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Australian Government
Australian Taxation Office

Personal investors guide to capital gains tax

2003–04

Covers:

- sale of shares
- sale of units in managed funds
- distributions from managed funds

Lodge online with e-tax at
www.ato.gov.au

Personal investors guide to capital gains tax
2003–04

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.

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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ABOUT THIS GUIDE

The *Personal investors guide to capital gains tax 2003–04* explains the capital gains tax consequences of:

- the sale or gift (or other disposal) of shares or units
- the receipt of distributions of capital gains from managed funds, and
- the receipt of non-assessable payments from companies or managed funds.

Who should use this guide?

Use this guide if you are a personal investor who has made a capital gain or capital loss from shares, units or managed funds in 2003–04.

It will help you to complete:

- item **17 Capital gains** on your *2004 tax return for individuals* (supplementary section), or
- item **9 Capital gains** if you use the *2004 tax return for retirees.* **Note:** You cannot use the *2004 tax return for retirees* if you had a distribution from a managed fund during the year.

If you sold or otherwise disposed of shares or units in a unit trust (including a managed fund) in 2003–04, read part A of this guide, then work through part B.

If you received a distribution of a capital gain from a managed fund in 2003–04, read part A of this guide, then work through part C.

Managed funds include property trusts, share trusts, equity trusts, growth trusts, imputation trusts and balanced trusts.

Who should NOT use this guide?

Do not use this guide if you are an investor who is not a resident of Australia or if you have gains or losses included as part of your income under other provisions of the tax law – for example, if you are a share trader.

The guide does not explain more complex issues relating to shares (including employee shares), convertible notes and units. Nor does it apply to shares and units owned by companies, trusts and superannuation funds.

Also, this guide does not cover your capital gains tax consequences when you sell other assets such as:

- a rental property
- collectables (for example, jewellery, art, antiques and collections), and
- assets for personal use (for example, a boat you use for recreation).

For these, see the *Guide to capital gains tax*.

Publications

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

INTRODUCTION

Small business concessions

If you are involved in the sale of shares or units in relation to a small business, you may wish to get the publication *Guide to capital gains tax concessions for small business*.

Investments in foreign hybrids

If you have an investment in a foreign hybrid, the Government has introduced Bills 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. 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 and value has been shifted in or out of your shares or units, you may be affected by value shifting rules. Generally, the rules only affect individuals who control the company or trust, or individuals who are related to individuals or entities that control the company or trust.

For more information, see the publication *General value shifting regime in brief*.

New terms

We may use some terms that are not familiar to you. These words are printed in **red** the first time they are used and are explained in **Explanation of terms** on page 25.

If this guide does not fully cover your circumstances, please:

- visit our website at **www.ato.gov.au**
- get either of the publications *Guide to capital gains tax* or *You and your shares*
- contact the Tax Office, or
- seek advice from a recognised tax adviser.

PART A – HOW CAPITAL GAINS TAX APPLIES TO YOU

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

> **NEW TERMS**
>
> Some terms in this section may be new to you. These words are printed in **red** the first time they are used and are explained in **Explanation of terms** on page 25.
>
> While we have used the word 'bought' rather than 'acquired' in our examples, you may have acquired your shares or units without paying for them (for example, as a gift or through an inheritance or through the **demutualisation** of an insurance company such as AMP or NRMA or a demerger such as the demerger of BHP Steel Limited). If you acquired shares or units in any of these ways you may be subject to **capital gains tax** (CGT) when you sell them.
>
> Similarly, we refer to 'selling' shares or units when you may have disposed of them in some other way (for example, giving them away or transferring them to someone else). All of these disposals are CGT events.

CGT is the tax you pay on any **capital gain** that 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 CGT small business concessions to which you are entitled.

You make a capital gain or a capital loss if a **CGT event** happens. The disposal of an asset is an example of a CGT event. You can also make a capital gain if a managed fund or other trust distributes a capital gain to you.

You show the total of your current year capital gains at **H** item **17** on your *2004 tax return for individuals* (supplementary section), or at **H** 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.) You show your net capital gain at **A** item **17** on your tax return, or at **A** item **9** if you use the tax return for retirees.

