 1: Summary of CGT events.

CGT ASSETS TRANSFERRED BY A COMPANY OR TRUST

If a company or a trustee of a trust transfers a CGT asset to a spouse, adjustments are required to the relevant cost base and reduced cost base of interests in the company or trust. These may be shares (or indirect interests in shares) in the company, units in a unit trust and other interests in the trust. They are reduced in value by an amount that reasonably reflects the fall in their market value as a result of the transfer of the CGT asset.

EXAMPLE

Transfer of assets from a legal or a de facto marriage

Danny and Claudia jointly owned the following assets immediately before their marriage breakdown:

Asset	When purchased	Cost
The family home	January 1985	$75,000
Holiday house	December 1988	$65,000
Shares in a company	March 1999	$35,000

On their divorce in October 2003, the Family Court approved the couple's voluntary asset agreement and made an appropriate court order by consent.

Claudia received the family home. Because it was acquired by the couple before 20 September 1985, she is taken to have acquired both her original interest in the home and Danny's share before that date. Claudia will not have to pay tax on capital gains when she sells the home.

Danny has no CGT obligation in relation to the transfer to Claudia of his share in the family home.

Danny received the shares and the holiday house which did not become his home.

Although the couple acquired these assets after 20 September 1985, Claudia's capital gain from the transfer of her share of these assets to Danny is disregarded under the marriage breakdown rollover.

Danny is taken to have acquired Claudia's share of these assets at the time of transfer for her relevant cost base. If he were to sell the holiday home or the shares, he would calculate his capital gain or capital loss in respect of his original interest and the interest he acquired from Claudia.

When he sells the assets, Danny can choose to apply the indexation method or the discount method to work out the amount of any capital gain from his original interests because they were acquired before 21 September 1999.

Because he acquired Claudia's interests after that date he can only choose the discount method to work out any capital gain in relation to them. However, in applying the 12-month ownership test for the purposes of the CGT discount, he can take into account the period that Claudia owned the interest.

Danny will have to ensure that the cost base of the interest that he acquired from Claudia does not include any amount of indexation.

Special rules apply to marriage breakdown rollovers involving a controlled foreign corporation or certain non-resident trusts.

SUPERANNUATION INTERESTS

From 28 December 2002 CGT rollover may apply when a CGT asset of a small superannuation fund is transferred to another small superannuation fund on the breakdown of a legal (but not a de facto) marriage.

A small superannuation fund is one that is a complying fund and has fewer than five members.

The consequences of rollover are the same as for transfers between spouses.

MAIN RESIDENCE

If the CGT asset transferred in a marriage breakdown rollover is your home, you may be entitled to an exemption from CGT for the period the home was your main residence. Special rules apply if the dwelling is transferred to you from a company or trust (see chapter 6 for more information).

WHERE THERE IS NO COURT APPROVAL

If you and your spouse divide your property by some means other than by a court order or an agreement approved by the court, normal CGT rules apply – not the rules explained in this chapter. You must include on your tax return for that year any capital gain or capital loss you make on the transfer of a CGT asset.

The spouse to whom the asset is transferred is taken to have acquired the asset at the time of transfer.

Special rules may apply if the amount paid by one spouse for property owned by the other is greater or less than the market value of the property and they are not dealing at arm's length – see market value substitution rule for capital proceeds and market value substitution rule for cost base and reduced cost base in the **Explanation of terms** at the back of this guide. In these cases, for CGT purposes, they are taken to have paid or received the market value of the property.

CHAPTER 9
Deceased estates

If you are a deceased person's legal personal representative or a beneficiary of a deceased estate, you should read this chapter to find out about the special capital gains tax (CGT) rules that apply.

UNFAMILIAR TERMS

There may be terms in this chapter that are not familiar to you. Refer to chapter 1 in **part A** for more information or to **Explanation of terms** at the back of this guide.

When a person dies, the assets that make up their estate can:

- pass directly to a beneficiary (or beneficiaries), or
- pass directly to their legal personal representative (for example, their executor) who may dispose of the assets or pass them to the beneficiary (or beneficiaries).

A beneficiary is a person entitled to assets of a deceased estate. They can be named as a beneficiary in a will or they can be entitled to the assets as a result of the laws of intestacy (when the person does not make a will).

A legal personal representative can be either:

- the executor of a deceased estate (that is, a person appointed to wind up the estate in accordance with the will), or
- an administrator appointed to wind up the estate if the person does not leave a will.

CAPITAL GAIN OR CAPITAL LOSS ON DEATH IS DISREGARDED

There is a general rule that CGT applies to any change of ownership of a CGT asset, unless the asset was acquired before 20 September 1985 (pre-CGT).

There is a special rule that allows any capital gain or capital loss made on a post-CGT asset to be disregarded if, when a person dies, an asset they owned passes:

- to their legal personal representative or to a beneficiary, or
- from their legal personal representative to a beneficiary.

Exceptions to this rule

A capital gain or capital loss is not disregarded if a post-CGT asset owned at the time of death passes from the deceased to a **tax-advantaged entity** or to a non-resident. In these cases, a CGT event is taken to have happened in relation to the asset just before the person died. The CGT event will result in:

- a capital gain if the market value of the asset on the day the person died was more than the cost base of the asset, or
- a capital loss if the market value was less than the asset's reduced cost base.

These capital gains and losses should be taken into account in the deceased person's 'date of death return' (the tax return for the period from the start of the income year to the date of the person's death).

However, any capital gain or capital loss from a testamentary gift of property can be disregarded if:

- the gift is made under the Cultural Bequests Program (which applies to certain gifts of property – not land or buildings – to a library, museum or art gallery), or
- the gift is made to a deductible gift recipient or a registered political party and the gift would have been income tax deductible if it had not been a testamentary gift.

Tax-advantaged entity

A tax-advantaged entity is:

- a tax-exempt entity (for example, a church or charity), or
- the trustee of:
  - a complying superannuation fund
  - a complying approved deposit fund, or
  - a pooled superannuation trust.

Non-resident beneficiary

If a non-resident is a beneficiary of a deceased's post-CGT asset, any capital gain or capital loss is not disregarded if:

- the deceased was an Australian resident when they died, and
- the asset does not have the necessary connection with Australia.

Examples of assets that do not have the necessary connection with Australia include:

- real estate located overseas
- shares in a non-resident company, and
- shares in an Australian public company if the total number of shares owned is less than 10% of the value of shares in the company.

ASSETS WHICH PASS TO THE BENEFICIARY OR LEGAL PERSONAL REPRESENTATIVE

Main residence

Special rules apply if the asset was the deceased person or beneficiary's main residence (see **Inherited main residence** on page 62).

Other assets

In administering and winding up a deceased estate, a legal personal representative may need to dispose of some or all of the assets of the estate. Assets disposed of in this way are subject to the normal rules and any capital gain the legal personal representative makes on the disposal is subject to CGT.

Similarly, it may be necessary for the legal personal representative to acquire an asset (for example, to satisfy a specific legacy made). Any capital gain or capital loss they make on disposal of that asset to the beneficiary is subject to the normal CGT rules.

If a beneficiary sells an asset they have inherited, the normal CGT rules also apply.

Acquisition of asset

If you acquire an asset owned by a deceased person as their legal personal representative or beneficiary you are taken to have acquired the asset on the day the person died. If that was before 20 September 1985, any capital gain or capital loss you make from the asset will be disregarded.

Cost base of asset

If the deceased person acquired their asset before 20 September 1985, the first element of your cost base and reduced cost base (that is, the amount taken to have been paid for the asset) is the market value of the asset on the day the person died.

If, before they died, a person made a major improvement to a pre-CGT asset on or after 20 September 1985, the improvement is not treated as a separate asset.

The beneficiary or legal personal representative is taken to have acquired the improved asset when the person died. Although the deceased used to treat the asset and the improvement as separate assets, the beneficiary or legal personal representative now treats them as one asset.

If a deceased person acquired their asset on or after 20 September 1985, the first element of your cost base and reduced cost base is taken to be the cost base (indexed where relevant) and reduced cost base of the asset on the day the person died.

If the deceased's cost base includes an amount of indexation, you may later have to recalculate the first element of your cost base to exclude that amount if you want to apply the CGT discount to your capital gain.

Expenditure incurred by a legal personal representative

As a beneficiary, you can include in your cost base (and reduced cost base) any expenditure the legal personal representative (for example, the executor) would have been able to include in their cost base if they had sold the asset instead of distributing it to you. You can include the expenditure on the date they incurred it.

For example, if an executor incurs costs in confirming the validity of the deceased's will, these costs form part of the cost base of the estate's assets.

CHOOSING THE INDEXATION METHOD OR THE DISCOUNT METHOD

If the deceased died before 11.45am (by legal time in the ACT) on 21 September 1999 and you dispose of the asset (as legal personal representative or beneficiary) after that date, there are two ways of calculating your capital gain. You can use either the indexation method or the discount method, whichever gives you the better result. However, the CGT discount is only available if you are an individual, a trust or a complying superannuation entity.

Elements of an asset's cost base can be indexed only if you own the asset for at least 12 months before disposing of it. For the purposes of this 12-months ownership test you are taken to have acquired the asset when the deceased acquired it, not from the date of their death.

For the CGT discount to apply, you must have acquired the asset at least 12 months before disposing of it. For the purposes of this 12-month ownership test, you are taken to have acquired the asset at one of the following times:

- for pre-CGT assets, the date the deceased died, and
- for post-CGT assets, the date the deceased acquired it.

EXAMPLE

Transfer of an asset from the executor to a beneficiary

Maria died on 13 October 2000 leaving two assets: a parcel of 2,000 shares in ABC Ltd and a vacant block of land. Giovanni was appointed executor of the estate (the legal personal representative).

When the assets are transferred to Giovanni, any capital gain or capital loss is disregarded. Giovanni disposes of (sells) the shares to pay Maria's outstanding debts. As the shares are not transferred to a beneficiary, any capital gain or capital loss on this disposal must be included on the tax return for Maria's deceased estate.

When all debts and tax have been paid, Giovanni transfers the land to Maria's beneficiary, Antonio, and pays the conveyancing fee of $5,000. As the land is transferred to a beneficiary, any capital gain or capital loss is disregarded. The first element of Antonio's cost base is taken as Maria's cost base on the date of her death. Antonio is also entitled to include in his cost base the $5,000 Giovanni spent on the conveyancing.

EXAMPLE

Indexation and CGT discount

Leonard acquired a property on 14 November 1998 for $26,000. He died on 6 August 1999 and left the property to Gladys. She sold the property on 6 July 2003 for $40,000. The property was not the main residence of either Leonard or Gladys.

Although Gladys acquired the property on 6 August 1999, for the purpose of determining whether she had owned the property for at least 12 months, she was taken to have acquired it on 14 November 1998 (the day Leonard acquired it).

At the time of disposal, Gladys has owned the property for more than 12 months. As she acquired it before 11.45am (by legal time in the ACT) on 21 September 1999 and disposed of it after that date, Gladys could choose to index the cost base. However, if the discount method gave her a better result, she could choose to claim the CGT discount.

If Gladys chose the discount method she would have to exclude from the first element of her cost base the amount that represented indexation that had accrued to Leonard up until the time he died.

Collectables and personal use assets

A post-CGT collectable or personal use asset is still treated as such when you receive it as a beneficiary or the legal personal representative of the estate.

JOINT TENANTS

If two or more people acquire a property asset together, it can be either as joint tenants or as tenants in common.

If one of the joint tenants dies, their interest in the property passes to the surviving joint tenant(s). It is not an asset of the deceased estate.

If a tenant in common dies, their interest in the property is an asset of their deceased estate. This means it can be transferred only to a beneficiary of the estate or be sold (or otherwise dealt with) by the legal personal representative of the estate.

For CGT purposes, if you are a joint tenant, you are treated as if you are a tenant in common owning equal shares in the asset. However, if one of the other joint tenants dies, on that date their interest in the asset is taken to pass in equal shares to you and any other surviving joint tenants, as if their interest is an asset of their deceased estate and you are beneficiaries.

The cost base rules relating to other assets of the deceased estate apply to their interest in the asset or the equal share of it which passes to you and any other surviving joint tenants.

For the indexation and discount methods to apply, you must have owned the asset (or your share of it) for at least 12 months. As a surviving joint tenant, for the purposes of this 12-month test, you are taken to have acquired the deceased's interest in the asset (or your share of it) at the time the deceased person acquired it.

EXAMPLE

CGT and joint tenants

Trevor and Kylie acquired land as joint tenants before 20 September 1985. Trevor died in October 2003. For CGT purposes, Kylie is taken to have acquired Trevor's interest in the land at its market value at the date of his death.

Kylie holds her original 50% interest as a pre-CGT asset, and the inherited 50% interest as a post-CGT asset which she is taken to have acquired at its market value at the date of Trevor's death.

If Kylie sold the land within 12 months of Trevor's death, she would qualify for the CGT discount on any capital gains she makes on her post-CGT interest. She qualifies for the CGT discount because, for the purposes of the 12-month ownership test, she is taken to have acquired Trevor's interest at the time he acquired it, which was before 20 September 1985.

PRIOR YEAR NET CAPITAL LOSSES

If the deceased had any unapplied net capital losses when they died, these cannot be passed on to you as the beneficiary or legal personal representative for you to offset against any net capital gains.

COMPLETING THE CAPITAL GAINS SECTION OF YOUR TAX RETURN

– ITEM 17 OF THE *2004 TAX RETURN FOR INDIVIDUALS*
– ITEM 9 IF YOU USE THE TAX RETURN FOR RETIREES

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Step 1 Types of CGT assets and CGT events 77
Step 2 Calculating your current year capital gain or capital loss for each CGT asset or CGT event 77
Step 3 Total current year capital gains 78
Step 4 Capital losses 78
Step 5 Applying current year capital losses 78
Step 6 Applying prior year net capital losses 79
Step 7 Applying the CGT discount 80
Step 8 Applying the small business CGT concessions 80
Step 9 Working out your net capital gain 80
Step 10 Capital losses carried forward to later income years 80

Part B

READ THIS FIRST

Are you an individual?

If you are completing a tax return on behalf of an individual (rather than an entity), read this part of the guide.

If you need help completing the:

- **Capital gain or capital loss worksheet –** go to step 1 of **part C** (ignoring the word entity)
- **CGT summary worksheet –** go to steps 2 and 3 of **part C**.

Is your entity a company, trust or fund?

If the tax return is for a company, trust or fund, go to **part C** of this guide.

INTRODUCTION

Read **part B** if you are an individual and a capital gains tax (CGT) event has happened to you in 2003–04 or you received a distribution from a trust (including a managed fund) that included a net capital gain.

If you have only sold a few shares or units, or have a managed fund distribution, you may find it easier to use the *Personal investors guide to capital gains tax* (see the inside back cover).

The steps that follow explain how to calculate your net capital gain or capital loss for 2003–04 and complete item **17 Capital gains** on your *2004 tax return for individuals* (supplementary section) – or item **9** if you use the *2004 tax return for retirees*. **Note:** You cannot use the tax return for retirees if you had a distribution from a managed fund during the year.

Individuals, including individual partners in a partnership, who lodge using a paper tax return are not required to complete a CGT schedule.

Chapter 2 in **part A** explains how to calculate a capital gain or capital loss for each CGT event or asset using the **Capital gain or capital loss worksheet** that you can tear out from the back of this guide. For most individuals, this worksheet is all you will need to work out what needs to be included at item **17** on your tax return (or item **9** if you use the tax return for retirees). Make copies of the worksheet if you need more than one. If you need help completing the **Capital gain or capital loss worksheet**, read step 1 in **part C** (ignoring the word 'entity').

If you have a number of the **Capital gain or capital loss worksheets** because several CGT events happened to you, you may wish to use the **CGT summary worksheet** (also at the back of this guide) to help you calculate your net capital gain or net capital loss. Read steps 2 and 3 in **part C** of this guide (ignoring the word 'entity') to find out how to complete the summary worksheet. Then complete item **17** on your tax return (or item **9** if you use the tax return for retirees).

UNFAMILIAR TERMS

There may be terms in **part B** that are not familiar to you. Refer to chapter 1 in **part A** for more information or to **Explanation of terms** at the back of this guide.

STEP 1 TYPES OF CGT ASSETS AND CGT EVENTS

Certain capital gains and capital losses (that is, those from collectables and personal use assets) are treated differently when calculating your net capital gain or net capital loss. See chapter 1 in **part A** for explanations of these assets. In particular you should note that losses from personal use assets are disregarded and cannot be taken into account when working out your net capital gain. Losses from collectables can only be used to reduce capital gains from collectables.

The records of your CGT events need to be separated into the following three categories:

- those relating to collectables (for example, jewellery)
- those relating to personal use assets (for example, a boat you use for recreation)
- other CGT assets or CGT events, including distributions of capital gains from managed funds.

STEP 2 CALCULATING YOUR CURRENT YEAR CAPITAL GAIN OR CAPITAL LOSS FOR EACH CGT ASSET OR CGT EVENT

Calculate whether you have made a capital gain or capital loss as a result of each CGT event that has happened during the year. The **Capital gain or capital loss worksheet** at the back of this guide can help you work this out.

In calculating your capital gain, you will use one of the following three methods for each asset:

- indexation method
- discount method, or
- 'other' method.

See chapter 2 in **part A** for a full explanation of these methods and how to use them to calculate your capital gain or capital loss for each CGT event.

For a CGT event that happens after 11.45am (by legal time in the ACT) on 21 September 1999 to a CGT asset that you acquired at or before that time, you can choose to use either the indexation or the discount method to calculate your capital gain if you have owned the asset for at least 12 months. If you bought and sold your asset within 12 months, you must use the 'other' method to calculate your capital gain.

If you use the discount method, do not apply the discount percentage until you have applied current year and prior year capital losses.

You also need to work out the amount of any capital gains that you are taken to have made as part of a distribution from a trust. You must use the same method the trustee used in calculating the amount of the capital gain. For more information, see chapter 4 in **part A**.

