

PART B

Completing the capital gains section of your tax return

- Item 17 of the *2003 tax return for individuals*
- Item 9 if you use the *tax return for retirees*

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SIGN POST

READ THIS SIGNPOST BEFORE YOU READ PART B OR PART C OF THIS GUIDE

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. Only read **part C** if you need help completing the sample worksheets.

Is your entity a company, trust or fund?

If the tax return is for a company, trust or fund, read **part C** of this guide. You only need to refer to step 4 of **part C** if your entity's total capital gains or total capital losses are greater than \$10,000 in 2002–03.

Introduction

Read **part B** if you are an individual and a capital gains tax (CGT) event has happened to you in 2002–03 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*, available from the sources listed at the back of this guide.

The steps that follow explain how to calculate your net capital gain or capital loss for 2002–03 and complete item **17 Capital gains** on your *2003 tax return for individuals* (supplementary section)—or item **9** if you complete the *2003 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.

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 complete the tax return for retirees).

If you have a large number of these worksheets due to having several CGT events happen 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. Go to steps 2 and 3 in **part C** of this guide to find out how to complete the summary worksheet and then item **17** on your tax return (or item **9** if you complete the tax return for retirees).

NOTE New 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 sample **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.

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 as the trustee used in calculating the amount of the capital gain. For more information, see chapter 4 in **part A**.

NOTE 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 complete 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 2002–03 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 2002–03:

Capital gain on the sale of 1000 shares for \$6 each on 17 December 2002

Kathleen bought these shares on 17 November 1998 and each has a cost base of \$3 (including incidental costs of acquisition and disposal).

$$\text{Capital gain} = \$6,000 - \$3,000 = \$3,000$$

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 2003

Kathleen bought these shares on 10 October 2002 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:

$$130 \times \$8 = \$1,040 - (130 \times \$4) = \$520$$

Capital loss on the sale of jewellery for \$1,000 on 1 April 2003

Kathleen bought this jewellery for \$1,500 and sold it six months later for \$1,000.

As she bought and sold her asset within 12 months, she must use the 'other' method to calculate her capital loss:

$$\$1,000 - \$1,500 = -\$500$$

Kathleen takes the following steps to complete item **17** on her tax return (or item **9** if she completes the tax return for retirees).

Firstly, Kathleen shows her total current year capital gain of \$3,520 (\$3,000 + \$520) at **I**. 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 2003

Kathleen had bought these shares on 10 October 2002 and each has a reduced cost base of \$4 (including incidental costs of acquisition and disposal).

$$600 \times \$3 = \$1,800$$

$$600 \times \$4 = \$2,400$$

$$\underline{\quad -\$600 \quad}$$

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	<u>\$520</u>
	\$0
Discount method capital gain	\$3,000
Capital loss of (\$600 – \$520)	<u>–\$80</u>
	\$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:

- 1 capital gains calculated using the 'other' method
- 2 capital gains calculated using the indexation method
- 3 capital gains calculated using the 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, print '0' 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:

- 1 capital gains calculated using the 'other' method
- 2 capital gains calculated using the indexation method
- 3 capital gains calculated using the 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, print '0' 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 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 roll-over 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* from the sources listed at the back of this guide.

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%:

$$\$2,520 \times 50\% = \$1,260$$

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 concessions.

If you have capital losses that have reduced your capital gains to zero, print '0' 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 has deducted her current year capital losses from her capital gains in the order that gives her the best result. She deducted her \$600 capital loss from her \$520 capital gain (as this capital gain is not eligible for the CGT discount because she owned the shares for less than 12 months) and the remainder from her other \$3,000 capital gain:

$$\$520 - \$600 = -\$80$$

$$\$3,000 - \$80 = \$2,920$$

Kathleen has deducted her prior year capital losses in the order that gives her the best result. As she only had capital gains calculated using the discount method left, the \$400 prior year capital loss was deducted from the remaining \$2,920:

$$\$2,920 - \$400 = \$2,520$$

Kathleen applies the CGT discount by multiplying her capital gain by 50%:

$$\$2,520 \times 50\% = \$1,260$$

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 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/or
- 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.