This guide only covers capital gains or capital losses from **CGT assets** that are shares, units or other interests in managed funds.

WORLD-WIDE OBLIGATIONS

Australian residents can make a capital gain or capital loss if a CGT event happens to any of their assets anywhere in the world.

HOW TO MEET YOUR CGT OBLIGATION

To meet your CGT obligations, you need to follow these three main steps:

Step 1 Decide whether a CGT event has happened.

Step 2 Work out the time of the CGT event.

Step 3 Calculate your capital gain or capital loss.

> **KEEP YOUR RECORDS**
>
> You need to keep good records of any assets you have bought or sold so you can correctly work out the amount of capital gain or capital loss you have made when a CGT event happens. You must keep these records for five years after the CGT event has happened or, where you have a net capital loss, five years after the time you apply the net capital loss against a capital gain.

STEP 1 Decide whether a CGT event has happened

CGT events are the different types of transactions or events which may result in a capital gain or capital loss. A CGT event has happened if you have sold (or otherwise disposed of) your shares or units or other assets during 2003–04. Certain assets, such as a motor vehicle and assets acquired before 20 September 1985, are disregarded.

Examples of other CGT events that can happen to shares or units include:

- when a company makes a payment other than a dividend to you as a shareholder, or when a trust or fund makes a **non-assessable payment** to you as a unit holder
- when a liquidator declares that shares in a company are worthless (see appendix 1 for examples), and
- when shares in a company are cancelled because the company is wound up.

For information about other CGT events, see the *Guide to capital gains tax.*

If a managed fund makes a capital gain and distributes part of that gain to you, you are treated as if you made a capital gain from a CGT event.

If you did not make a capital gain or capital loss from a CGT event during 2003–04, print **X** in the **NO** box at **G** item **17** on your tax return, or at **G** item **9** if you use the tax return for retirees. (**Note:** You cannot use the *2004 tax return for retirees* if you had a distribution from a managed fund during the year.)

If you did make a capital gain or capital loss from a CGT event during 2003–04, print **X** in the **YES** box. If the CGT event happened to your shares or units and the event is covered in this guide (see **About this guide** on page 2), read on. Otherwise, see the *Guide to capital gains tax*.

STEP 2 Work out the time of the CGT event

The timing of a CGT event is important because it determines which **income year** you show your capital gain or capital loss in. If you sell an asset to someone else, the CGT event happens when you enter into the contract of sale. If there is no contract, the CGT event happens when you stop being the asset's owner.

If you received a distribution of a capital gain from a managed fund, you are taken to have made the capital gain in the income year shown on your statement from the managed fund.

STEP 3 Calculate your capital gain or capital loss

There are three ways of calculating your capital gain from the sale of your shares or units:

- the **indexation method**
- the **discount method**, and
- the **'other' method**.

The indexation method allows you to increase the amount that your asset has cost (the **cost base**) by applying an **indexation factor** that is based on increases in the Consumer Price Index (CPI) up to September 1999.

The indexation method can only apply to assets that you acquired before 11.45am (by legal time in the ACT) on 21 September 1999.

If you use the discount method, you do not apply the indexation factor to the cost base but you can reduce your capital gain by the CGT discount of 50% (after deducting any capital losses you have) provided you have owned the shares or units for at least 12 months.

For assets that qualify for both the indexation and discount methods, you can choose the method that gives you the better result. You do not have to choose the same method for all your shares or units even if they are in the same company or fund.

You must use the 'other' 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). To calculate your capital gain using the 'other' method, you simply subtract your cost base from what you have received – your **capital proceeds**.

You make a capital loss from the sale of your shares or units if their **reduced cost base** is greater than your capital proceeds. You cannot index amounts included in your reduced cost base.

If you received a distribution of a capital gain from a managed fund, part C of this guide explains how you calculate the amount of that capital gain. You must use the same method as that chosen by the fund.

The following table explains and compares the three methods of calculating your capital gain.