CONCESSIONS THAT MAY APPLY

There are special rules if a trust's net capital gain was reduced by the CGT discount or by applying the small business 50% active asset reduction, or both. The trust should advise you if it has claimed either (or both) of these concessions as you will need to adjust the amount of the net capital gain to be included in your total capital gains (see chapter 4 in **part A** for more information).

STEP 3 TOTAL CURRENT YEAR CAPITAL GAINS

If you do not have any capital gains from collectables, add up all your capital gains from step 2 and show this amount at **H** **Total current year capital gains**.

If you have a capital gain from collectables, deduct any losses from collectables (including prior year losses from collectables). Do not deduct capital losses from other capital gains at this stage.

Any capital gain remaining is added to all your other capital gains from step 2. Show the total amount at **H** (item **17** on your tax return or item **9** if you use the tax return for retirees).

If you received (or are entitled to receive) a distribution from a trust that includes a net capital gain, you also need to include this amount here in your total capital gains. Do not include this amount as a distribution from the trust at item **12 Partnerships and trusts** on your tax return.

If your capital gains from collectables were reduced to zero when you applied your losses from collectables – and you still have capital losses from collectables remaining – make a note of this amount.

This loss can be carried forward to future years and will be recorded at **V** **Net capital losses carried forward to later income years** (see step 9).

STEP 4 CAPITAL LOSSES

If you have no current year capital losses or prior year net capital losses, go to step 7. Otherwise, read on.

From your **Capital gain or capital loss worksheets**, add up all your capital losses for 2003–04 and make a note of this amount. Remember that you do not include:

- capital losses from personal use assets
- capital losses from collectables, or
- capital losses that are disregarded (for example, those from assets acquired before 20 September 1985).

If you have a current year capital loss, go to step 5.

If you have only prior year net capital losses and no capital gains, go to step 6.

STEP 5 APPLYING CURRENT YEAR CAPITAL LOSSES

Your current year capital losses from step 4 can be applied against (that is, deducted from) any capital gains you made during the year to determine your net capital gain.

EXAMPLE

Sale of shares and collectables

Kathleen sold some assets during the year and has the following capital gains and capital losses for 2003–04:

Capital gain on the sale of 1000 shares for $6 each on 17 December 2003

Kathleen bought these shares on 17 November 1998 and each has a cost base of $3 (including incidental costs of acquisition and disposal).

Capital gain = $6,000 – $3,000 = $3,000

Kathleen chooses to calculate her capital gain using the discount method.

Capital gain on the sale of 130 shares for $8 each on 27 February 2004

Kathleen bought these shares on 10 October 2003 and each has a cost base of $4 (including incidental costs of acquisition and disposal). As the asset was bought and sold within 12 months, Kathleen must use the 'other' method to calculate her capital gain from these shares:

130 x $8 = $1,040 – (130 x $4) = $520

Capital loss on the sale of jewellery for $1,000 on 1 April 2004

Kathleen bought this jewellery for $1,500 and sold it six months later for $1,000.

She calculates her capital loss as follows:

$1,000 – $1,500 = $500 capital loss

Kathleen takes the following steps to complete item **17** on her tax return (or item **9** if she uses the tax return for retirees).

Firstly, Kathleen shows her total current year capital gain of $3,520 ($3,000 + $520) at **H**. Her total current year capital gain is the amount before deducting any losses or applying the CGT discount. If Kathleen had made a net capital gain on her collectables (jewellery), this would also have been included here.

Next, Kathleen notes her capital loss from collectables on her **Capital gain or capital loss worksheet** or on a separate piece of paper. Although she made a net capital loss from collectables, she cannot reduce her other capital gains by this amount. However, she can carry this amount over so that if she makes a gain from that type of asset in the future, she can deduct this loss from her gain on a later tax return. If Kathleen has no other capital losses from current or prior years, she will now show the amount of $500 at **V** **Net capital losses carried forward to later income years**.

Kathleen still has to complete **A** **Net capital gain**.

EXAMPLE

Capital loss on the sale of shares

Using the facts from our earlier example, we will also assume that Kathleen has the following to consider:

Capital loss on the sale of 600 shares for $3 each on 25 June 2004

Kathleen had bought these shares on 10 October 2003 and each has a reduced cost base of $4 (including incidental costs of acquisition and disposal).

Reduced cost base	600 × $4 =	$2,400
Capital proceeds	600 × $3 =	$1,800
Capital loss		$600

Kathleen now has a $600 loss she can use to deduct from her capital gains. From the earlier example, we know Kathleen has a $3,000 capital gain calculated using the discount method.

She has another capital gain of $520 that she calculated using the 'other' method. Kathleen chooses to deduct the first $520 of her capital loss from the capital gain calculated using the 'other' method and to deduct the remaining $80 from the capital gain calculated using the discount method. Working this way gives her the best result:

'Other' method capital gain	$520
Capital loss of	$520
	$0
Discount method capital gain	$3,000
Less Capital loss of ($600 – $520)	$80
	$2,920

Kathleen makes a note that she has capital gains of $2,920 calculated using the discount method.

When applying your current year capital losses, you can choose the method that gives you the best result to reduce your current year capital gains. While you will need to consider your own situation, for most people the order that usually gives the greatest benefit and the smallest net capital gain is to apply the capital losses against capital gains calculated using the:

1 'other' method
2 indexation method
3 discount method.

Apply your current year capital losses from your current year capital gains and make a note of any capital gains remaining. If you have current year capital losses that can be applied this year they must be applied here. You cannot choose to defer to a later year any amount that can be applied this year.

If you have an amount of unapplied capital losses, you will need to keep a record of any current year capital losses that were not applied to reduce your capital gains. These amounts can be carried over and used to reduce your future capital gains. If you have reduced your capital gains to zero, do not put anything at A **Net capital gain**.

STEP 6 APPLYING PRIOR YEAR NET CAPITAL LOSSES

If you do not have any prior year net capital losses, go to step 7. Otherwise, read on.

You can further reduce your current year capital gains by applying any prior year net capital losses.

Prior year net capital losses must be applied in the order you made them (for example, use a net capital loss from 1998–99 before you use any net capital loss from 1999–2000). You can then apply these losses against your capital gains in the manner that gives you the best result. Again, for most people the order that usually gives the greatest benefit and the smallest net capital gain is to apply the capital losses against capital gains calculated using the:

1 'other' method
2 indexation method
3 discount method.

Apply your prior year capital losses against your remaining current year capital gains and make a note of any capital gains remaining. If you have prior year capital losses that can be applied this year they must be applied here. You cannot choose to defer to a later year any amount that can be applied this year.

You will need to keep a record of any unapplied net capital losses from prior years. These amounts can continue to be carried forward and used to reduce your future capital gains. These will be recorded at V **Net capital losses carried forward to later income years** (see step 9). If you have reduced your capital gains to zero, do not put anything at A **Net capital gain**.

EXAMPLE

Prior year net capital losses

Following on from our earlier example, let us also now assume that Kathleen has the following to consider.

Kathleen has a prior year capital loss of $400 that is not a capital loss from collectables or personal use assets.

In our example so far, Kathleen applied her current year capital loss and had $2,920 of capital gains calculated using the discount method remaining.

Taking this example further, Kathleen would now also deduct the prior year net capital loss of $400 from her capital gain of $2,920 calculated using the discount method:

$2,920 – $400 = $2,520

This leaves $2,520 of capital gains calculated using the discount method.

Kathleen must use all current year capital losses and prior year net capital losses before applying the CGT discount of 50%. In this example, the amount at V is still $500 because this is what she will carry forward as losses from collectables to future income years.

STEP 7 APPLYING THE CGT DISCOUNT

You can now reduce any remaining current year capital gains calculated using the discount method by the discount percentage (50% for individuals).

You cannot apply the discount to capital gains calculated using the indexation method or the 'other' method.

EXAMPLE

Total capital gains calculated using the discount method

From our earlier example, we know Kathleen had capital gains of $2,520 calculated using the discount method after applying relevant capital losses. She works out her total capital gains calculated using the discount method by multiplying her capital gain by the CGT discount of 50%:

$2,520 x 50% = $1,260

STEP 8 APPLYING THE SMALL BUSINESS CGT CONCESSIONS

If you are a small business owner, you may qualify for one or more of the following small business CGT concessions: the 50% active asset reduction, small business rollover relief or the small business retirement exemption. You can apply these concessions now to the amount of any relevant capital gains remaining after step 7. You may apply the concessions to capital gains calculated using any of the three methods.

For more information, get the publication *Guide to capital gains tax concessions for small business* (see the inside back cover).

STEP 9 WORKING OUT YOUR NET CAPITAL GAIN

The amount of your remaining capital gains becomes your net capital gain, which you show at **A**.

It represents the amount you have shown at **H** reduced in accordance with:

- step 5 – current year capital losses
- step 6 – prior year net capital losses
- step 7 – discount amount, and/or
- step 8 – small business CGT concessions.

If you have capital losses that have reduced your capital gains to zero, do not put anything at **A**. If you have any capital losses remaining after reducing your capital gains, you can carry these forward to future income years (see step 10). Again do not include losses from:

- assets you acquired before 20 September 1985
- personal use assets
- collectables, or
- other losses that are disregarded.

EXAMPLE

Net capital gain – A

Kathleen shows $1,260 at **A** **Net capital gain** item **17** on her tax return (or item **9** if she uses the tax return for retirees).

STEP 10 CAPITAL LOSSES CARRIED FORWARD TO LATER INCOME YEARS

Your net capital losses amount to be carried forward is the total of:

- any unapplied current year net capital losses from step 5
- any unapplied prior year net capital losses from step 6, and
- any losses from collectables to be applied in future income years from step 3. You will need to keep a separate record of unapplied net capital losses from collectables because these can only be used to reduce capital gains from collectables in later income years.

Show this amount (if any) at **V** item **17** on your tax return (or item **9** if you are using the tax return for retirees). Remember to deduct these losses from any capital gains in future income years.

EXAMPLE

Net capital losses to be carried forward – V

Kathleen has deducted all her current year capital losses (except those from collectables) and her prior year capital losses from her capital gains in the order that gave her the best result. This means she will only have capital losses from collectables to carry forward to a later income year. Kathleen shows $500 at **V** item **17** on her tax return (or item **9** if she uses the tax return for retirees).

Kathleen must make a note of this capital loss for next year, in the same way as she did with the prior year losses she used this year. She must also note that her capital losses this year are capital losses from collectables, as she will only be able to deduct them against capital gains from collectables in a future year.

INSTRUCTIONS FOR COMPANIES, TRUSTS AND FUNDS (ENTITIES)

INDIVIDUALS: IF YOU USE THE WORKSHEETS AND NEED HELP COMPLETING THEM, READ STEPS 1, 2 AND 3 IN THIS PART (IGNORE THE WORD ENTITY)

Introduction		**82**
Steps you need to take		**82**
Step 1	**How to complete the Capital gain or capital loss worksheet for each CGT event**	**83**
Step 2	**How to complete the CGT summary worksheet**	**83**
Step 3	**How to complete the capital gains item on your entity's tax return**	**89**
Step 4	**How to complete the CGT schedule**	**89**

Part C

READ THIS FIRST

Are you an individual?

If you are completing a tax return on behalf of an individual (rather than an entity), read **part B**.

If you need help completing the:

- **Capital gain or capital loss worksheet** – read step 1 of this part of the guide (ignoring the word entity)
- **CGT summary worksheet** – read steps 2 and 3 in this part.

Is your entity a company, trust or fund?

Read this part.

Do you expect your entity's total capital gains or total capital losses for the 2003–04 income year to be $10,000 or less?

YES Work through steps 1, 2 and 3.

NO Work through steps 1–4. Step 4 will show you how to complete the *Capital gains tax (CGT) schedule 2004*.

INTRODUCTION

The instructions in this part are designed to help companies, trusts and funds (your entity) to calculate a capital gain or capital loss and to complete the capital gains items on the relevant tax return:

- *Company tax return 2004* – item **7**
- *Trust tax return 2004* – item **18**, or
- *Fund income tax and regulatory return 2004* – item **9a**.

Funds include superannuation funds, approved deposit funds and pooled superannuation trusts.

The labels to complete at these items are:

G Did you have a CGT event during the year?

A Net capital gain

You will also need to complete **V** **Net capital losses carried forward to later income years** at the **Losses information** item on your entity's tax return.

The relevant item number will be:

- *Company tax return 2004* – item **10**
- *Trust tax return 2004* – item **24**
- *Fund income tax and regulatory return 2004* – item **10**.

UNFAMILIAR TERMS

There may be terms in **part C** that are not familiar to you. Refer to chapter 1 in **part A** or to **Explanation of terms** at the back of this guide.

ENTITY

The term 'entity' is used to describe a company (including a head company of a consolidated group), a trust and a fund in this part of the guide.

Worksheets

The worksheets provided at the back of this guide are the:

- **Capital gain or capital loss worksheet** (to calculate the capital gain or capital loss from each CGT event)
- **CGT summary worksheet** (to calculate the net capital gain or net capital loss and complete the CGT labels on the 2003–04 tax return).

You can tear out the worksheets and complete them as you work through this part.

The worksheets are optional and your entity may prefer to use a different worksheet or a computer-based alternative. We have used these worksheets throughout this part of the guide as examples to help you complete the capital gains item on your entity's tax return, and a *Capital gains tax (CGT) schedule 2004* if this is required.

CGT schedule

Your entity must complete this schedule for the 2003–04 income year if the:

- total current year capital gains are greater than $10,000, or
- total current year capital losses are greater than $10,000.

If your entity is required to complete a CGT schedule, you must attach it to your entity's 2003–04 tax return.

CONSOLIDATED GROUPS

Where a group consolidates during the income year, the head company must lodge a CGT schedule if the total capital gains or total capital losses that it makes – as head company of the consolidated group and while not a member of a consolidated group – are greater than $10,000.

An entity that becomes a subsidiary member of a consolidated group at any time during the income year – and remains a subsidiary member at the end of the income year – is not required to lodge a CGT schedule, regardless of the amount of any capital gains or capital losses it makes.

Refer to the *Consolidation reference manual* which provides detailed information on the operation of consolidation, available on our website at **www.ato.gov.au** For other consolidation products, phone the Tax Reform Infoline on **13 24 78**.

STEPS YOU NEED TO TAKE

The completion of the CGT labels on your entity's 2003–04 tax return involves a three-step process (for entities with capital gains or capital losses under the $10,000 threshold) or a four-step process (for entities with capital gains or capital losses over the $10,000 threshold):

Step 1 Calculate the capital gain or capital loss for each CGT event that happens during the 2003–04 income year using the **Capital gain or capital loss worksheet**.

Step 2 Calculate the net capital gain or net capital loss for the 2003–04 income year using the **CGT summary worksheet**.

Step 3 Complete the capital gains item on your entity's tax return.

Step 4 If required, complete a CGT schedule.

STEP 1 HOW TO COMPLETE THE CAPITAL GAIN OR CAPITAL LOSS WORKSHEET FOR EACH CGT EVENT

The **Capital gain or capital loss worksheet** calculates a capital gain or capital loss for each separate CGT event. Do not attach completed worksheets to your entity's 2003–04 tax return – these are your working papers and should be kept with your entity's tax records.

Remember that when you are using the worksheet:

- You show the type of CGT asset or CGT event that resulted in the capital gain or capital loss.

  Organise each of these under one of the following four categories:
  - shares and units in unit trusts
  - real estate
  - other CGT assets (including personal use assets) and any other CGT events
  - collectables

  There are special rules that apply when working out a capital gain or capital loss for a depreciating asset. A capital gain or capital loss will only arise to the extent that a depreciating asset is used for a non-taxable purpose (for example, used privately). The capital gain or capital loss is calculated having regard to concepts used in the uniform capital allowance provisions. Those provisions also treat as income or allow as a deduction any gain or loss from a depreciating asset to the extent that it was used for a taxable purpose.
- If a capital gain was made, you calculate it using:
  - the indexation method (see note 2 to the worksheet) for capital gains made on CGT assets acquired before a certain time (11.45am by legal time in the ACT on 21 September 1999) and owned for at least 12 months, or
  - the discount method (see note 3 to the worksheet) for assets owned for at least 12 months and for which you are not using the indexation method, or
  - the 'other' method (if neither the indexation method nor the discount method applies).

  These three methods of calculating a capital gain are explained in full in **part A** chapter 2 and are also listed in **Explanation of terms** at the back of this guide.

  When choosing between the indexation and discount methods, the amounts at (a) and (b) at the bottom of the worksheet do not yet reflect any capital losses or CGT discount you may be able to apply. This affects your choice of the amount to transfer to the **CGT summary worksheet**, which you can use to calculate your net capital gain or net capital loss.

Transfer the capital gain or capital loss calculated on each **Capital gain or capital loss worksheet** to the **CGT summary worksheet.** Transfer a capital gain according to the method you used to calculate it and the type of asset that gave rise to it.

STEP 2 HOW TO COMPLETE THE CGT SUMMARY WORKSHEET

The **CGT summary worksheet** is used to calculate your entity's net capital gain or net capital loss for the 2003–04 income year. It also provides the information you need to complete the capital gains item on your entity's tax return and, if required, the CGT schedule.

You should include on this worksheet any capital gain your entity is entitled to as a distribution from a trust.

The **CGT summary worksheet** is designed for entities that make capital gains or capital losses during the income year. However, you may also find it useful if you are an individual (including a partner in a partnership) who has more complex CGT affairs.

The **CGT summary worksheet** differentiates between capital gains from active assets and non-active assets. Generally, an active asset is a business asset the entity owns – for example, goodwill of a business.

A share and an interest in a trust can also be active assets if certain conditions are met.

There are four small business CGT concessions that may apply to capital gains from active assets:

- the small business 15-year exemption: this exemption, subject to certain conditions being satisfied, means a capital gain is totally disregarded if your small business entity has continuously owned the CGT asset for at least 15 years, and:
  - you are 55 years old or over and retiring, or
  - you are permanently incapacitated
- the small business 50% active asset reduction: this concession provides a 50% reduction of a capital gain for an active asset
- the small business retirement exemption: this allows capital gains for active assets (up to a lifetime limit of $500,000) to be disregarded if the conditions are satisfied. If you are under 55 years old and are eligible for this exemption, the amount must be paid into a superannuation (or similar) fund
- the small business rollover: this enables you to defer a capital gain if a replacement asset is acquired and other conditions are satisfied.