	INDEXATION METHOD	DISCOUNT METHOD	'OTHER' METHOD
Description of method	Allows you to increase the cost base by applying an indexation factor based on CPI.	Allows you to halve your capital gain	Basic method of subtracting the cost base from the capital proceeds
When to use the method	Use for shares or units held for 12 months or more, if this method produces a better result than the discount method. Use only with assets acquired before 11.45am (by legal time in the ACT) on 21 September 1999.	Use for shares or units held for 12 months or more, if this method produces a better result than the indexation method.	Use for shares or units if you have bought and sold them within 12 months (that is, when the indexation and discount methods do not apply).
How to calculate your capital gain using the method	Apply the relevant indexation factor (see CPI table in appendix 2), then subtract the indexed cost base from the capital proceeds (see the worked examples in chapter B2 on pages 9–10).	Subtract the cost base from the capital proceeds, deduct any capital losses, then divide by two (see the worked examples in chapter B2 on pages 9–11).	Subtract the cost base from the capital proceeds (see the worked examples in chapter B2 on pages 8 and 11).

EXEMPTIONS AND ROLLOVERS

There may be an exemption that allows you to disregard your capital gain or capital loss. For example, generally you disregard any capital gain or capital loss associated with any pre-CGT assets (that is, those you acquired before 20 September 1985).

There may be a **rollover** that allows you to defer your capital gain or capital loss. For example, if a company in which you hold 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. If you exchanged your existing shares for shares in the takeover company this income year, you may be able to defer or roll over some or all of your capital gain (but not a capital loss) until a later CGT event happens to your replacement shares. This is known as **scrip-for-scrip rollover**. Another example of a rollover is in relation to transferring a CGT asset to your former spouse under a court order after a marriage breakdown. In this case, you may not have to pay CGT on the transfer, but CGT may need to be paid by your former spouse when a later CGT event happens to the asset. Rollover is also available for demergers of corporate or trust groups – see page 14.

SELLING A RENTAL PROPERTY

If you have sold a rental property, have assets from a deceased estate or have several CGT events this income year, this guide does not provide you with enough detail. You need to read the *Guide to capital gains tax* to find out how to calculate and report your CGT obligation.

RECORDS YOU NEED TO KEEP

Most of the records you need to keep to work out your capital gain or capital loss 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.

PART B – SALE OF SHARES OR UNITS

NEW TERMS

Some terms in this section may be new to you. These words are printed in **red** the first time they are used and are explained in **Explanation of terms** on page 25.

While we have used the word 'bought' rather than 'acquired' in our examples, you may have acquired your asset without paying for it (for example, as a gift or through an inheritance or through the demutualisation of an insurance company such as AMP or NRMA, or a demerger such as the demerger of BHP Steel Limited).

Similarly, we refer to 'selling' 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).

CHAPTER B1 HOW TO WORK OUT YOUR CAPITAL GAIN OR CAPITAL LOSS

To calculate your capital gain from the sale of shares or units in a unit trust (for example, a managed fund), the main steps are to:

1 work out how much you have received from each CGT event (your capital proceeds)

2 work out how much each CGT asset cost you (the cost base), and

3 subtract **2** (the cost base) from **1** (the capital proceeds).

If you received more from the CGT event than the asset cost you (that is, the capital proceeds are greater than the cost base), the difference is your capital gain. The three ways of calculating your capital gain are described in step 3 of part A (see page 4).

If you made a capital loss – that is, you received less from the CGT event than the asset cost you – you need to work out the reduced cost base for the asset. Generally, for shares the cost base and reduced cost base are the same. If the reduced cost base is greater than the capital proceeds, the difference is your capital loss.

If the capital proceeds are less than the cost base but more than the reduced cost base, you have not made a capital gain or a capital loss.

The steps on the following pages show you the calculations required to work out your CGT obligation using the 'other' and discount methods. If you want to use the indexation method (by indexing your cost base for inflation) you will need to do this at step 2 and you may find it easier to follow the worked examples in chapter B2 on pages 9–10.

You may find it useful to use note paper to do your calculations while you work through the following steps so you can transfer the relevant amounts to item **17** on your tax return, or item **9** if you use the tax return for retirees. (**Note:** You cannot use the *2004 tax return for retirees* if you had a distribution from a managed fund during the year.)

STEP 1 Work out your capital proceeds from the CGT event

The capital proceeds are what you receive, or are taken to receive, when you sell or otherwise dispose of your shares or units.

For example, with shares the capital proceeds may be:

- the amount you receive from the purchaser
- the amount or value of shares or other property you receive on a merger/takeover, or
- the market value if you give shares away.

Example

Fred sold his parcel of 1,000 shares for $6,000. Fred's capital proceeds are $6,000.

STEP 2 Work out the cost base of your asset

INDEXING YOUR COST BASE

There are certain circumstances where a cost base may be indexed. This is called the indexation method and the cost base would then become an 'indexed' cost base. For more information, see part A of this guide or the worked examples in chapter B2 on pages 9–10.

The cost base of your asset is:

- what your asset cost you
- certain incidental costs of buying and selling it – brokerage or agent's fees, legal fees, investment advisers' fees and stamp duty, and
- any costs you incurred in establishing, maintaining and defending your ownership of it.

The cost base for an asset such as a share or unit may also need to be reduced by the amount of any non-assessable payment you received from the company or fund during the time you owned the share or unit. This is explained on page 13 (shares) and page 16 (units).

Interest you have paid on money borrowed to buy shares or units is not included in your cost base if you have claimed a deduction for it in any income year.

For more information on how to determine your cost base and reduced cost base see the *Guide to capital gains tax*.

Example

Fred had bought 1,000 shares at $5 each ($5,000). He was charged $50 brokerage and paid stamp duty of $25. When he sold the shares he paid $50 brokerage.

The cost base of his shares is $5,000 + $50 + $25 + $50 = $5,125.

STEP 3 Did you make a capital gain?

Subtract the amount in step 2 from the amount in step 1.

If the capital proceeds are greater than the cost base, the difference is your capital gain.

Example

As Fred sold his shares for $6,000, he subtracts the $5,125 from the $6,000 to arrive at $875.

Fred made a capital gain of $875.

STEP 4 If you did not make a capital gain, work out the reduced cost base of the asset

If you did not make a capital gain, you need to calculate a reduced cost base of your asset before you can work out any capital loss.

The reduced cost base is the cost base less any amounts you need to exclude from it. Interest on borrowings and indexation are examples of amounts you exclude.

Example

In our example, Fred's cost base and reduced cost base for his shares are the same.

For shares, the cost base and reduced cost base are generally the same.

For units, adjustments may be needed to the cost base and reduced cost base depending on the types of amounts distributed. Your fund should advise you of these amounts in its statements:

- **tax-deferred amount** – this reduces the cost base and reduced cost base
- **CGT-concession amount** – if received BEFORE 1 July 2001, this reduces the cost base and reduced cost base (if received ON or AFTER 1 July 2001, it does not affect your cost base and reduced cost base)
- **tax-free amount** – this reduces your reduced cost base only
- **tax-exempted amount** – this does not affect your cost base and reduced cost base.

STEP 5 Did you make a capital loss?

If the capital proceeds are less than your reduced cost base, the difference is your capital loss.

Example

If Fred had sold his shares for $4,000 instead of $6,000, he would have a capital loss of $1,125 (that is, his reduced cost base of $5,125 less his capital proceeds of $4,000).

STEP 6 Did you make neither a capital gain nor a capital loss?

If the capital proceeds are less than or equal to the cost base but more than the reduced cost base, you have not made a capital gain or a capital loss.

Example

If Fred had sold his shares for $5,125, he would not have made a capital gain or a capital loss.

STEP 7 Work out your total current year capital gains

Write the total of all of your capital gains for the current year at **H** item **17** (or **H** item **9** if you use the tax return for retirees).

If you only had one asset, show the amount of the capital gain relating to that asset.

If you have more than one asset (including assets other than shares and units) which resulted in a capital gain, you should include those capital gains in the total at **H**.

If you had a distribution from a managed fund you need to include this in your total capital gains. See step 3 in C1 on page 15.

If you have any capital losses, do not deduct them from the capital gains before showing the total amount at **H**.

Example

Fred does not have any other capital gains. Therefore, from step 3, he shows $875 at **H** item **17** on his tax return, or at **H** item **9** if he uses the tax return for retirees.