To find out if your business is eligible for the small business CGT concessions, get the publication *Guide to capital gains tax concessions for small business* (see the inside back cover).

ACTIVE ASSETS

Remember that at **Active assets** in the **CGT summary worksheet** (and the **CGT schedule**), you should only include a capital gain from an active asset that qualifies for one or more of the following three small business CGT concessions:

- small business 50% active asset reduction
- small business retirement exemption, or
- small business rollover.

If the asset does not qualify for one or more of these three concessions, include the capital gain at **Non-active assets**.

LIMIT ON VALUE OF ASSETS

The small business CGT concessions are not available if the net value of the assets of your entity and related entities just before the CGT event exceeds $5 million. If your entity is not entitled to the small business concessions, include the capital gain at **Non-active assets**.

LIFE INSURANCE COMPANIES

Life insurance companies, including friendly societies that conduct life insurance business, need to complete two **CGT summary worksheets** – one for each class of income they derived (superannuation class and ordinary class income). Capital losses from one class of income can only be applied against capital gains from that class of income. Combine the details from both summary worksheets onto one CGT schedule, if it is required.

The parts in this step relate to the parts of the **CGT summary worksheet**. Work through each relevant part to complete your worksheet.

Part A: Total current year capital gains

In **part A** you show your entity's total current year capital gains.

Part A1: Current year capital gains (other than capital gains from collectables)

WHAT TO INCLUDE AND EXCLUDE

You generally do not include any capital gain to which an exemption (for example, the small business15-year exemption) or exception applies.

However, you must include in the **Active assets** columns capital gains for which your entity may be exempt because it is entitled to one or more of the following:

- small business 50% active asset reduction
- small business retirement exemption, or
- small business rollover.

If a capital gain does not qualify for one or more of these three concessions, include it at **Non-active assets**.

At **A** to **I** and **M** to **U** on the worksheet, show the current year capital gains (other than from collectables) transferred from the **Capital gain or capital loss worksheets**.

Trust capital gains

You must also include at **G** to **I** and **S** to **U** on this worksheet any distribution from a trust of a net capital gain from a CGT event (other than one involving a collectable) that your entity is entitled to.

You must use the same method as the method used by the trustee to calculate your entity's capital gain from the trust. For example, if the trustee used the discount method to calculate a capital gain, you must use the same method. In some cases your entity must gross up the amount of the trust capital gain. If this applies, you include the grossed-up amount at **H**, **S**, **T** and **U**, as explained below.

If the trustee used the discount method to calculate a capital gain, you need to gross it up by multiplying the distribution amount by two. You include the result at **H**. Grossing up ensures that any capital losses your entity has made are deducted from your entity's grossed-up capital gain before the CGT discount is applied.

If the trust's capital gain was reduced by the small business 50% active asset reduction, again it needs to be grossed-up by multiplying the distribution amount by two. Include the result at **S** or **U**.

If the trust's capital gain was reduced by the CGT discount and by the small business 50% active asset reduction, multiply the distribution amount by four and include the result at **T**.

Amount of capital gain

Show the full amount of all capital gains in **part A1**.

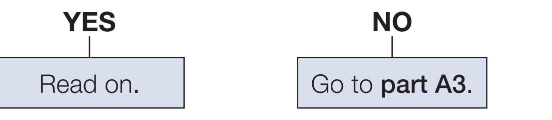
Do not show the amount remaining after applying:

- capital losses (which are applied on page 4 of the worksheet at part D)
- the CGT discount (which is applied on page 6 of the worksheet at part F), or
- the small business CGT concessions (which are applied on page 7 of the worksheet at part G).

Transfer the amounts at **A1** to **A6** to the corresponding **A1** to **A6** in part **A3** of the **CGT summary worksheet**.

Part A2: Capital gains and capital losses from collectables

Did your entity make a capital gain or a capital loss from a collectable during the income year? Or did the entity receive a distribution from a trust during the income year that includes a net capital gain from a collectable?



Transfer any capital gains from collectables from the **Capital gain or capital loss worksheets** to **C1**, **C2** or **C3** on your **CGT summary worksheet**. Transfer any capital losses from collectables to **C4** on your **CGT summary worksheet**.

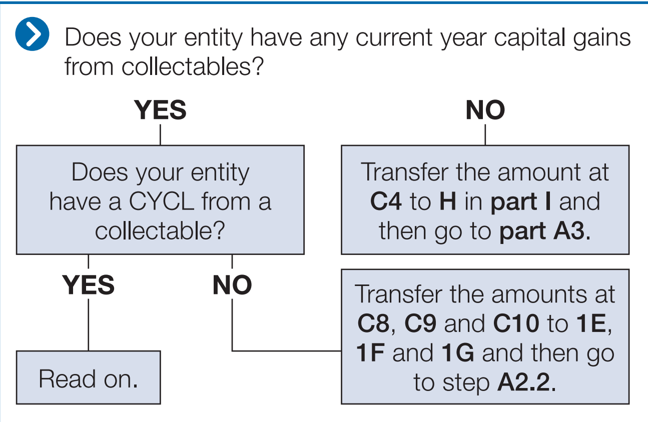
If your entity was entitled to a distribution of a net capital gain from a trust resulting from a collectable, show this amount at **C5** to **C7**. You must use the same method as the trustee to calculate your entity's capital gain from the trust. For example, if the trustee used the discount method to calculate a capital gain, you need to do the same and show the grossed up amount at **C6**.

If the trustee used the discount method to calculate a capital gain, you gross it up by multiplying the distribution amount by two. Grossing up ensures that any capital losses your entity has made are subtracted from your grossed-up capital gain before the CGT discount is applied.

The totals of all of your entity's capital gains from collectables are shown at **C8** to **C10**.

Step A2.1: Deduct any current year capital losses (CYCL) from collectables from current year capital gains (CYCG) from collectables

If your entity has any current year capital losses from collectables, deduct these from any current year capital gains from collectables. This reduces your CGT obligation. If your entity has current year capital losses from collectables that can be deducted they must be deducted here. You cannot choose to defer to a later year any amount that can be deducted this year.



Deduct any current year capital losses from collectables (shown at **C4**) from your current year capital gains from collectables (shown at **C8** to **C10**).

You can do this in the order that gives the best result, which would usually be to apply the losses against capital gains calculated using the:

1 'other' method
2 indexation method
3 discount method.

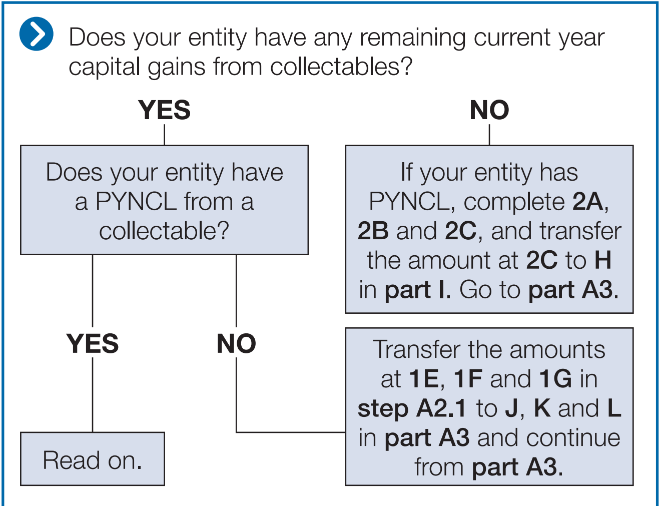
Show the amounts deducted from capital gains from your collectables at **1A** to **1C**, depending on the choice made about how to deduct the losses. The total losses from collectables deducted from gains from collectables are shown at **1D**.

Show any remaining capital gains from collectables at **1E** to **1G**.

If your entity has any unapplied current year capital loss from collectables (**C4** minus **1D**), you can carry this forward to reduce the capital gains from collectables in later income years. Transfer the amount of unapplied current year capital losses from collectables to **H UNCL from collectables** in **part I**.

Step A2.2: Apply any prior year net capital losses (PYNCL) from collectables

If your entity has prior year net capital losses that can be deducted, they must be deducted here. You cannot choose to defer to a later year any amount that can be deducted this year.



At **2C**, show the available prior year net capital losses from collectables after you have made any necessary adjustments for commercial debts forgiven shown at **2B**. For more information on commercial debts forgiven, see page 8 and refer to your entity's tax return instructions.

Again, PYNCL from collectables can be deducted from any remaining capital gains from collectables in the manner that produces the best result. They must, however, be deducted in the order in which they were made – for example, a 1995–96 year capital loss should be deducted before a 1998–99 year capital loss.

At **2D** to **2F**, show the amounts of prior year net capital losses from collectables in the order you have chosen.

At **2G**, show the total amount of prior year net capital losses from collectables that have been deducted from the current year capital gains from collectables.

At **J**, **K** and **L** in **step A2.2**, show the capital gains from collectables after you have applied the current year capital losses and prior year net capital losses from collectables.

You can carry forward any unapplied net capital losses from collectables (**2C** minus **2G**) but in later income years you can only use them to reduce any capital gains from collectables (not from other CGT assets).

When you have completed **step A2.2**, transfer:

- the amounts at **J**, **K** and **L** to the corresponding labels in **part A3**, and
- the amount of unapplied prior year net capital loss from collectables (referred to above) to **H UNCL from collectables** in **part I** (together with any unapplied current year capital losses from collectables at **step A2.1**).

Part A3: Total current year capital gains (CYCG)

At A3, show the total of your entity's capital gains, including any net capital gain from collectables.

Your entity may not have any of the following losses:

- current year capital losses
- prior year net capital losses, or
- capital losses transferred in.

In this case, transfer the amounts at **A7** to **A12** in part **A3** to **A** to **F** in **part E** and continue from **part F**.

If your entity has one or more of these losses, read on.

Part B: Current year capital losses (CYCL), other than from collectables

In **part B** you show any current year capital losses your entity has made from:

- shares and units (in unit trusts) at **A**
- real estate at **B**, and
- other CGT assets and any other CGT events at **C**.

The total is shown at **D**.

You can transfer these from your **Capital gain or capital loss worksheets.**

If your entity does not have any current year capital losses (other than from collectables), go to **part D**.

Do not include any capital loss made from personal use assets at **C Other CGT assets and any other CGT events.** Capital losses from personal use assets are disregarded and cannot be applied to reduce capital gains.

Capital losses made from collectables are not shown in part **B** – they should have been shown in **part A2**.

Now go straight to **part D** – there is no **part C** in this worksheet.

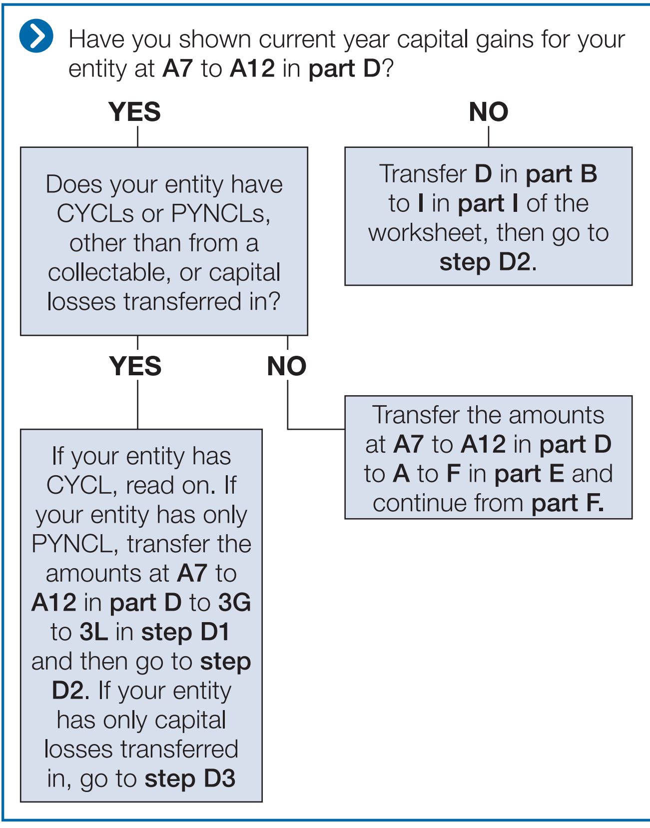
Part D: Applying capital losses against current year capital gains

In **part D** you show your entity's current year capital gains reduced by:

- current year capital losses, other than from collectables (**step D1**)
- prior year net capital losses, other than from collectables (**step D2**) and
- capital losses transferred in (for companies only – **step D3**).

Step D1: Apply current year capital losses, other than capital losses from collectables

If your entity has current year capital losses, other than capital losses from collectables, that can be deducted they must be deducted here. You cannot choose to defer to a later year any amount that can be deducted this year.



You can choose the order in which you deduct your entity's current year capital losses (at **D** in **part B**) from the current year capital gains (at **A7** to **A12**).

Generally, if your entity is entitled to the small business CGT concessions, it is better to reduce the non-active asset capital gains first. Within the non-active and active categories you usually get the greatest benefit by reducing:

1. capital gains calculated using the 'other' method, then
2. capital gains calculated using the indexation method, then
3. capital gains calculated using the discount method.

At **3A** to **3F**, show the amounts of current year capital losses deducted in the order you have chosen with the total at **H**. At **3G** to **3L**, show the capital gains after applying (deducting) the current year capital losses.

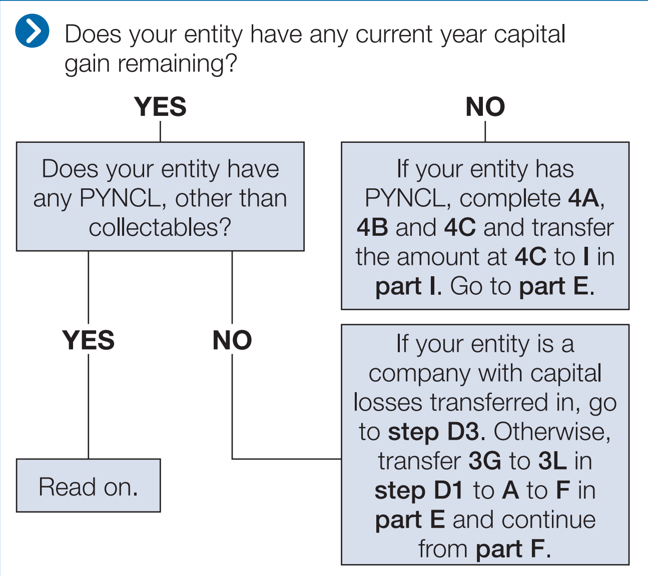
You can carry forward any unapplied current year capital loss other than from collectables (**D** in **part B** minus **H**) to reduce capital gains in later income years.

When you have completed step **D1**, transfer the amount of unapplied current year capital losses (**D** minus **H**) to **I UNCL from other CGT assets** in **part I**.

Step D2: Apply any prior year net capital losses, other than PYNCL from collectables

If your entity has prior year net capital losses, other than prior year net capital losses from collectables, that can be deducted they must be deducted here.

You cannot choose to defer to a later year any amount that can be deducted this year.



Reduce the prior year net capital losses at **4A** by any adjustment for commercial debts forgiven at **4B**. For more information on commercial debts forgiven, see page 8 and refer to your entity's tax return instructions.

Again, prior year net capital losses can be deducted from any remaining capital gains in the manner that produces the best result. See discussion for **step D1**. They must however be deducted in the order in which they were made – for example, a 1995–96 year capital loss must be deducted before a 1998–99 year capital loss.

At **4D** to **4I**, show the amounts of prior year net capital losses in the order you have chosen and the total at **L**. At **4J** to **4O**, show the capital gains after you have applied the current year capital losses and prior year net capital losses.

You can carry forward any unapplied prior year net capital losses (**4C** minus **L**) to reduce the capital gains in later income years.

When you have completed **step D2**, transfer the amount of unapplied prior year net capital losses (**4C** minus **L**) to **I UNCL from other CGT assets** in **part I** (together with any unapplied current year capital losses at **step D1**).

If your entity is a company with capital losses transferred in, go to **step D3**.

Otherwise, transfer the remaining capital gain amounts at **4J** to **4O** to **A** to **F** in **part E**.

Step D3: Apply any capital losses transferred in

Only follow this step if your entity is a company with capital losses transferred in.

The capital losses transferred in to your entity need to be applied in the order they were received. Your entity must have enough capital gains to absorb the capital losses transferred in.

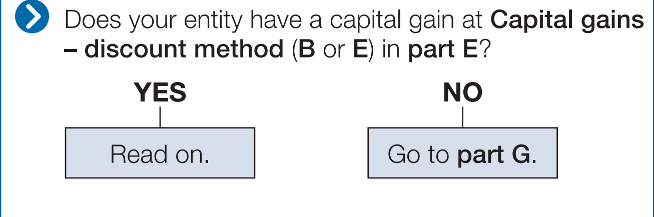
When you have completed **step D3**, transfer the amount of CYCG remaining after applying CYCL, PYNCL (**4J** to **4O** in **step D2**) and capital losses transferred in to **A** to **F** in **part E**.

Part E: Current year capital gains after applying capital losses

In **part E** you show your entity's current year capital gains reduced by current year capital losses, prior year net capital losses and capital losses transferred in.

Part F: CGT discount on capital gains

In **part F** you apply the CGT discount.



CGT DISCOUNT

Companies are not eligible for the CGT discount unless they are life insurance companies or friendly societies that carry on life insurance business. These companies may be entitled to the CGT discount in relation to their complying superannuation business.