STEP 8 Applying capital losses against capital gains

If you do not have any capital losses from assets you disposed of this year or a net capital loss from an earlier year that you were able to carry forward to this year, go to step 9 on the next page.

If you had capital losses (including net capital losses from earlier years), deduct them from the amount you wrote at **H**. You may do this in the order that gives you the greatest benefit.

OFFSETTING YOUR LOSSES

You will probably get **the greatest benefit** if you deduct capital losses against:

1. capital gains for which neither the indexation method nor the discount method applies (that is, if you bought and sold your shares within 12 months)
2. capital gains calculated using the indexation method, and then
3. capital gains to which the CGT discount can apply.

LOSSES FROM PERSONAL USE ASSETS AND COLLECTABLES

A net capital loss from collectables can only be used to reduce capital gains from collectables. Losses from personal use assets are disregarded. See the *Guide to capital gains tax* for more information.

If your capital losses (including net capital losses from earlier years) are greater than your capital gains, go to step 11 on the next page.

Example

If Fred had a net capital loss of $75 from some shares that he sold last year and no other capital gains or capital losses this year, he reduces this year's capital gain of $875 by $75. Fred's remaining capital gain is $800.

STEP 9 Applying the CGT discount

If you have any remaining capital gains you can now apply the CGT discount – if it is applicable – and reduce them by 50%.

Remember, you cannot apply the CGT discount to:

- capital gains calculated using the indexation method, and
- capital gains from CGT assets you bought and sold within 12 months.

Example

As Fred had owned his shares for at least 12 months, he can reduce his $800 gain by the CGT discount of 50% to arrive at a net capital gain of $400 (cents are not shown):

$800 x 50% = $400.

STEP 10 Work out your net capital gain

At **A** item **17** (or **A** item **9** if you use the tax return for retirees) you show your net capital gain which is the total of your remaining capital gains:

- calculated using the indexation method
- to which the CGT discount of 50% has been applied, and/or
- calculated using the 'other' method.

Ignore step 11 – it does not apply if you have a net capital gain.

Example

Fred shows his net capital gain of $400 at **A** item **17** on his tax return or **A** item **9** if he uses the tax return for retirees.

STEP 11 Work out your carry-forward losses

If your capital losses (including net capital losses from earlier years) were greater than your capital gains, you were directed to this step from step 8.

If you have capital losses (including net capital losses from earlier years) remaining, do not put anything at **A** on your tax return.

At **V** item **17** (or **V** item **9** if you use the tax return for retirees) show the amount by which your capital losses (including net capital losses from earlier years) are greater than your capital gains. You can carry these capital losses forward to be applied against later year capital gains.

Example

Continuing the example from step 5, if Fred has no other capital losses, he would not put anything at **A** and $1,125 at **V** item **17** on his tax return (or at **V** item **9** if he uses the tax return for retirees) and he would leave **H** blank.

CHAPTER B2
WORKED EXAMPLES FOR SHARES AND UNITS

The following examples show how CGT works in various situations where people have bought and sold shares and units. They may help you meet your CGT obligation and complete item **17** on your tax return, or item **9** if you use the tax return for retirees.

Example 1

Sonya has a capital gain from one parcel of shares that she bought after 11.45am (by legal time in the ACT) on 21 September 1999 and sold less than 12 months later.

In August 2002 Sonya bought 1,000 shares in Tulip Ltd for $1,500 including brokerage and sold them in July 2003 for $2,350. She paid $50 brokerage on the sale. The sale is a CGT event.

As Sonya bought and sold the shares within 12 months, she uses the 'other' method to calculate her capital gain as she cannot use the indexation or discount method. So her capital gain is:

$2,350 – ($1,500 + $50) = $800.

As she has no other CGT event and does not have any capital losses, Sonya completes item **17** on her tax return (or item **9** if she uses the tax return for retirees) 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** 800.00

Total current year capital gains **H** 800.00

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

Example 2

Andrew has a capital gain from the sale of units which he bought before 11.45am (by legal time in the ACT) on 21 September 1999 and gave to his brother more than 12 months later.

In May 1999 Andrew bought 1,200 units in Share Trust for $1,275 including brokerage. He gave the units to his brother in August 2003. At that time they were worth $1,595.

The gift is a CGT event. As Andrew bought the units before 21 September 1999 and he owned them for more than 12 months, he can use the indexation or discount method to calculate his capital gain, whichever gives him the better result.

Indexation method

If Andrew calculates his capital gain or capital loss using the indexation method, he indexes the cost of his units and the incidental costs of buying them as follows:

$$\frac{\text{CPI for September 1999 quarter}}{\text{CPI for June 1999 quarter}} = \frac{123.4}{122.3} = 1.009$$

His indexed cost base is worked out as follows:

His cost ($1,275) x 1.009 = $1,286.48

So his capital gain is:

Capital proceeds	$1,595.00
less	
Indexed cost base	$1,286.48
Capital gain	**$308.5~~2~~**

Discount method

If Andrew uses the discount method, his capital gain is calculated as:

Capital proceeds	$1,595
less	
Cost base	$1,275
Total capital gain	**$320**
less discount*	$160
Capital gain	**$160**

* Andrew does not have any capital losses. If he did he would deduct any capital losses before applying the discount.

Andrew chooses the discount method because it gives him a smaller capital gain.

As he has no other CGT event and does not have any capital losses, Andrew 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** 160.~~00~~

Total current year capital gains **H** 320.~~00~~

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

> **NOTE**
>
> If Andrew had received a non-assessable payment from the fund his cost base may have been reduced and the capital gain may have been greater. For more information, see chapter C2 on page 16.

Example 3

Fatima has a capital gain from one parcel of shares which she was given before 11.45am (by legal time in the ACT) on 21 September 1999 and sold more than 12 months later.

In October 1986 Fatima was given 500 shares in FJM Ltd with a market value of $2,500. She sold the shares in October 2003 for $4,500.

The sale is a CGT event. As Fatima acquired the shares before 21 September 1999 and owned them for more than 12 months, she can use the indexation or discount method to calculate her capital gain, whichever method gives her the better result.

Indexation method

If Fatima calculates her capital gain using the indexation method, the indexation factor is:

$$\frac{\text{CPI for September 1999 quarter}}{\text{CPI for December 1986 quarter}} = \frac{123.4}{79.8} = 1.546$$

Her indexed cost base is:

Her cost ($2,500) x 1.546 = $3,865.00

So her capital gain is calculated as follows:

Capital proceeds	$4,500.00
less	
Indexed cost base	$3,865.00
Capital gain	**$635.0~~0~~**

Discount method

If Fatima uses the discount method, her capital gain is calculated as:

Capital proceeds	$4,500
less	
Cost base	$2,500
Total capital gain	**$2,000**
less discount*	$1,000
Capital gain	**$1,000**

* Fatima does not have any capital losses. If she did she would deduct any capital losses before applying the discount.

Fatima chooses the indexation method because it gives her a smaller capital gain.

As she has no other CGT event and does not have any capital losses, Fatima completes item **17** on her tax return (or item **9** if she uses the tax return for retirees) as 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** 635.~~00~~

Total current year capital gains **H** 635.~~00~~

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

Example 4

Colin has a capital gain from some units he bought after 11.45am (by legal time in the ACT) on 21 September 1999 and redeemed less than 12 months later.

Colin bought 500 units in Equity Trust for $3,500 in October 2003 and redeemed them in June 2004 for $5,000 by switching or transferring his units from a share fund to a property fund. The redeeming of units is a CGT event.

As Colin owned the units for less than 12 months, he calculates his capital gain using the 'other' method. Colin's capital gain is:

Capital proceeds	$5,000
less	
Cost base	$3,500
Capital gain	**$1,500**

As he had no other CGT event during 2003–04 and does not have any capital losses, Colin 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** 1,500.00

Total current year capital gains **H** 1,500.00

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

NOTE If Colin had received a non-assessable payment from the fund, his cost base may have been adjusted and the capital gain may have been greater. For more information, see chapter C2 on page 16.

Example 5

Mei-Ling made a capital gain from some shares she bought after 11.45am (by legal time in the ACT) on 21 September 1999 and sold more than 12 months later. She also has a net capital loss from an earlier income year.