Next, calculate the CGT discount that applies to the capital gains at **B** and **E** in **part E**. The CGT discount percentage is:

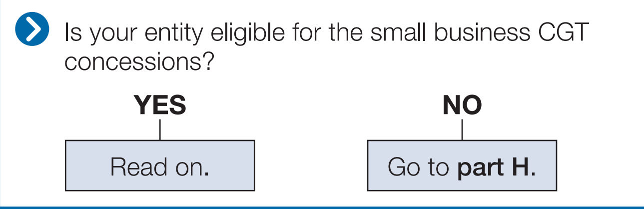
- $33\frac{1}{3}$% for complying superannuation entities, or
- 50% for individuals and trusts.

Show the amount of the CGT discount at **J** and **K** in **part F**.

Show the amount of your remaining capital gains at **6A** to **6F** in part **F**.

Part G: Small business CGT concessions (other than the small business 15-year exemption)

In **part G** you apply the small business CGT concessions your entity is claiming. For more information about the small business CGT concessions, get the publication *Guide to capital gains tax concessions for small business* (see the inside back cover).



Show :

- the amount of your entity's small business 50% active asset reduction (SBAAR) at **L** to **N**
- the amount of your entity's small business retirement exemption (SBRE) at **O** to **Q**, and
- the amount of your entity's small business rollover (SBRO) at **R** to **T**.

Show the total amount of the small business CGT concessions your entity is claiming at **7A** to **7D** of **part G**.

Part H: Net capital gain calculation

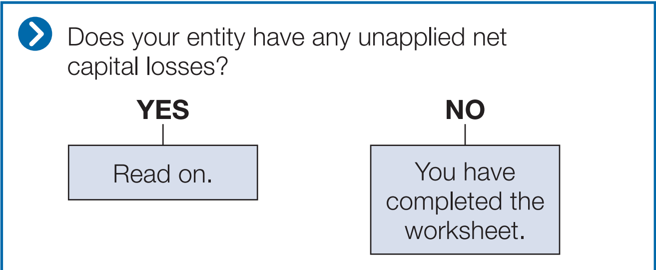
In **part H** you show the amount of your entity's net capital gain.

Your entity's net capital gain is the amount remaining after applying any current year capital losses, net capital losses from prior years, capital losses transferred in, the CGT discount and any applicable CGT small business concessions.

A net capital gain is included as assessable income on your entity's income tax return at the relevant item. See step 3 on the next page.

Part I: Unapplied net capital losses carried forward to later income years

In **part I** you show any unapplied net capital losses that your entity is carrying forward. These losses will be available to reduce any capital gains in later income years.



At **H** and **I**, show details of any capital losses that are unapplied (that is, that have not been used).

At **H**, show the unapplied capital losses from collectables only. This is the sum of:

- any current year capital losses from collectables that have not been used to reduce capital gains from collectables this income year (that is, deduct **1D** in **step A2.1** from **C4** in **part A2**), and
- any prior year net capital losses from collectables that have not been used to reduce capital gains from collectables this income year (that is, deduct **2G** in **step A2.2** from **2C** in **step A2.2**).

At **I**, show all of the other capital losses – that is, the sum of:

- the current year capital losses that have not been used to reduce capital gains (that is, deduct **H** in **step D1** from **D** in **part B**), and
- the prior year net capital losses that have not been used to reduce capital gains (that is, deduct **L** in **step D2** from **4C** in **step D2**).

At **V**, show the total of the amounts at **H** and **I**.

The amounts at **H** and **I** are the unapplied net capital losses available to be carried forward and used to reduce your capital gains in later income years.

Unapplied net capital losses from collectables can only be used to reduce capital gains from collectables in later income years.

STEP 3 HOW TO COMPLETE THE CAPITAL GAINS ITEM ON YOUR ENTITY'S TAX RETURN

In the earlier steps, you calculated your capital gain or capital loss for each CGT event, then worked out your net capital gain or net capital loss.

If your entity made a capital gain or capital loss during the income year:

- print **Y** (for yes) at **G Did you have a capital gains tax event during the year?** at the capital gains item on your entity's tax return
- transfer the amount at **G** in **part H** of your entity's **CGT summary worksheet** to **A Net capital gain** on your entity's tax return, and
- add the amounts, if any, at **H** and **I** in **part I** of your entity's **CGT summary worksheet** and show the total amount at **Losses information**, **V Net capital losses carried forward to later income years** on your entity's tax return.

If you are an individual completing your *2004 tax return for individuals* (supplementary section) or a tax agent completing a tax return on behalf of an individual:

- print **Y** (for yes) at **G Did you have a capital gains tax event during the year?** item **17 Capital gains** on your tax return
- transfer the amount at **Total CYCG**, **part A3** of your **CGT summary worksheet** to **H Total current year capital gains** item **17 Capital gains** on your tax return
- transfer the amount at **G**, **part H** of your **CGT summary worksheet** to **A Net capital gain** item **17 Capital gains** on your tax return, and
- add the amounts, if any, at **H** and **I** in **part I** of your **CGT summary worksheet** and show the total at **V Net capital losses carried forward to later income years** item **17 Capital gains** on your tax return.

STEP 4 HOW TO COMPLETE THE CGT SCHEDULE

Your entity must complete a CGT schedule for the 2003–04 income year if:

- the total current year capital gains are greater than $10,000, or
- the total current year capital losses are greater than $10,000.

CONSOLIDATED GROUPS

Where a group consolidates during the income year, the head company must lodge a CGT schedule if the total capital gains or total capital losses that it makes – as head company of the consolidated group and while not a member of a consolidated group – are greater than $10,000.

An entity that becomes a subsidiary member of a consolidated group during the income year – and remains a subsidiary member at the end of the income year – is not required to lodge a CGT schedule, regardless of the amount of any capital gains or capital losses it makes.

If your entity is required to complete a CGT schedule, attach it to your entity's 2003–04 tax return. Only one CGT schedule should be lodged with your entity's tax return.

If you are lodging a paper tax return and CGT schedule, please use the preprinted *Capital gains tax (CGT) schedule 2004* provided at the back of this guide. To get extra copies of the preprinted schedule, phone our Publications Distribution Service on the number listed inside the back cover of this guide.

You need to follow these instructions carefully to make sure you complete your entity's CGT schedule correctly. All relevant parts of the CGT schedule, including **parts J** to **P** must be completed.

Print your entity's TFN, name and Australian business number in the boxes provided. The CGT schedule must be signed in the same way that the 2003–04 tax return is signed.

Take the following steps to transfer the relevant information from your **CGT summary worksheet**.

Part A

1. Transfer the amounts from **A** to **I** and from **M** to **U** on your **CGT summary worksheet** to the corresponding labels in **part A** of the CGT schedule.
2. Transfer the amounts at **J**, **K** and **L** on your **CGT summary worksheet** (after **step A2.2**) to the corresponding labels in **part A** of the CGT schedule.

Part B

Transfer the amounts at **A**, **B**, **C** and **D** on your **CGT summary worksheet** to the corresponding labels in **part B** of the CGT schedule.

Part C

There is no part C in the CGT schedule.

Part D

From **step D1** on page 4 of the **CGT summary worksheet**:

1. Add the amounts at columns **3A** and **3D** and transfer the total to **E** in **part D** of the CGT schedule.
2. Add the amounts at columns **3B** and **3E** and transfer the total to **F** in **part D** of the CGT schedule.
3. Add the amounts at columns **3C** and **3F** and transfer the total to **G** in **part D** of the CGT schedule.
4. Transfer the **Total CYCL applied** amount at **H** to **H** in **part D** of the CGT schedule.

From **step D2** on page 5 of the **CGT summary worksheet**:

1. Add the amounts at columns **4D** and **4G** and transfer the total to **I** in **part D** of the CGT schedule.
2. Add the amounts at columns **4E** and **4H** and transfer the total to **J** in **part D** of the CGT schedule.
3. Add the amounts at columns **4F** and **4I** and transfer the total to **K** in **part D** of the CGT schedule.
4. Transfer the **Total PYNCL applied** amount at **L** to **L** in **part D** of the CGT schedule.

From **step D3** on page 5 of the **CGT summary worksheet**:

1. Add the amounts at columns **5A** and **5D** and transfer the total to **M** in **part D** of the CGT schedule.
2. Add the amounts at columns **5B** and **5E** and transfer the total to **N** in **part D** of the CGT schedule.
3. Add the amounts at columns **5C** and **5F** and transfer the total to **O** in **part D** of the CGT schedule.
4. Transfer the **Total capital losses transferred in** amount at **P** to **P** in **part D** of the CGT schedule.

Part E

Transfer the amounts at **A**, **B**, **C**, **D**, **E** and **F** of the **CGT summary worksheet** to the corresponding labels in **part E** of the CGT schedule.

Part F

Transfer the amounts at **J** and **K** of the **CGT summary worksheet** to the corresponding labels in **part F** of the CGT schedule.

Part G

Transfer the amounts at rows **L** to **N**, **O** to **Q** and **R** to **T** of the **CGT summary worksheet** to the corresponding labels in **part G** of the CGT schedule.

Part H

Transfer the amount at **G** of the **CGT summary worksheet** to **G** in **part H** of the CGT schedule.

Part I

Transfer the amounts at **H** and **I** of the **CGT summary worksheet** to the corresponding labels in **part I** of the CGT schedule.

Part J

Write the total amount of any capital gains disregarded by the small business 15-year exemption (do not apply the CGT discount) at **J** in **part J** of the CGT schedule.

Print in the box at **K** the code from the list below that best describes the CGT asset or CGT event from which your entity made the capital gain. If your entity made capital gains from more than one CGT asset or CGT event, select the code which best describes the type of CGT asset or CGT event that produced the largest amount of capital gain.

CGT asset or CGT event code

S shares
U units in unit trusts
R real estate
G goodwill
O other CGT assets or CGT events not listed above

Part K

During the income year, did your entity choose scrip-for-scrip rollover when an arrangement was made to exchange original interests for replacement interests?

(Original interests are shares or units or other interests [or an option, right or similar interest in a company or trust], while replacement interests are similar interests in another company or trust.)

Print **Y** for **yes** or **N** for no at **A**.

If you printed **Y** for **yes**:

Write at **B** the amount of the cost base for all of the original interests exchanged (regardless of whether or not full rollover was available).

Write at **C** the total of the market value of the replacement interests acquired.

Write at **D** the total of the amount of cash and other considerations received. Do not include any amount already included at **C**.

Part L (for companies and trusts only)

Was the company or trust an 'acquiring entity' during the income year under an arrangement for which original interest holders qualified for scrip-for-scrip rollover?

Print **Y** for **yes** or **N** for **no** at **E**.

If you printed **Y** for **yes**, provide the information requested below in relation to the arrangement. If interests were acquired in more than one original entity, write at **F** the number of original entities subject to such arrangements and provide the information requested below in respect of the arrangement involving the greatest cost base for the interests acquired.

Show at **G** the TFN for the original entity.

Show at **H** the number of shares, units or other interests issued in exchange for the shares or units or other interests acquired in the original entity.

Show at **I** the number of options, rights or similar interests issued in exchange for the options, rights or similar interests acquired in the other entity.

Show at **J** the amount of other considerations (including cash) given to acquire the shares, units or other interests, options, rights or similar interests in the original entity.

Show at **K** the total of the first element of the cost bases of the shares, units or other interests, options, rights or similar interests acquired in the original entity as a result of the arrangement.

Did the company that issued replacement interests or the trustee of the trust, jointly with a significant or common stakeholder, choose to receive a rollover?

Print **Y** for **yes** or **N** for **no** at **L**.

If the answer at **L** is **yes**, show at **M** the total of the first element of the cost bases of the shares, or units or other interests, or options, rights or similar interests in the original entity (original interests) acquired directly from significant and common stakeholders for the arrangement, or issued by the original entity to the company or trust and attributable to original interests of significant and common stakeholders that were cancelled under the arrangement.

Part M (for companies only)

Did the company have an employee share scheme in place at any time during the year?

Print **Y** for **yes** or **N** for **no** at **N**.

Part N (for companies only)

At the end of the income year, did the company still have any assets that were acquired before 20 September 1985 and that were not treated as post-CGT assets under Division 149?

Print **Y** for **yes** or **N** for **no** at **O**.

Part O (for companies only)

During the income year, did the company have a share in, or a loan to, an associated company which, under a scheme (as defined) entered into before 27 June 2002, either:

- forgave a debt owed by another company under common ownership, or
- suffered a substantial and permanent reduction in the value of the debt owed to it by the other company under common ownership?

Print **Y** for **yes** or **N** for **no** at **P**.

If the answer at **P** is **yes**, show at **Q** the total amount by which the company reduced the cost bases of all its shares and loans to the associated company.

During the income year, did a CGT event happen to a share held by the company in an associated company, where the associated company had previously owed a debt to a company under common ownership and that company under common ownership either forgave the debt or suffered a permanent and substantial reduction in the value of the debt?

Print **Y** for **yes** or **N** for **no** at **R**.

If the answer at **R** is **yes**, show at **S** the total amount by which the company adjusted the cost bases of all its shares in the associated company to which a CGT event happened.

Part P (for companies only)

During the income year, did a CGT event happen to a share in, or loan to, another company in the same wholly owned group, where that other company (or a company in which it had a direct or indirect interest) had previously transferred a tax loss or a net capital loss to any company in the group?

Print **Y** for **yes** or **N** for **no** at **T**.

If the answer at **T** is **yes**, show at **U** the total amount by which the company reduced the cost bases of such assets.

During the income year, did a CGT event happen to an asset of the company that was a share in, or a loan to, another company in the same wholly owned group, where a company in the group had previously transferred a tax loss or a net capital loss to that company (or a company in which it had a direct or indirect interest)?

Print **Y** for **yes** or **N** for **no** at **V**.

If the answer at **V** is **yes**, show at **W** the total amount by which the company adjusted the cost bases of such assets.

After following all these steps, you have completed your entity's CGT schedule.

Remember to lodge the CGT schedule with your entity's tax return.

Do **not** lodge your worksheets – keep these with your own records.

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Appendixes

APPENDIX 1

Summary of CGT events

DISPOSAL				
CGT event		**Time of event**	**Capital gain**	**Capital loss**
A1	Disposal of a CGT asset	when the disposal contract is entered into or, if none, when the entity stops being the asset's owner	capital proceeds from disposal *less* the asset's cost base	asset's reduced cost base *less* capital proceeds
HIRE PURCHASE AND SIMILAR AGREEMENTS				
CGT event		**Time of event**	**Capital gain**	**Capital loss**
B1	Use and enjoyment before title passes	when use of the CGT asset passes	capital proceeds *less* the asset's cost base	asset's reduced cost base *less* capital proceeds
END OF A CGT ASSET				
CGT event		**Time of event**	**Capital gain**	**Capital loss**
C1	Loss or destruction of a CGT asset	when compensation is first received or, if none, when the loss is discovered or destruction occurred	capital proceeds *less* the asset's cost base	asset's reduced cost base *less* capital proceeds
C2	Cancellation, surrender and similar endings	when the contract ending an asset is entered into or, if none, when an asset ends	capital proceeds from the ending *less* the asset's cost base	asset's reduced cost base *less* capital proceeds
C3	End of an option to acquire shares and so on	when the option ends	capital proceeds from granting the option *less* expenditure in granting it	expenditure in granting the option *less* capital proceeds
BRINGING A CGT ASSET INTO EXISTENCE				
CGT event		**Time of event**	**Capital gain**	**Capital loss**
D1	Creating contractual or other rights	when the contract is entered into or the right is created	capital proceeds from creating the right *less* incidental costs of creating the right	incidental costs of creating the right *less* capital proceeds
D2	Granting an option	when the option is granted	capital proceeds from the grant *less* expenditure to grant it	expenditure to grant the option *less* capital proceeds
D3	Granting a right to income from mining	when the contract is entered into or, if none, when the right is granted	capital proceeds from the grant of right *less* the expenditure to grant it	expenditure to grant the right *less* capital proceeds
D4	Entering into a conservation covenant	when covenant is entered into	capital proceeds from covenant *less* cost base apportioned to the covenant	reduce cost base apportioned to the covenant *less* capital proceeds from covenant

TRUSTS				
CGT event		**Time of event**	**Capital gain**	**Capital loss**
E1	Creating a trust over a CGT asset	when the trust is created	capital proceeds from creating the trust *less* the asset's cost base	asset's reduced cost base *less* capital proceeds
E2	Transferring a CGT asset to a trust	when the asset is transferred	capital proceeds from the transfer *less* the asset's cost base	asset's reduced cost base *less* capital proceeds
E3	Converting a trust to a unit trust	when the trust is converted	market value of the asset at that time *less* its cost base	asset's reduced cost base *less* that market value
E4	Capital payment for trust interest	when the trustee makes the payment	non-assessable part of the payment *less* the cost base of the trust interest	*no capital loss*
E5	Beneficiary becoming entitled to a trust asset	when the beneficiary becomes absolutely entitled	for a trustee – market value of the CGT asset at that time *less* its cost base; for a beneficiary – that market value *less* the cost base of the beneficiary's capital interest	for a trustee – reduced cost base of the CGT asset at that time *less* that market value; for a beneficiary – reduced cost base of the beneficiary's capital interest *less* that market value
E6	Disposal to a beneficiary to end an income right	the time of the disposal	for a trustee – market value of the CGT asset at that time *less* its cost base; for a beneficiary – that market value *less* the cost base of the beneficiary's right to income	for a trustee – reduced cost base of the CGT asset at that time *less* that market value; for a beneficiary – reduced cost base of the beneficiary's right to income *less* that market value
E7	Disposal to a beneficiary to end capital interest	the time of the disposal	for a trustee – market value of the CGT asset at that time *less* its cost base; for a beneficiary – that market value *less* the cost base of the beneficiary's capital interest	for a trustee – reduced cost base of the CGT asset at that time *less* that market value; for a beneficiary – reduced cost base of the beneficiary's capital interest *less* that market value
E8	Disposal by a beneficiary of capital interest	when the disposal contract is entered into or, if none, when the beneficiary ceases to own the CGT asset	capital proceeds *less* the appropriate proportion of the trust's net assets	appropriate proportion of the trust's net assets *less* the capital proceeds
E9	Creating a trust over future property	when the entity makes an agreement	market value of the property (as if it existed when the agreement was made) *less* incidental costs in making the agreement	incidental costs in making the agreement *less* the market value of the property (as if it existed when the agreement was made)