Mei-Ling bought 400 shares in TKY Ltd for $15,000 in October 1999 and sold them for $23,000 in February 2004. The sale is a CGT event. She also has a net capital loss of $1,000 from an earlier income year that has not been applied against later year capital gains.

As she bought the shares after 21 September 1999, Mei-Ling cannot use the indexation method. However, as she owned the shares for more than 12 months and sold them after 21 September 1999, she can use the discount method. Her capital gain is:

Capital proceeds	$23,000
less	
Cost base	$15,000
Total capital gain	**$8,000**
less net capital loss	$1,000
Capital gain (before applying discount)	$7,000
less discount	$3,500
Capital gain	**$3,500**

As she has no other CGT event, Mei-Ling completes item **17** on her tax return (or item **9** if she uses the tax return for retirees) 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** 3,500.00

Total current year capital gains **H** 8,000.00

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

Example 6

Mario made a capital loss from one parcel of shares he bought before 11.45am (by legal time in the ACT) on 21 September 1999 and sold more than 12 months later.

In October 1986 Mario purchased 2,500 shares in Machinery Manufacturers Ltd for $2,650 including brokerage. He sold the shares in March 2004 for $2,300 and paid $50 brokerage. Mario also made a capital loss of $350 on some shares he sold in the 1999–2000 income year but had not made any capital gain since then that he could use to offset his capital losses.

The sale is a CGT event. Mario purchased the Machinery Manufacturers Ltd shares before 11.45am (by legal time in the ACT) on 21 September 1999 but he made a capital loss, so neither the indexation nor the discount method applies.

Mario calculates his capital loss for the current year as follows:

Reduced cost base ($2,650 + $50)	$2,700
less capital proceeds	$2,300
Capital loss	**$400**

The capital losses that Mario can carry forward to reduce capital gains he may make in later income years are:

Capital loss for 2003–04	$400
plus capital loss for 1999–2000	$350
Net capital losses carried forward to later income years	**$750**

As he has no other capital gains or capital losses, Mario puts nothing at **A** and completes item **17** on his tax return (or item **9** if he uses the tax return for retirees) 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** [ ] .00

Total current year capital gains **H** [ ] .00

Net capital losses carried forward to later income years **V** 750 .00

CHAPTER B3
ADDITIONAL INFORMATION FOR SHARES AND UNITS

This chapter briefly explains less common situations for personal investors, including:

- rights or options
- non-assessable payments
- **share buy-backs**
- **takeovers and mergers**
- demergers
- **dividend reinvestment plans**
- bonus shares and bonus units, and
- dividends paid by listed investment companies (LIC) that include a LIC capital gain.

Rights or options to acquire shares or units

If you hold 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 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 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.

There are special rules that apply if you exercise the rights. For more information, or if you acquire rights or options under an employee share scheme, see the publication *Guide to capital gains tax*.

Non-assessable payments

There can be non-assessable payments in relation to both shares and units.

Non-assessable payments from a company to a shareholder

Non-assessable payments to shareholders are sometimes called a return of capital and are not very common (although companies such as Coca-Cola, BHP and Amcor have made non-assessable payments). If you received a payment from a company in respect of your shares and it was not a dividend, you deduct the amount of the payment from both the cost base and the reduced cost base of your shares.

If the non-assessable payment is greater than the cost base of your shares, you include the excess as a capital gain. If you use the indexation method to work out the amount of this capital gain you cannot use the discount method to work out a capital gain when you later sell the shares or units.

Non-assessable payments from a managed fund to a unit holder

The treatment of these payments is similar to non-assessable payments from a company to a shareholder. For more information, see chapter C2 on page 16.

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 reduced cost base of your shares or units. Instead, you make adjustments to 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 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 unitholders if this is the case.

For more information, see the *Guide to capital gains tax*.

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 balance is treated as your capital proceeds for the share and you compare this amount with your cost base and reduced cost base to work out whether you have made a capital gain or capital loss.

The time you make the capital gain or capital loss will depend on the conditions of the particular buy-back offer.