LEASES				
CGT event		**Time of event**	**Capital gain**	**Capital loss**
F1	Granting a lease	for granting a lease – when the entity enters into the lease contract or, if none, at the start of the lease; for a lease renewal or extension – at the start of the renewal or extension	capital proceeds *less* the expenditure on grant, renewal or extension	expenditure on grant, renewal or extension *less* capital proceeds
F2	Granting a long-term lease	for granting a lease – when the lessor grants the lease; for a lease renewal or extension – at the start of the renewal or extension	capital proceeds from the grant, renewal or extension *less* the cost base of the leased property	reduced cost base of the leased property *less* the capital proceeds from the grant, renewal or extension
F3	Lessor pays lessee to get lease changed	when the lease term is varied or waived	*no capital gain*	amount of expenditure to get lessee's agreement
F4	Lessee receives payment for changing a lease	when the lease term is varied or waived	capital proceeds *less* the cost base of lease	*no capital loss*
F5	Lessor receives payment for changing a lease	when the lease term is varied or waived	capital proceeds *less* expenditure in relation to variation or waiver	expenditure in relation to variation or waiver *less* capital proceeds

SHARES				
CGT event		**Time of event**	**Capital gain**	**Capital loss**
G1	Capital payment for shares	when the company pays a non-assessable amount	payment *less* cost base of shares	*no capital loss*
G3	Liquidator declares shares worthless	when the liquidator makes the declaration	*no capital gain*	shares' reduced cost base

SPECIAL CAPITAL RECEIPTS				
CGT event		**Time of event**	**Capital gain**	**Capital loss**
H1	Forfeiture of a deposit	when the deposit is forfeited	deposit *less* expenditure in connection with the prospective sale	expenditure in connection with the prospective sale *less* deposit
H2	Receipt for an event relating to a CGT asset	when the act, transaction or event occurred	capital proceeds *less* the incidental costs	incidental costs *less* capital proceeds

CESSATION OF RESIDENCY				
CGT event		**Time of event**	**Capital gain**	**Capital loss**
I1	Individual or company stops being an Australian resident	when the individual or company stops being an Australian resident	for each CGT asset the person owns, its market value *less* its cost base	for each CGT asset the person owns, its reduced cost base *less* its market value
I2	Trust stops being a resident trust	when the trust ceases to be a resident trust for CGT purposes	for each CGT asset the trustee owns, its market value *less* its cost base	for each CGT asset the trustee owns, its reduced cost base *less* its market value

REVERSAL OF ROLLOVER				
CGT event		**Time of event**	**Capital gain**	**Capital loss**
J1	Company stops being a member of a wholly owned group after a rollover	when the company stops being a member of a wholly owned group after a rollover	market value of the asset at the time of the event *less* its cost base	reduced cost base of the asset *less* that market value
J2	Change in status of a CGT asset that was a replacement asset in a rollover under Subdivision 152-E	when the change in status happens	the amount of the capital gain that you disregarded under Subdivision 152-E	*no capital loss*
J3	A change happens in circumstances where a share in a company or an interest in a trust was a replacement asset in a rollover under Subdivision 152-E	when the change in circumstances happens	the amount of the capital gain that you disregarded under Subdivision 152-E	*no capital loss*
J4	Trust failing to cease to exist after rollover under Subdivision 124-N	when the failure to cease to exist happens	for the company – market value of the asset at the time the company acquired it *less* its cost base at that time for shareholder – market value of the share at the time the shareholder acquired it *less* its cost base at that time	for the company – reduced cost base of the asset at the time the company acquired it *less* its market value at that time for shareholder – reduced cost base of the share at the time the shareholder acquired it *less* its market value at that time

OTHER CGT EVENTS				
CGT event		**Time of event**	**Capital gain**	**Capital loss**
K2	Bankrupt pays an amount in relation to debt	when payment is made	*no capital gain*	that part of the payment that relates to the denied part of a net capital loss
K3	Asset passing to a tax-advantaged entity	when an individual dies	market value of the asset at death *less* its cost base	reduced cost base of the asset *less* that market value
K4	CGT asset starts being trading stock	when the asset starts being trading stock	market value of asset *less* its cost base	reduced cost base of asset *less* that market value
K5	Special capital loss from a collectable that has fallen in market value	when CGT event A1, C2 or E8 happens to shares in the company, or an interest in the trust, that owns the collectable	*no capital gain*	market value of the shares or interest (as if the collectable had not fallen in market value) *less* the capital proceeds from CGT event A1, C2 or E8
K6	Pre-CGT shares or trust interest	when another CGT event involving the shares or interest happens	capital proceeds from the shares or trust interest that are attributable to post-CGT assets owned by the company or trust, *less* the assets' cost bases	*no capital loss*
K7	Balancing adjustment occurs for a depreciating asset that you used for purposes other than taxable purposes	when the balancing adjustment event occurs	termination value *less* cost *times* fraction	cost *less* termination value *times* fraction

OTHER CGT EVENTS *continued*				
CGT event		**Time of event**	**Capital gain**	**Capital loss**
K8	Direct value shifts affecting your equity or loan interests in a company or trust	the decrease time for the interests	the capital gain worked out under section 725-365	*no capital loss*
K9	Entitlement to receive payment of a carried interest	when you become entitled to receive the payment	capital proceeds from the entitlement	*no capital loss*
K10	You make a forex realisation gain as a result of forex realisation event 2 and item 1 of the table in subsection 775-70(1) applies	when the forex realisation event happens	equal to the forex realisation gain	*no capital loss*
K11	You make a forex realisation loss as a result of forex realisation event 2 and item 1 of the table in subsection 775-70(1) applies	when the forex realisation event happens	*no capital gain*	equal to the forex realisation loss

CONSOLIDATIONS				
CGT event		**Time of event**	**Capital gain**	**Capital loss**
L1	Reduction under section 705-57 in tax cost setting amount of assets of entity becoming subsidiary member of consolidated group	just after entity becomes subsidiary member	*no capital gain*	amount of reduction
L2	Amount remaining after step 3A etc of 'joining allocable cost amount is negative'	just after entity becomes subsidiary member	amount remaining	*no capital loss*
L3	Tax cost setting amounts for retained cost base assets exceed joining allocable cost amount	just after entity becomes subsidiary member	amount of excess	*no capital loss*
L4	No reset cost base assets against which to apply excess of net allocable cost amount on joining	just after entity becomes subsidiary member	*no capital gain*	amount of excess
L5	Amount remaining after step 4 of 'leaving allocable cost amount is negative'	when entity ceases to be subsidiary member	amount remaining	*no capital loss*
L6	Error in calculation of tax cost setting amount for joining entity's assets	start of the income year when the Commissioner becomes aware of the errors	the net overstated amount resulting from the errors, or a portion of that amount	the net understated amount resulting from the errors, or a portion of that amount
L7	Discharged amount of liability differs from amount for allocable cost amount purposes	start of the income year in which the liability is realised	your allocable cost amount *less* what it would have been had you used the correct amount for liability	what your allocable cost amount would have been had you used the correct amount for the liability *less* your allocable cost amount
L8	Reduction in tax cost setting amount for reset cost base assets on joining cannot be allocated	just after entity becomes subsidiary member	*no capital gain*	amount of reduction that cannot be allocated

APPENDIX 2

Consumer price index (CPI)

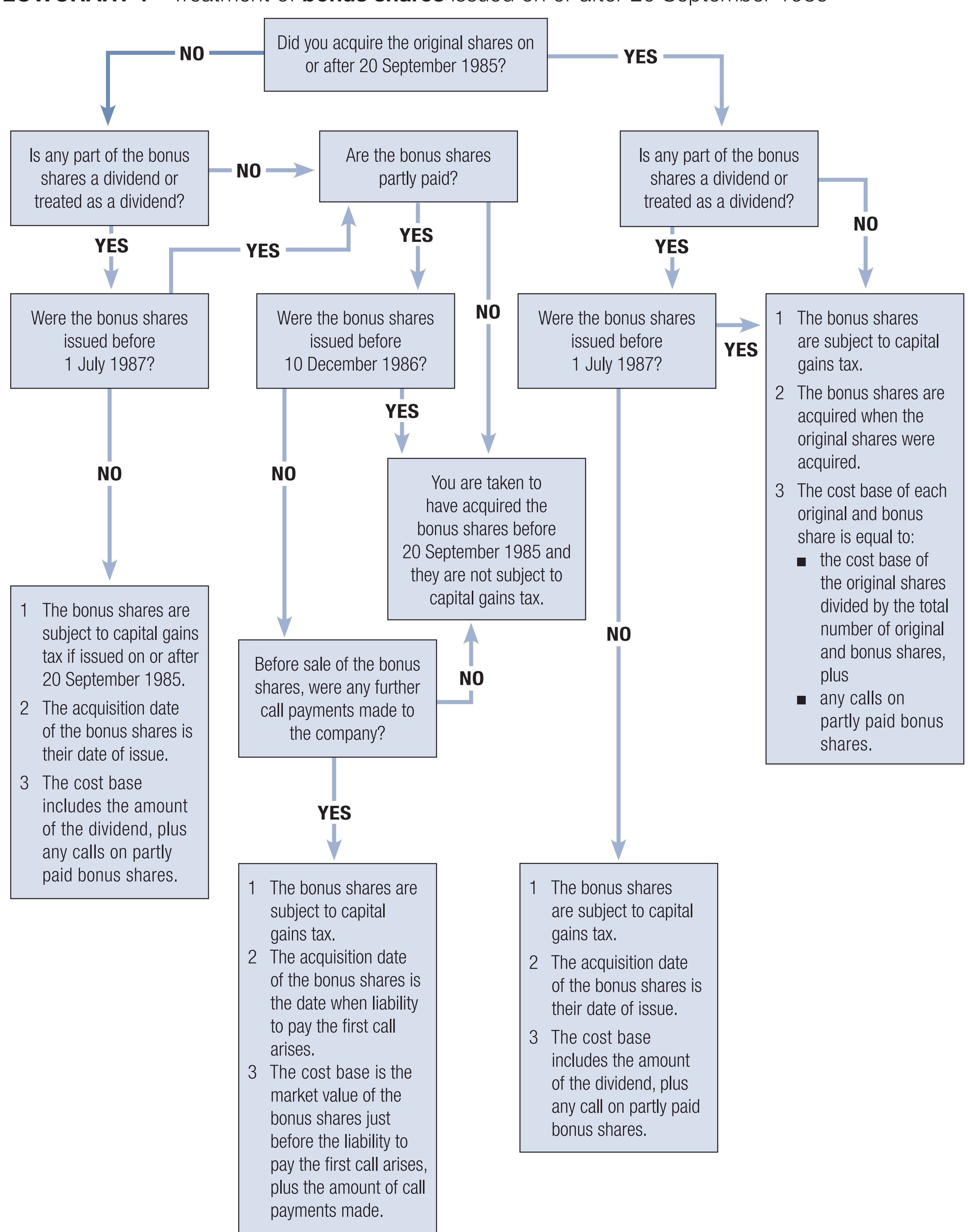
ALL GROUPS – WEIGHTED AVERAGE OF EIGHT CAPITAL CITIES				
	Quarter ending			
Year	31 Mar	30 Jun	30 Sep	31 Dec
1985	–	–	71.3	72.7
1986	74.4	75.6	77.6	79.8
1987	81.4	82.6	84.0	85.5
1988	87.0	88.5	90.2	92.0
1989	92.9	95.2	97.4	99.2
1990	100.9	102.5	103.3	106.0
1991	105.8	106.0	106.6	107.6
1992	107.6	107.3	107.4	107.9
1993	108.9	109.3	109.8	110.0
1994	110.4	111.2	111.9	112.8
1995	114.7	116.2	117.6	118.5
1996	119.0	119.8	120.1	120.3
1997	120.5	120.2	119.7	120.0
1998	120.3	121.0	121.3	121.9
1999	121.8	122.3	123.4	N/A*

For an explanation of indexation and how it applies, see page 14.

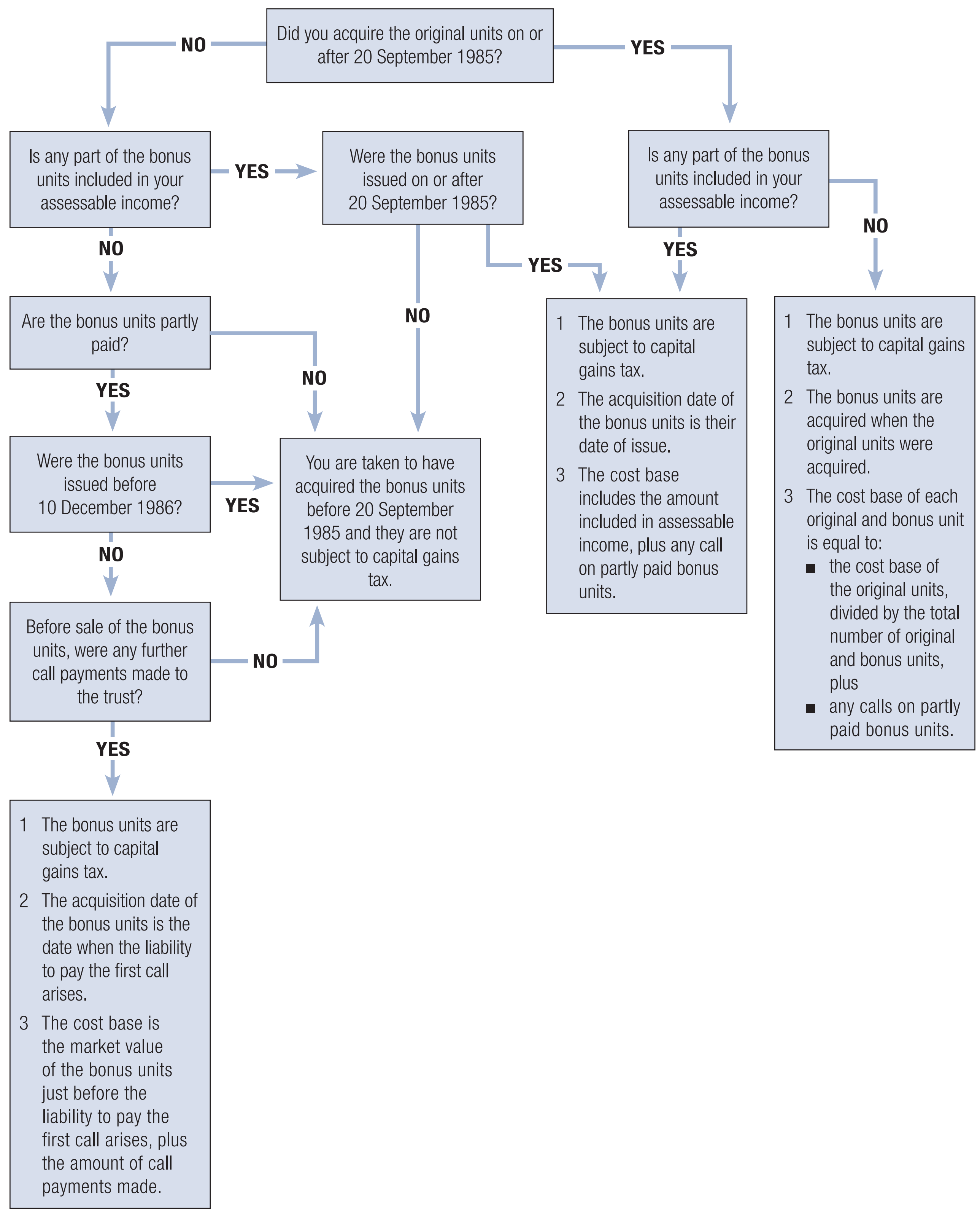
* If you use the indexation method to calculate your capital gain, the indexation factor is based on increases in the CPI up to September 1999 only.

APPENDIX 3
Flowcharts

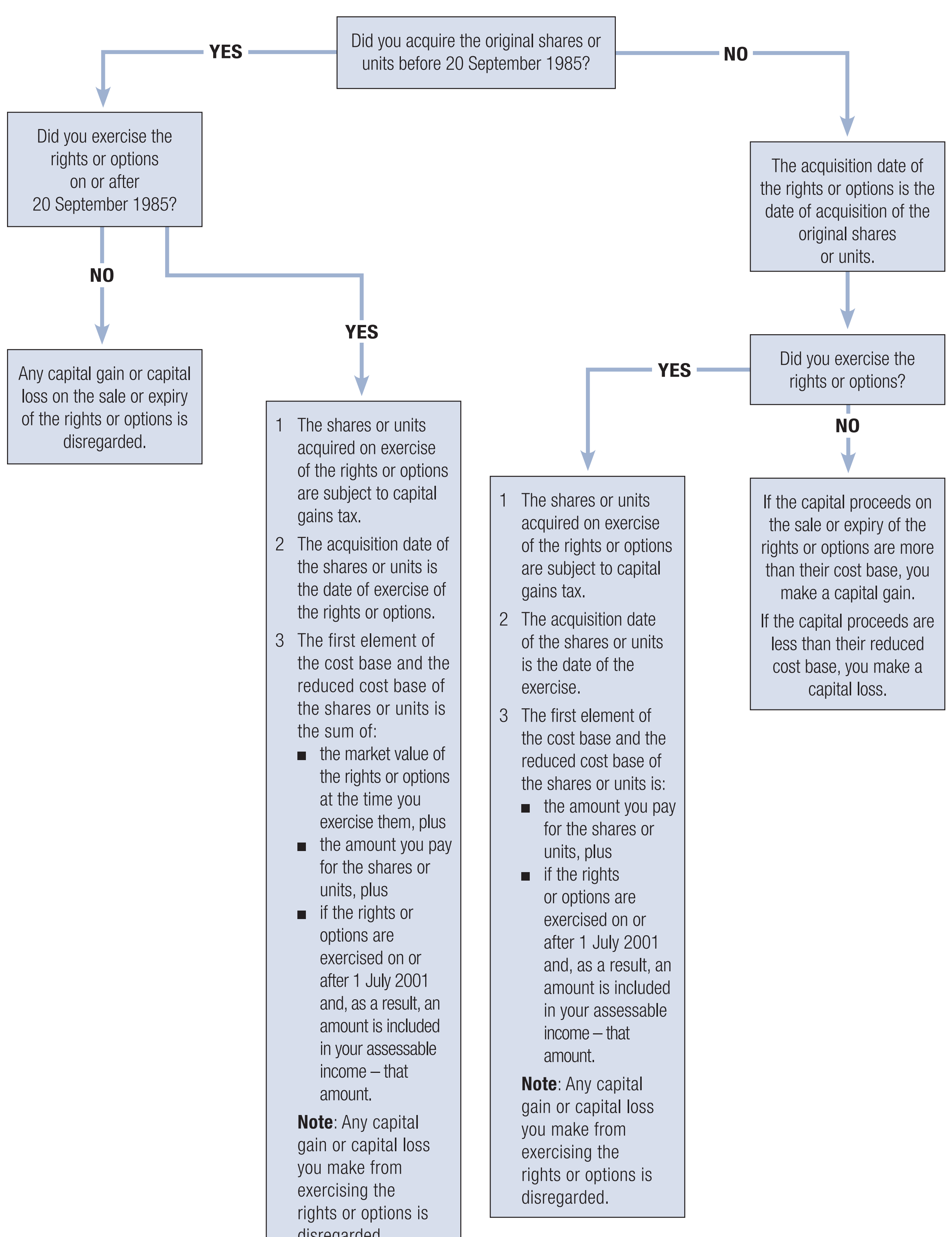
FLOWCHART 1 Treatment of **bonus shares** issued on or after 20 September 1985



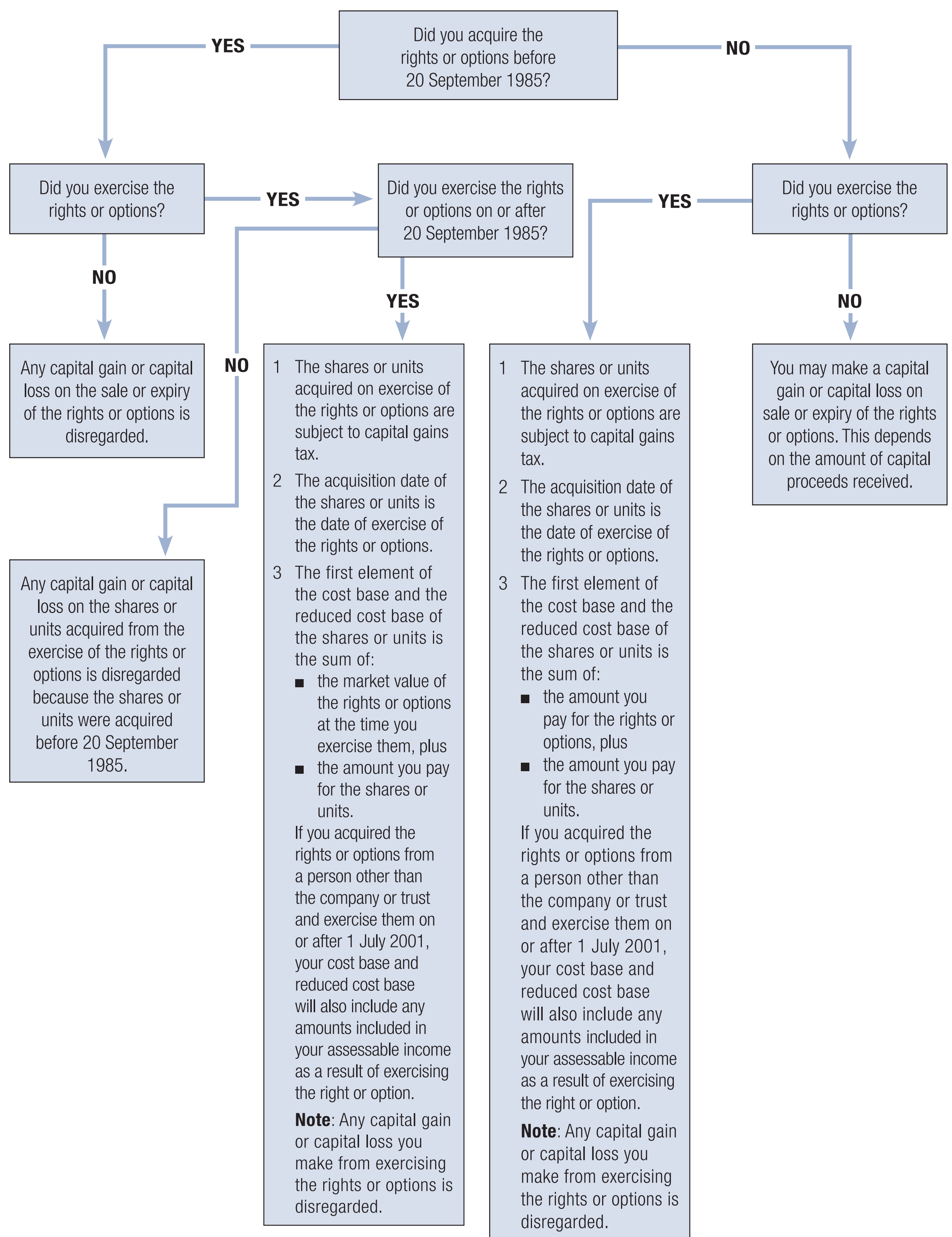
FLOWCHART 2 Treatment of **bonus units** issued on or after 20 September 1985



FLOWCHART 3 Treatment of rights or options to acquire shares or units issued directly to you from a company or trust for no payment (but not under an employee share scheme)



FLOWCHART 4 Treatment of rights or options (to acquire shares or units) that you paid to acquire from a company or trust – or that you acquired from another person (but not under an employee share scheme).



APPENDIX 4
Some major share transactions

<table>
<tr><th>COMPANY</th><th>DETAILS OF TRANSACTION</th></tr>
<tr><td>AMP Ltd</td><td>Demutualisation
Acquisition cost for AMP Ltd shares was $10.43 per share and acquisition date was 20 November 1997.
Demerger
In December 2003 the UK operations of AMP (referred to as ‘HHG’) were demerged from AMP. As part of the demerger, shareholders were issued with rights to acquire shares at a discount. Also, some of each shareholder’s AMP shares were cancelled and their remaining shares were split so that they had the same number of shares as before the cancellation. The tax consequences of the demerger, including the rights issue, are set out in the fact sheet, AMP Group demerger, available on our website – together with a calculator – at www.ato.gov.au</td></tr>
<tr><td>BHP Billiton Limited</td><td>Demerger
In July 2002, BHP shareholders received one BHP Steel Ltd share for every five BHP Billiton shares held.
BHP Billiton has advised that BHP Steel represented 5.063% of the market value of the group as a whole just after the demerger. Shareholders who received BHP Steel shares should use this percentage to apportion the sum of the cost bases of their post-CGT BHP Billiton shares between these shares and the post-CGT BHP Steel shares.
In November 2003, BHP Steel Limited changed its name to BlueScope Steel Limited.</td></tr>
<tr><td>Commonwealth Bank of Australia Ltd</td><td>Public share offer
For the first instalment: Acquisition date and indexation available from 13 July 1996.
For the final instalment: Indexation also applied from 13 July 1996.
Share buy-back
In March 2004, the Commonwealth Bank (CBA) announced a general share buy-back. Shareholders who took part in the buy-back received $27.50 per share, which included a fully franked dividend of $16.50 per share.
The capital proceeds are $13.92 per share – that is, the amount of proceeds actually received ($11.00) plus the amount by which the tax value exceeded the buy-back price ($2.92).
The date the shares were sold under the buy-back was 29 March 2004.
If the capital proceeds of $13.92 exceed the cost base of the share, the difference is a capital gain to the shareholder. If $13.92 is less than the share’s reduced cost base, the difference is a capital loss.</td></tr>
<tr><td>CSR Limited – Rinker Group Limited</td><td>Demerger
In April 2003 CSR shareholders received one Rinker share for every CSR share they held.
CSR has advised that Rinker represented 75% of the market value of the group as a whole just after the demerger. Shareholders who received Rinker shares should use this percentage to apportion the sum of the cost bases of their post-CGT CSR shares between these shares and the post-CGT Rinker shares. See Class Ruling CR 2003/10 Income tax: Special Dividend, Capital Reduction and Related Scheme of Arrangement for the Demerger of Rinker Group Limited from CSR Limited.</td></tr>
</table>

COMPANY	DETAILS OF TRANSACTION
Foster's Group Limited	**Share buy-back** On 6 November 2003, Foster's Group Limited announced a share buy-back. Shareholders who took part in the buy-back received $4.00 per share, made up of a fully franked dividend of $2.19 and capital proceeds of $1.81. The date the shares were sold under the buy-back was 22 December 2003. If the capital proceeds of $1.81 exceed the cost base of the share, the difference will be a capital gain to the shareholder. If $1.81 is less than the share's reduced cost base, the difference will be a capital loss. See *Class Ruling CR 2004/16 – Income tax: Share buy-back: Foster's Group Ltd.*
Harris Scarfe Holdings Ltd	**Liquidator declares shares worthless** The liquidator's written declaration made on 30 June 2003 enabled shareholders to choose to make a capital loss equal to the reduced cost base of their shares at the time of the liquidator's declaration. If they make this choice, they have made a capital loss in the 2002–03 income year.
HIH Insurance Ltd	**Liquidator declares shares worthless** The liquidator's written declaration made on 10 October 2001 enabled shareholders of HIH Insurance Limited to choose to make a capital loss in 2001–02 equal to the reduced cost base of the share under CGT event G3.
Insurance Australia Group (IAG) Limited	**Share purchase plan** Offers opened on 4 November 2002 for shareholders to purchase shares from IAG for $2.40 per share free of brokerage and transaction costs. There are no CGT consequences at the time of purchase. However, there are taxation consequences in relation to owning and disposing of the shares you purchase. **Share buy-back** In May 2004, IAG announced a share buy-back. At the time of publication (May 2004), not enough information was available to know what the tax consequences are. The buy-back was expected to be completed before 30 June 2004. Therefore, shareholders who took part will need to find out what the consequences are so they can meet any 2003–04 CGT obligation.
IOOF Ltd	**Demutualisation** Acquisition cost for IOOF Ltd shares was $2.53 per share and acquisition date was 14 June 2002.
MIM Holdings Ltd (MIM)	**Takeover** On 24 June 2003 Xstrata plc purchased all shares in MIM Limited as part of a takeover. MIM shareholders received capital proceeds of $1.72 per share and disposed of their shares on 24 June 2003. No rollover was available to MIM shareholders.
Mincor Resources	**Demerger** In October 2003, Mincor shareholders received one Tethyan Copper Company Ltd share for every 3.37 Mincor shares held. Mincor has advised that Tethyan Copper Company represented 9.582% of the market value of the group as a whole just after the demerger. Shareholders who received Tethyan Copper Company shares should use this percentage to apportion the sum of the cost bases of their Mincor shares between these shares and the Tethyan Copper Company shares. See *Class Ruling CR 2003/66 – Income tax: Capital gains: demerger rollover relief for shareholders: demerger of Tethyan Copper Company Limited from Mincor Resources NL*.
NRMA Insurance Group Ltd (NIGL)	**Demutualisation** Acquisition cost of NIGL shares allocated to shareholders was $1.78 per share. Acquisition date was 19 June 2000. For additional shares purchased through the facility, acquisition cost was $2.75 and acquisition date was 6 August 2000.

COMPANY	DETAILS OF TRANSACTION
One.Tel Ltd	**Liquidator declares shares worthless** The liquidator's written declaration made on 30 May 2002 enabled shareholders of One.Tel Ltd to choose to make a capital loss in the 2001–02 year equal to the reduced cost base of the share.
Over 50s Mutual Friendly Society Limited (OFM Ltd)	**Demutualisation** Acquisition cost for OFM Ltd shares was $1.65 per share and acquisition date was 12 June 2001.
Pasminco Limited	**Statement that shares are worthless not made by liquidator** The statement by the administrators on 4 September 2002 did not cause a CGT event G3 (liquidator declares shares worthless) to happen. Shareholders of Pasminco cannot choose to make a capital loss under CGT event G3 until such time as a liquidator may make such a declaration. See *Class Ruling CR 2002/85 – Income tax: Capital gains tax: CGT event G3: Pasminco Limited (subject to deed of company arrangement)*. See **Budget announcements** on page vi. **Creation of a trust over shares** Shareholders may make a capital loss if they create a valid trust over shares they own in a company under administration, like Pasminco shareholders who agree to sell their shares but hold them on trust for the buyer until the sale can be completed. See *Tax Determination TD 2004/13 – Income tax: capital gains: can CGT event E1 in section 104-55 of the* Income Tax Assessment Act 1997 *happen to a shareholder in a company in voluntary administration under Part 5.3A of the* Corporations Act 2001 *who declares a trust over their shares?*
Sonic Health Care Limited – SciGen Limited	**Demerger** In December 2002, Sonic shareholders received one SciGen share in the form of a CHESS Unit of Foreign Currency (CUFS) for every Sonic share held. Sonic has advised that SciGen represented 0.66% of the market value of the group as a whole just after the demerger. Shareholders who received SciGen shares should use this percentage to apportion the sum of the cost bases of their post-CGT Sonic shares between these shares and the post-CGT SciGen shares. See *Class Ruling CR 2002/89 – Income tax: Dividend, capital reduction and related schemes of arrangement for the demerger of SciGen Limited from Sonic Healthcare Limited*.
TAB Limited	**Share buy-back** On 21 March 2002, TAB Limited announced a share buy-back. The capital proceeds received were $2.35. The amount by which the capital proceeds of $2.35 exceeds the cost base of each share will be a capital gain to the shareholder. If the share's reduced cost base exceeds $2.35, the difference will be a capital loss. The announcement date was 21 March 2002. See *Class Ruling CR 2002/16 – Income tax: Share buy-back: TAB Limited*.

COMPANY	DETAILS OF TRANSACTION
Telstra	**Public share offer 1** For the first instalment: Acquisition of shares was on (and indexation available from) 15 November 1997. For the final instalment: Indexation applied from 15 November 1997. **Public share offer 2** For the first instalment: Date of acquisition was 22 October 1999 if the instalment receipts were purchased through the offer. No indexation applied because acquisition was after 21 September 1999. For the final instalment: No indexation applied as above. **Share buy-back** On 7 October 2003 Telstra announced a share buy-back. The final buy-back price of $4.20 per share included a fully franked dividend of $2.70 per share and the capital proceeds of $1.50 per share. The amount by which the reduced cost base of each share exceeds the capital proceeds of $1.50 will be a capital loss to the shareholder.
Western Mining Corporation Limited – WMC Resources Limited	**Demerger** In December 2002, WMC shareholders received one WMCR share for every WMC share held. Also WMC Limited changed its name to Alumina Ltd. Alumina has advised that WMCR represented 46.30% of the market value of the group as a whole just after the demerger. Shareholders who received WMCR shares should use this percentage to apportion the sum of the cost bases of their post-CGT Alumina shares between these shares and the post-CGT WMCR shares. See *Class Ruling CR 2002/81 – Income tax: Demerger rollover relief for shareholders: demerger of WMC Ltd*.
Woolworths	**Share buy-back** On 14 April 2003 Woolworths announced a share buy-back. The final buy-back price of $11.40 per share included a fully franked dividend of $8.52 per share and capital proceeds of $2.88 per share. The amount by which the capital proceeds of $2.88 exceed the cost base of each share is a capital gain to the shareholder. If the share's reduced cost base exceeds $2.88, the difference is a capital loss.

For more information about share transactions in earlier years, visit our website at **www.ato.gov.au**

APPENDIX 5
Explanation of terms

Assessable income
Assessable income is all the income you have received that should be included on your income tax return. Generally, assessable income does not include non-assessable payments from a unit trust, including a managed fund.

Bonus shares
Bonus shares are additional shares a shareholder receives wholly or partly as a dividend. You may also pay an amount to get them.

Bonus units
Bonus units are additional units a unit holder receives from the trust. You may also be required to pay an amount to get them.

Calls on shares
A company may sometimes issue a share at less than its par or face value and then make calls to pay up part or all of the remaining outstanding balance.

Capital gain
You may make a capital gain from a CGT event such as the sale of an asset. Generally your capital gain is the difference between your asset's cost base (what you paid for it) and your capital proceeds (what you received for it). You can also make a capital gain if a managed fund or other unit trust distributes a capital gain to you.

Capital gains tax
Capital gains tax (CGT) refers to the income tax you pay on any net capital gain you make and include on your annual income tax return. For example, when you sell (or otherwise dispose of) an asset as part of a CGT event, you are subject to CGT.

Capital improvements
A capital improvement is an improvement you make to a CGT asset that is reflected in its state or nature at the time of a later CGT event. This does not include a repair that is deductible for income tax purposes.

Capital loss
Generally, you may make a capital loss as a result of a CGT event if you received less capital proceeds for an asset than its reduced cost base (what you paid for it).

Capital proceeds
Capital proceeds is the term used to describe the amount of money or the value of any property you receive or are entitled to receive as a result of a CGT event. For shares or units, capital proceeds may be:
- the amount you receive from the purchaser
- the value of shares (or units) you receive on a demerger
- the value of shares (or units) and the amount of cash you receive on a merger/takeover, or
- their market value if you give them away.

CGT asset
CGT assets include shares, units in a unit trust, collectables (such as jewellery), assets for personal use (such as furniture or a boat) and other assets (such as an investment property).

CGT-concession amounts
These amounts are the CGT discount component of any actual distribution from a managed fund.

CGT discount
The CGT discount is the amount (or percentage) by which a capital gain may be reduced under the discount method (see **Discount method**).

CGT event
A CGT event happens when a transaction takes place such as the sale of a CGT asset. The result is usually a capital gain or capital loss.

Consolidated income taxation of corporate groups
Taxing wholly owned groups as single entities. Subsidiary members are treated as parts of the head company. Intra-group transactions are disregarded for income tax purposes. Consolidation enables assets to be transferred between members of a group without triggering capital gains or requiring cost base adjustments for membership interests. Effective from 1 July 2002.

Convertible note
A convertible note is another type of investment you can make in a company or unit trust. A convertible note earns interest on the amount you pay to acquire the note until the note's expiry date. On expiry of the note, you can either ask for the return of the money paid or convert that amount to acquire new shares or units.

Cost base
The cost base of an asset is generally what it costs you. It is made up of five elements:
- money you paid or property you gave for the asset
- incidental costs of acquiring or selling it (for example, brokerage and stamp duty)
- non-capital costs associated with owning it (generally

this will not apply to shares or units because you will usually have claimed these costs as tax deductions)
- costs associated with increasing its value (for example, if you paid a call on shares), and
- what it has cost you to preserve or defend your title or rights to it.

The cost base for a share or unit may need to be reduced by the amount of any non-assessable payment you receive from the company or fund.

Debt forgiveness

A debt is forgiven if you are freed from the obligation to pay it. A commercial debt that is forgiven may reduce your capital loss, your cost base or your reduced cost base.

Demerger

A demerger involves the restructuring of a corporate or trust group by splitting its operations into two or more entities or groups. Under a demerger the owners of the head entity of the group acquire a direct interest in an entity (demerged entity) that was formerly part of the group.

Demerger rollover

This generally applies to CGT events that happen on or after 1 July 2002 to interests that you own in the head entity of a demerger group and a company or trust is demerged from the group. Generally, the head entity undertaking the demerger will advise owners whether demerger rollover is available but you should seek our advice if you are in any doubt. The Tax Office may have provided advice in the form of a class ruling on a specific demerger, confirming that the rollover is available.

This rollover allows you to defer your CGT obligation until a later CGT event happens to your original or your new shares or units.

Demutualisation

A company demutualises when it changes its membership interests to shares. If you received shares as part of a demutualisation of an Australian insurance company (for example, NRMA), you are not subject to capital gains tax until you sell the shares.

Usually the company will advise you of your cost base for the shares you received. The company may give you the choice of keeping the shares they have given you or of selling them and giving you the capital proceeds.

Depreciating assets

A depreciating asset is an asset that has a limited effective life and can reasonably be expected to decline in value over the time it is used. Depreciating assets include items such as computers, tools, furniture and motor vehicles.

Land and items of trading stock are specifically excluded from the definition of depreciating asset, as are most intangible assets such as options, rights and goodwill.

Discount method

The discount method is one of the ways to calculate your capital gain if:
- the CGT event happened after 11.45am (by legal time in the ACT) on 21 September 1999
- you acquired the asset at least 12 months before the CGT event.

If you use the discount method, you do not index the cost base but you may be able to reduce your capital gain by the CGT discount. However, you must first reduce your capital gains by the amount of all your available capital losses (both current year and prior years) before you discount any remaining capital gain.

If you acquired the asset before 11.45am (by legal time in the ACT) on 21 September 1999, you may be able to choose either the discount method or the indexation method, whichever gives you the better result.

Discounted capital gain

A discounted capital gain is a capital gain that has been reduced by the CGT discount. If the discounted capital gain has been received from a managed fund, the amount will need to be grossed up before you apply any capital losses and then the CGT discount.

Dividend reinvestment plans

Under these plans, shareholders can choose to have their dividend used to acquire additional shares in the company instead of receiving a cash payment. For CGT purposes, you are treated as if you received a cash dividend and then used it to buy additional shares. Each share (or parcel of shares) received in this way is treated as a separate asset when the shares are issued to you.

Dwelling

A dwelling is anything that is used wholly or mainly for residential accommodation. Examples of a dwelling are a home, an apartment, a strata title unit or a unit in a retirement village.

Employee share schemes

If you acquired shares or rights at a discount under an employee share scheme and the scheme complies with the income tax rules for employee share schemes, you can choose when to include the amount of the discount in your assessable income on your tax return. There are special CGT rules relating to the calculation of the cost base of these shares or rights and, in some circumstances, a capital gain or capital loss you make is disregarded.

Gross up

Grossing up applies to unit holders who are entitled to a share of the fund's income that includes a capital gain reduced by the CGT discount. In this case, you 'gross up' your capital gain by multiplying by two your share of any discounted capital gain you have received from the fund. You may also have to gross up a capital gain that was reduced by the small business 50% active asset reduction.

Income year

The income year is the financial year relating to your current income tax return.

Indexation factor

The factor is worked out based on the consumer price index (CPI) at appendix 2.

The indexation of the cost base of an asset is frozen as at 30 September 1999. For CGT events after that time the indexation factor is the CPI for the September 1999 quarter (123.4), divided by the CPI for the quarter in which you incurred costs relating to the asset. The result is rounded to three decimal places.

Indexation method

The indexation method is one of the ways to calculate your capital gain if you bought a CGT asset before 11.45am (by legal time in the ACT) on 21 September 1999. This method allows you to increase the cost base by applying an indexation factor (based on increases in the consumer price index up to September 1999).

You cannot use the indexation method for:

- CGT assets bought after 11.45am (by legal time in the ACT) on 21 September 1999, or
- expenditure relating to a CGT asset acquired after that date.

For CGT events after 11.45am (by legal time in the ACT) on 21 September 1999 the discount method may give you the better result.

Legal personal representative

A legal personal representative can be either:

- the executor of a deceased estate (that is, a person appointed to wind up the estate in accordance with the will), or
- an administrator appointed to wind up the estate if the person does not leave a will.

LIC capital gain amount

This is an amount notionally included in a dividend from a listed investment company (LIC) which represents a capital gain made by that company. The amount is not included as a capital gain under item **17** on the tax return, or item **9** if you use the tax return for retirees. (See page 43 for an example and refer to instructions for **Dividend income** at item **11** on the tax return or item **8** if you use the tax return for retirees.)

Main residence

Your main residence is your home – that is, the dwelling you regard as your main place of residence and nominate as such for any CGT concessions dealing with the disposal of a main residence.

Main residence exemption

Generally, you can ignore a capital gain or capital loss from a CGT event that happens to a dwelling that is your main residence (also referred to as 'your home'). You may make a capital gain or capital loss if you have used your home to produce income, if it was not your home for the full period you owned it or the land around your home is more than 2 hectares.

Managed fund

A managed fund is a unit trust. The types of managed funds available include cash management trusts, fixed interest trusts, mortgage trusts, property trusts, equity trusts, international trusts and diversified trusts.

Market value substitution rule for capital proceeds

In some cases, if you receive nothing in exchange for a CGT asset (for example, if you give it away as a gift) you are taken to have received the market value of the asset at the time of the CGT event. You may also be taken to have received the market value if your capital proceeds are more or less than the market value of the CGT asset, and you and the purchaser were not dealing with each other at arm's length in connection with the event.

You are said to be dealing at arm's length with someone if each party acts independently and neither party exercises influence or control over the other in connection with the transaction. The law looks at not only the relationship between the parties but also the quality of the bargaining between them.

Market value substitution rule for cost base and reduced cost base

In some cases, the general rules for calculating the cost base and reduced cost base have to be modified. For example, the market value may be substituted for the first element of the cost base and reduced cost base if:

- you did not incur expenditure to acquire the asset
- some or all of the expenditure you incurred cannot be valued, or
- you did not deal at arm's length with the vendor in acquiring the asset.

Net capital gain

A net capital gain is the difference between your total capital gains for the year and your total capital losses (including capital losses from prior years), less any CGT discount and small business CGT concessions to which you are entitled.

Non-assessable payment

A non-assessable payment is a payment received from a company or fund that is not assessed as part of your income on your income tax return.

This includes some distributions from unit trusts and managed funds and, less commonly, from companies.

'Other' method

To calculate your capital gain using the 'other' method, you subtract your cost base from your capital proceeds. You must use this method for any shares or units you have bought and sold within 12 months (that is, when the indexation and discount methods do not apply).

Ownership interest

You have an ownership interest if you own a dwelling or land and/or meet the conditions outlined in chapter 6.

Pre-CGT

Acquired before 20 September 1985. Assets acquired before this date are generally exempt from CGT. An exception is if CGT event K6 applies.

Post-CGT

Acquired on or after 20 September 1985.

Reduced cost base

The reduced cost base is the amount you take into account when you are working out whether you have made a capital loss when a CGT event happens.

The reduced cost base may need to have amounts deducted from it such as non-assessable payments.

The reduced cost base does not include indexation or non-capital costs of ownership such as interest on monies borrowed to buy the asset.

Rollover

Rollover allows a capital gain to be deferred or disregarded until a later CGT event happens.

Scrip-for-scrip rollover

This can apply to CGT events that happen on or after 10 December 1999 in the case of a takeover or merger of a company or fund in which you have holdings. The company or fund would usually advise you if the rollover conditions have been satisfied.

This rollover allows you to defer your CGT obligation until a later CGT event happens to your shares or units.

You may only be eligible for partial rollover if you received shares (or units) plus cash for your original shares. In that case, if the information provided by the company or fund is not sufficient for you to calculate your capital gain, you may need to seek advice from the Tax Office.

Share buy-backs

If you disposed of shares back to a company under a buy-back arrangement, you may have made a capital gain or capital loss.

Some of the buy-back price may have been treated as a dividend for tax purposes. The time you make the capital gain or capital loss will depend on the conditions of the particular buy-back offer.

Small business CGT concessions

There are four small business CGT concessions available if certain conditions are satisfied. They are:

- the small business 15-year exemption
- the small business 50% active asset reduction
- the small business retirement exemption, and
- the small business rollover.

These concessions apply to CGT events that happen after 11.45am (by legal time in the ACT) on 21 September 1999.

For information on these concessions refer to the *Guide to capital gains tax concessions for small business* (see the inside back cover).

Takeovers and mergers

If a company in which you held shares was taken over and you received new shares in the takeover company, you may be entitled to scrip-for-scrip rollover.

If the scrip-for-scrip conditions were not satisfied, your capital proceeds for your original shares will be the total of any cash and the market value of the new shares you received.

Tax-advantaged entity

A tax-advantaged entity is a tax-exempt entity, or the trustee of:

- a complying superannuation fund
- a complying approved deposit fund, or
- a pooled superannuation fund.

Tax-deferred amounts

These amounts include indexation allowed to a trust on its capital gains and accounting differences in income.

Tax-exempted amounts

These amounts are generally made up of exempt income of the trust, amounts on which the trust has already paid tax or income you had to repay to the trust. Tax-exempted amounts do not affect your cost base or your reduced cost base.

Tax-free amounts

These amounts allow the trust to pay greater distributions to its beneficiaries. This is due to certain tax concessions trusts can receive.

Unit trust

A unit trust is a trust or fund that is divided into units representing capital and income entitlements. Units may be traded or redeemed (including the switching and transferring of units). A managed fund is a type of unit trust.

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TEAR ALONG DOTTED LINE

CGT SUMMARY WORKSHEET For 2003–04 tax returns

This worksheet is for the use of individuals (including individual partners in partnership), companies, trusts and funds.

Complete only the parts or steps of this worksheet indicated for the taxpayer's type. For example, if you are an individual, complete only the parts or steps indicated to be completed by individuals.

PART A TOTAL CURRENT YEAR CAPITAL GAINS

Part A1: Current year capital gains from CGT assets and CGT events or a distribution from a trust that includes a capital gain (other than capital gains from collectables)

	Non-active assets			Active assets		
	Capital gains – indexation method	Capital gains – discount method	Capital gains – 'other' method	Capital gains – indexation method	Capital gains – discount method	Capital gains – 'other' method
Shares and units (in unit trusts)	**A**	**B**	**C**	**M**	**N**	**O**
Real estate	**D**	**E**	**F**	**P**	**Q**	**R**
Other CGT assets and any other CGT events	**G**	**H**	**I**	**S**	**T**	**U**
Subtotal current year capital gains	**A1**	**A2**	**A3**	**A4**	**A5**	**A6**

If you need to complete a *Capital gains tax (CGT) schedule 2004* (CGT schedule), transfer the amounts at **A** to **I** and **M** to **U** in the table above to the corresponding labels in **part A** of the CGT schedule.

If you made any capital gains or capital losses from collectables, complete **part A2** on the next page. Otherwise, go to **part A3**.

ABBREVIATIONS

CYCG current year capital gain
CYCL current year capital losses
PYNCL prior year net capital losses

Part A2: Capital gains and capital losses from collectables

	Capital gains – indexation method	Capital gains – discount method	Capital gains – 'other' method	Current year capital losses
CYCG and CYCL – from collectables	**C1**	**C2**	**C3**	**C4**
Capital gains from collectables received as a distribution from a trust – grossed up at **C6** as required	**C5**	**C6**	**C7**	
Total CYCG from collectables	**C8**	**C9**	**C10**	

ABBREVIATIONS

- CYCG current year capital gain
- CYCL current year capital losses
- PYNCL prior year net capital losses

Step A2.1 Apply any current year capital losses from collectables

	Capital gains – indexation method	Capital gains – discount method	Capital gains – 'other' method	Total CYCL from collectables applied
CYCL from collectables applied	**1A**	**1B**	**1C**	**1D**
CYCG from collectables after applying CYCL from collectables	**1E**	**1F**	**1G**	

In each column, the amount in the rows **1A** to **1C** cannot exceed the amount in the rows **C8** to **C10** in the table above. The amount at **1D** cannot exceed the amount at **C4**.

Step A2.2 Apply any prior year net capital losses from collectables

PYNCL from collectables available	**2A**
Less any adjustment for commercial debts forgiven	**2B**
Remaining PYNCL from collectables available	**2C**

	Capital gains – indexation method	Capital gains – discount method	Capital gains – 'other' method	Total PYNCL from collectables applied
PYNCL from collectables applied	**2D**	**2E**	**2F**	**2G**
CYCG from collectables after applying CYCL and PYNCL	**J**	**K**	**L**	

In applying the PYNCL from collectables, the amount in each column of rows **2D** to **2F** cannot exceed the amount at **step A2.1** in each column at rows **1E** to **1G**. The amount at **2G** cannot exceed the amount at **2C**.

Part A3: Total current year capital gains

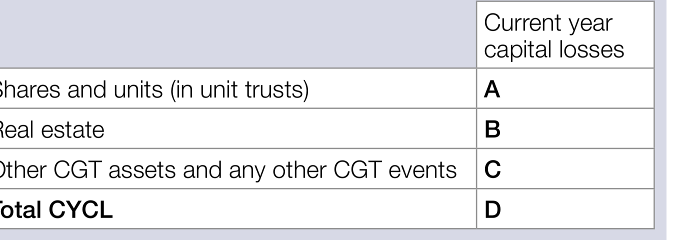
	Non-active assets			Active assets			
	Capital gains – indexation method	Capital gains – discount method	Capital gains – 'other' method	Capital gains – indexation method	Capital gains – discount method	Capital gains – 'other' method	
Subtotal CYCG – from **part A1**	**A1**	**A2**	**A3**	**A4**	**A5**	**A6**	
CYCG from collectables after applying CYCL and PYNCL – from **part A2**	**J**	**K**	**L**				**Total CYCG**
Total current year capital gains	**A7**	**A8**	**A9**	**A10**	**A11**	**A12**	

Individual taxpayers: transfer the amount at '**Total CYCG**' to item **17 (Capital gains)** **H** **Total current year capital gains** on the *2004 tax return for individuals* (supplementary section) or item **9** if you use the tax return for retirees.

If you need to complete a CGT schedule, transfer the amounts at **J**, **K** and **L** above to the corresponding labels in **part A** of the CGT schedule.

If you made current year capital losses – other than capital losses from collectables – complete **part B**. Otherwise, go to **part D**.

PART B CURRENT YEAR CAPITAL LOSSES FROM CGT ASSETS AND CGT EVENTS, OTHER THAN CAPITAL LOSSES FROM COLLECTABLES



	Current year capital losses
Shares and units (in unit trusts)	**A**
Real estate	**B**
Other CGT assets and any other CGT events	**C**
Total CYCL	**D**

ABBREVIATIONS

- CYCG current year capital gain
- CYCL current year capital losses
- PYNCL prior year net capital losses

If you need to complete a CGT schedule, transfer the amounts at **A**, **B**, **C** and **D** to the corresponding labels in **part B** of the CGT schedule.

NOTE

There is no **part C** to this worksheet.

PART D APPLYING CAPITAL LOSSES AGAINST CURRENT YEAR CAPITAL GAINS

	Non-active assets			Active assets		
	Capital gains – indexation method	Capital gains – discount method	Capital gains – 'other' method	Capital gains – indexation method	Capital gains – discount method	Capital gains – 'other' method
Total CYCG from **part A3**	**A7**	**A8**	**A9**	**A10**	**A11**	**A12**

If you showed current year capital losses at **D** in **part B**, complete **step D1**. Otherwise, go to **step D2**.

Step D1 Apply current year capital losses against total current year capital gains shown at rows A7 to A12 above

	Non-active assets			Active assets			
	Capital gains – indexation method	Capital gains – discount method	Capital gains – 'other' method	Capital gains – indexation method	Capital gains – discount method	Capital gains – 'other' method	**Total CYCG applied**
Current year capital losses applied	**3A**	**3B**	**3C**	**3D**	**3E**	**3F**	**H**
CYCG after applying CYCL	**3G**	**3H**	**3I**	**3J**	**3K**	**3L**	

In applying the current year capital losses, the amount in each column in rows **3A** to **3F** cannot exceed the amount in rows **A7** to **A12**.

The amount at **H** cannot exceed the amount at **D** in **part B**.

If you need to complete a CGT schedule:

Add the amounts at columns **3A** and **3D** above and transfer the total to **E** in **part D** of the CGT schedule.

Add the amounts at columns **3B** and **3E** above and transfer the total to **F** in **part D** of the CGT schedule.

Add the amounts at columns **3C** and **3F** above and transfer the total to **G** in **part D** of the CGT schedule.

Transfer the **Total CYCL applied** amount at **H** to **H** in **part D** of the CGT schedule.

If you have prior year net capital losses go to **step D2**. Otherwise, for individuals, trusts and funds go to **part E**. For companies, go to **step D3**.

ABBREVIATIONS

CYCG current year capital gain
CYCL current year capital losses
PYNCL prior year net capital losses

Step D2 Apply any prior year net capital losses, other than those from collectables, against current year capital gains remaining after **step D1**

PYNCL available	**4A**
Less any adjustment for commercial debts forgiven	**4B**
Remaining PYNCL available	**4C**

	Non-active assets			Active assets			
	Capital gains – indexation method	Capital gains – discount method	Capital gains – 'other' method	Capital gains – indexation method	Capital gains – discount method	Capital gains – 'other' method	**Total PYNCL applied**
PYNCL applied	**4D**	**4E**	**4F**	**4G**	**4H**	**4I**	**L**
CYCG after applying CYCL and PYNCL	**4J**	**4K**	**4L**	**4M**	**4N**	**4O**	

In applying the PYNCL, the amount in each column of rows **4D** to **4I** cannot exceed the amount at **step D1** in each column in rows **3G** to **3L**.

The amount at **L** cannot exceed the amount at **4C**.

If you need to complete a CGT schedule:

Add the amounts at columns **4D** and **4G** above and transfer the total to **I** in **part D** of the CGT schedule.
Add the amounts at columns **4E** and **4H** above and transfer the total to **J** in **part D** of the CGT schedule.
Add the amounts at columns **4F** and **4I** above and transfer the total to **K** in **part D** of the CGT schedule.
Transfer the **Total PYNCL applied** amount at **L** to **L** in **part D** of the CGT schedule.
Companies go to **step D3**. Individuals, trusts and funds go to **part E**.

ABBREVIATIONS

CYCG current year capital gain
CYCL current year capital losses
PYNCL prior year net capital losses

Step D3 Companies only – Apply any capital losses transferred in

If the company had any capital losses transferred in from other group companies, complete **step D3**. Otherwise, go to **part E**.

	Non-active assets			Active assets			
	Capital gains – indexation method	Capital gains – discount method	Capital gains – 'other' method	Capital gains – indexation method	Capital gains – discount method	Capital gains – 'other' method	**Total capital losses transferred in**
Capital losses transferred in applied	**5A**	**5B**	**5C**	**5D**	**5E**	**5F**	**P**

In applying capital losses transferred in, the amounts at labels in each column of rows **5A** to **5F** cannot exceed the amounts in each column at **step D2**, rows **4J** to **4O**.

The amount at **P** cannot exceed remaining CYCG (after deducting CYCL and PYNCL).

If the company needs to complete a CGT schedule:

Add the amounts at columns **5A** and **5D** at **step D3** above and transfer the total to **M** in **part D** of the CGT schedule.

Add the amounts at columns **5B** and **5E** at **step D3** above and transfer the total to **N** in **part D** of the CGT schedule.

Add the amounts at columns **5C** and **5F** at **step D3** above and transfer the total to **O** in **part D** of the CGT schedule.

Transfer the **Total capital losses transferred in** amount at **P** in **step D3** to **P** in **part D** of the CGT schedule.

PART E CURRENT YEAR CAPITAL GAINS (CYCG) AFTER APPLYING CAPITAL LOSSES

	Non-active assets			Active assets		
	Capital gains – indexation method	Capital gains – discount method	Capital gains – 'other' method	Capital gains – indexation method	Capital gains – discount method	Capital gains – 'other' method
CYCG after applying CYCL, PYNCL and capital losses transferred in	**A**	**B**	**C**	**D**	**E**	**F**

If you need to complete a CGT schedule, transfer the amounts at **A**, **B**, **C**, **D**, **E** and **F** to the corresponding labels in **part E** of the CGT schedule.

PART F CGT DISCOUNT ON CAPITAL GAINS

To be completed by individuals, trusts and funds only. Companies go to part G.

Calculate the CGT discount applicable to the capital gains at **B** and **E** in **part E** by applying the discount percentage – 50% for individuals and trusts and $33\frac{1}{3}$% for complying superannuation entities (fund tax return). Show the amount of the discount at **J** and **K** respectively, then deduct the discount amounts at **J** and **K** from the amounts at **B** and **E** respectively in **part E**. Transfer the amounts at **A**, **C**, **D** and **F** in **part E** to **6A**, **6C**, **6D** and **6F** respectively.

ABBREVIATIONS

CYCG current year capital gain
CYCL current year capital losses
PYNCL prior year net capital losses

	Non-active assets			Active assets		
	Capital gains – indexation method	Capital gains – discount method	Capital gains – 'other' method	Capital gains – indexation method	Capital gains – discount method	Capital gains – 'other' method
Discount amount		**J**			**K**	
CYCG after capital losses and discount	(A above) **6A**	(B above – J) **6B**	(C above) **6C**	(D above) **6D**	(E above – K) **6E**	(F above) **6F**

If you need to complete a CGT schedule, transfer the amounts at **J** and **K** to the corresponding labels in **part F** of the CGT schedule.

TEAR ALONG DOTTED LINE

PART G CGT SMALL BUSINESS CONCESSIONS

This part does not include the small business 15-year exemption—this is shown separately at **part K** of the CGT schedule (if a schedule is required).
Part G to be completed by individuals, companies, trusts and funds (where appropriate)

Apply one or more of the concessions to which you are entitled—small business 50% active asset reduction, small business retirement exemption, small business active asset rollover or any combination of these concessions to which you are entitled.

	Active assets			
	Capital gains – indexation method	Capital gains – discount method	Capital gains – 'other' method	**Total CGT small business concessions**
SBAAR	**L**	**M**	**N**	
SBRE	**O**	**P**	**Q**	
SBRO	**R**	**S**	**T**	
Totals CGT small business concessions	**7A**	**7B**	**7C**	**7D**

ABBREVIATIONS

CYCG	current year capital gain
CYCL	current year capital losses
PYNCL	prior year net capital losses
SBAAR	small business 50% active asset reduction
SBRE	small business retirement exemption
SBRO	small business active asset rollover

If you need to complete a CGT schedule, transfer the amounts at rows **L** to **N**, **O** to **Q** and **R** to **T** to the corresponding labels in **part G** of the CGT schedule.

PART H NET CAPITAL GAIN CALCULATION

For individuals, trusts and funds, add up the current year capital gains at **6A**, **6B**, **6C**, **6D**, **6E** and **6F** in **part F** and deduct the total CGT small business concessions at **7D** (where appropriate) in **part G**.

For companies, add up the current year capital gains at **A**, **B**, **C**, **D**, **E** and **F** in **part E** and deduct the total CGT small business concessions at **7D** in **part G**. Show the result at **G**.

Net capital gain	**G**

If you do not need to complete a CGT schedule, transfer the amount at **G** to **A** **Net capital gain** on your tax return.

If you need to complete a CGT schedule, transfer the amount at **G** to **G** in **part H** of the CGT schedule.

PART I UNAPPLIED NET CAPITAL LOSSES CARRIED FORWARD TO LATER INCOME YEARS

UNCL from collectables	**H**
UNCL from other CGT assets	**I**
UNCL carried forward to later income years	**V** (H + I)

ABBREVIATIONS

CYCG	current year capital gain
CYCL	current year capital losses
PYNCL	prior year net capital losses
SBAAR	small business 50% active asset reduction
SBRE	small business retirement exemption
SBRO	small business active asset rollover
UNCL	unapplied net capital losses

Transfer the amount at **V** to **V Net capital losses carried forward to later income years** on your tax return.

If you need to complete a CGT schedule, transfer the amounts at **H** and **I** to the corresponding labels in **part I** of the CGT schedule.

TEAR ALONG DOTTED LINE

CAPITAL GAIN OR CAPITAL LOSS WORKSHEET

This worksheet helps you calculate a capital gain for each CGT asset or any other CGT event[1] using the indexation method[2], the discount method[3] and/or the 'other' method. It also helps you calculate a capital loss.

CGT asset type or CGT event

- Shares and units (in unit trusts) ☐
- Real estate ☐
- Other CGT assets and any other CGT events[4] ☐
- Collectables[5] ☐

Description of CGT asset or CGT event ____________

Date of acquisition ________ **Date of CGT event** ________

Elements of the cost base or reduced cost base	1 Amount	2 Amounts to be deducted for cost base[9]	3 Cost base (1 – 2)	4 Amounts to be deducted for reduced cost base[9]	5 Reduced cost base (1 – 4)	6 Indexation factor[10]	7 Cost base indexed (3 x 6)
Acquisition or purchase cost of the CGT asset[6]							
Incidental costs to acquire the CGT asset							
Incidental costs that relate to the CGT event[7]							
Non-capital costs of ownership of the CGT asset[8]							
Capital expenditure to increase the asset's value that is reflected in the state or nature of the CGT asset at the time of the CGT event							
Capital costs to establish, preserve or defend title to, or a right over, the CGT asset							
	Cost base unindexed		**$**				
			Reduced cost base		**$**		
					Cost base indexed		**$**

Capital gain calculation

Indexation method		**Discount method**		**'Other' method (CGT asset held less than 12 months)**	
Capital proceeds[11]	$	Capital proceeds[11]	$	Capital proceeds[11]	$
Less: cost base indexed	$	*Less:* cost base unindexed	$	*Less:* cost base unindexed	$
Capital gain (a)	**$**	**Capital gain (b)***	**$**	**Capital gain**	**$**

*In choosing between capital gain **(a)** or **(b)**, remember that the CGT discount will not apply to **(a)** but it will reduce the amount of capital gain remaining after capital losses are deducted from **(b)**.

Transfer the capital gain to **part A1** of the *CGT summary worksheet*, except for a capital gain from collectables which is transferred to **part A2** of that worksheet.

FOOTNOTES
See back of this worksheet.

Capital loss calculation

Capital loss	
Reduced cost base	$
Less: capital proceeds[11]	$
Capital loss[12]	**$**

Transfer the capital loss to **part B** of the *CGT summary worksheet*, except for a capital loss from collectables which is transferred to **part A2** of that worksheet.

1 CGT event

A capital gain or capital loss is made if certain events or transactions (called CGT events) happen. Most commonly, CGT events happen to a CGT asset (for example, the disposal of a CGT asset) but some CGT events can happen without involving a CGT asset. For more information about CGT events, refer to the *Guide to capital gains tax*.

2 Indexation method*

For CGT assets acquired before 11.45am (by legal time in the ACT) on 21 September 1999, the indexation of the cost base of an asset is frozen as at 30 September 1999. Individuals, trusts and superannuation entities can choose to use either the cost base indexed, frozen as at 30 September 1999, or the CGT discount.

3 Discount method*

If a CGT event happens in relation to a CGT asset after 11.45am (by legal time in the ACT) on 21 September 1999 and the asset was acquired at least 12 months before the CGT event, you may be entitled to discount the capital gain after applying capital losses. The discount percentage for an individual or trust is 50% and for a complying superannuation entity it is 33⅓ per cent. Companies (other than those life insurance companies and friendly societies which carry on life insurance business that are entitled to the CGT discount in respect of their complying superannuation business) are not eligible for the CGT discount. Current year capital losses and then prior year net capital losses are applied against current year capital gains before applying the CGT discount. If any capital gains qualify for the CGT small business concessions, those concessions are then applied to each capital gain.

4 Other CGT assets and any other CGT events

This category is for a capital gain or capital loss made from a CGT asset or any other CGT event that is not from shares and units (in unit trusts), real estate or a collectable. Capital gains from personal use assets are included here. If a personal use asset was acquired for $10,000 or less, any capital gain is disregarded. Capital losses from personal use assets are disregarded.

Note: There are special rules that apply when working out a capital gain or capital loss for a depreciating asset. A capital gain or capital loss will only arise to the extent that a depreciating asset is used for a non-taxable purpose (for example, used privately). The gain or loss is calculated having regard to concepts used in the uniform capital allowance provisions. Those provisions also treat as income or allow as a deduction any gain or loss from a depreciating asset to the extent that it was used for a taxable purpose.

5 Collectables

If a collectable – for example, jewellery or an antique – was acquired for $500 or less, any capital gain or capital loss is disregarded. Capital losses from collectables can only be used to offset capital gains from collectables.

6 Acquisition or purchase cost

This is money you paid, property you gave or you are required to pay or give to acquire a CGT asset. The market value of any property you gave, or are required to give, is worked out at the time of acquisition. Modifications and special rules may apply to this element of the cost base – for example, the market value substitution rule.

***Note:** For CGT assets acquired before 11.45am (by legal time in the ACT) on 21 September 1999, you have the option of choosing the CGT discount or calculating the capital gain using indexation frozen as at 30 September 1999. Calculate your capital gain under each option to determine the best result in your particular circumstances.

7 Incidental costs that relate to a CGT event

This includes the incidental costs of disposal of a CGT asset or, if there is no disposal of a CGT asset, those incidental costs that relate to the CGT event.

8 Non-capital costs of ownership

Non-capital costs of ownership include interest on borrowed money, rates and land tax, and the costs of repairing or maintaining the CGT asset. They are included in the cost base provided the CGT asset was acquired after 20 August 1991. These costs cannot be indexed or used to work out a capital loss. Non-capital costs of ownership are not included in the cost base of collectables or personal use assets.

9 Cost base and reduced cost base

For the cost base, exclude all expenditure recouped or that has been deducted or can be deducted on assets acquired after 7.30pm (by legal time in the ACT) on 13 May 1997. For assets acquired before this time, exclude all expenditure recouped, or in respect of incidental costs and non-capital costs, that have been deducted or can be deducted. In some cases, cost base reductions are made before indexing (for example, recouped expenditure) and in others, after indexing (for example, capital works deductions). For the reduced cost base, exclude any expenditure recouped, that has been deducted, can be deducted or is a non-capital cost of ownership. Indexation does not apply to the reduced cost base.

10 Indexation factor

Indexation is not relevant to:

- expenditure incurred after 11.45am (by legal time in the ACT) on 21 September 1999 relating to a CGT asset acquired before that time, or
- expenditure relating to a CGT asset acquired after that time.

The cost base includes indexation, frozen as at 30 September 1999, only if the CGT asset was acquired at or before 11.45am (by legal time in the ACT) on 21 September 1999 and has been owned for at least 12 months. There are some exceptions – for example, rollovers and assets inherited from a deceased estate. Indexation is not available for non-capital costs of ownership and it is not relevant to the reduced cost base. The indexation factor is an amount equal to the consumer price index (CPI) for the quarter of the year in which the CGT event happened to the asset, divided by the CPI for the quarter of the year in which you incurred the expenditure included in any of the cost base elements (except the third element – non-capital costs of ownership). A list of CPI is at appendix 2 in the *Guide to capital gains tax*.

11 Capital proceeds

This is money and the market value of any property that has been received or is entitled to be received, in respect of the CGT event happening. Modifications and special rules may apply to change the capital proceeds for certain CGT events. If the capital proceeds are greater than the cost base, a capital gain is made. If the capital proceeds are less than the reduced cost base, a capital loss is made. If the capital proceeds are between the cost base, or if applicable the indexed cost base, and the reduced cost base, neither a capital gain nor a capital loss is made.

12 Capital losses

Capital losses from collectables can only be used to offset capital gains from collectables. Capital losses from personal use assets are disregarded. You cannot deduct a net capital loss from your assessable income. If you became a bankrupt during the year, prior year net capital losses are disregarded.

MORE INFORMATION

Further assistance

For further assistance with your capital gains tax situation, you can:

- access the Tax Office's e-tax 2004 software package on our website – it includes a calculator for capital gains and capital losses **www.ato.gov.au/etax**
- download fact sheets and other information from our website **www.ato.gov.au**
- phone us (individual enquiries) **13 28 61**
  (business enquiries) **13 28 66**
- seek advice from a recognised tax adviser
- If you do not speak English and need our help phone the **Translating and Interpreting Service (TIS)** **13 14 50**
- If you have a hearing or speech impairment and
  – have access to appropriate telephone typewriter (TTY) or modem equipment you can communicate with a tax officer through the **National Relay Service** **13 36 77** (quote one of the phone numbers listed on this page)
  – do not have access to TTY or modem equipment, phone the **Speech to Speech Relay Service** **1300 555 727**

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Publications

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- visit our website **www.ato.gov.au**
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Publications referred to in this guide are:

- *2004 tax return for individuals* (supplementary section) (NAT 2679 –6.2004)
- *2004 tax return for retirees* (NAT 2597 –6.2004)
- *Capital allowances schedule instructions* (NAT 4089 – 6.2004)
- *Capital gains tax (CGT) schedule 2004* (NAT 3423 – 6.2004)
- *Company tax return 2004* (NAT 0656 – 6.2004)
- *Fund income tax and regulatory return 2004* (NAT 0658 – 6.2004)
- *Guide to capital gains tax concessions for small business* (NAT 8384 – 5.2004)
- *Guide to depreciating assets* (NAT 1996 – 6.2004)
- *Personal investors guide to capital gains tax* (NAT 4152 – 6.2004)
- *Rental properties* (NAT 1729 – 6.2004)
- *Trust tax return 2004* (NAT 0660 – 6.2004)
- *You and your shares* (NAT 2632 – 6.2004)

The following publications are available only on our website:

- *Consolidation reference manual*
- *Employee share schemes – answers to frequently asked questions by employees*
- *Guide to the general value shifting regime*
- *Venture capital concessions (capital gains tax) – overview*
- *Class Ruling CR 2002/59 – Income tax: Compensation payments for Holocaust survivors and their relatives – remembrance, responsibility and future foundation*
- *Draft Taxation Determination TD 2004/D3 – Capital gains: are input tax credits excluded from a CGT asset's cost base and reduced cost base worked out under sections 110–25 and 110–55 of the Income Tax Assessment Act and from other equivalent amounts used in working out a capital gain or loss?*
- *Taxation Ruling TR 92/3 – Whether profits on isolated transactions are income*
- *Taxation Ruling TR 2002/10 – Capital gains tax: assets register*

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