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 for any capital gain you made. This means you can defer your capital gain until a later CGT event happens to your shares. Usually, the takeover company would advise you if the scrip-for-scrip rollover conditions were satisfied.

If you also received some cash from the takeover company you only get rollover on the proportion of the original shares for which you received shares in the takeover company. You will need to apportion the cost base of the original shares between the replacement shares and the cash.

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.

Scrip-for-scrip rollover may also be available to the extent that units in a managed fund are exchanged for units in another managed fund.

For more information about takeovers and mergers, see the *Guide to capital gains tax*.

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.

If you owned interests in a company or fixed trust that is the head entity of a demerger group and you received new interests in the demerged company or trust, you may be entitled to **demerger rollover**.

Generally the head entity undertaking the demerger will advise whether you are entitled to rollover 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 rollover is available.

Even if you do not choose rollover, you must recalculate the cost base and reduced cost base of each of your original interests in the head entity and your new interests in the demerged entity.

The Tax Office has a demergers calculator to help you make these calculations. We also have other products and information 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

Under these plans, shareholders can choose to use their dividend 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 and you must make a separate calculation when you sell them.

MORE INFORMATION

For more information about the issues covered in this chapter, including demergers, read the *Guide to capital gains tax* and *You and your shares*.

Bonus shares and bonus units

Bonus shares are additional shares received by a shareholder in respect of shares already owned. These shares may be received by a shareholder wholly or partly as a dividend. The shareholder may also pay an amount to get them.

Bonus units may also be received in a similar way.

The CGT rules for bonus shares and bonus units are also very similar. If you have sold bonus shares or bonus units, see the *Guide to capital gains tax*.

Dividends paid by listed investment companies (LIC) that include a 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** (or item **9** if you use the tax return for retirees).

Example

Ben, an Australian resident, was a shareholder in XYZ Ltd, a listed investment company. 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
Franking credit (formerly called imputation credit) (shown at U item **11** in *TaxPack 2004*)	$30,000
Amount included in total income	$100,000
less deduction for LIC capital gain (shown as deduction at item **D7** in *TaxPack 2004*)	$25,000
Net amount included in 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 (formerly called imputation credit) at U item **8**; deduction for LIC capital gain at item **12**.

PART C – DISTRIBUTIONS FROM MANAGED FUNDS

CHAPTER C1
HOW TO WORK OUT YOUR CAPITAL GAINS TAX FOR A MANAGED FUND DISTRIBUTION

NEW TERMS

Some terms in this section may be new to you. These words are printed in **red** the first time they are used (mostly in earlier sections) and are explained in **Explanation of terms** on page 25.

REMEMBER

If your managed fund distribution (as advised by the fund) includes a capital gain amount, you include this amount at item **17 Capital gains**. You do not include capital gains at item **12 Partnerships and trusts**.

Examples of managed funds include property trusts, share trusts, equity trusts, growth trusts, imputation trusts and balanced trusts.

Distributions from managed funds can include two types of amounts that affect your CGT obligation:

- capital gains, and
- non-assessable payments.

The following steps in this section show you how to record a capital gain distributed from a managed fund. Chapter C2 on page 16 covers non-assessable amounts which mostly affect the cost base of units but can create a capital gain.

STEP 1 Work out the capital gain you have received from the managed fund

You need to know whether you have received any capital gain in your distribution – to find out, check the statement from your managed fund.

This statement should also show which method the fund has used to calculate the gain – the indexation, discount or 'other' method. You must use the same method(s) as the fund to calculate your capital gain. (These methods are explained in part A, part B and **Explanation of terms** on page 25.)

Fund managers may use different terms to describe the calculation methods and other terms used in this guide. For example, they may refer to capital gains calculated using the indexation method and 'other method' as non-discount gains.

STEP 2 Gross up any discounted capital gain you have received

If the fund has applied the CGT discount to your distribution, this is known as a **discounted capital gain**.

You need to **gross up** any discounted capital gain distributed to you by multiplying the gain by two. This grossed-up amount is your capital gain from the fund. If the managed fund has shown the grossed-up amount of the discounted capital gain on your distribution statement, you can use that amount.

Example

Tim received a distribution from a fund that included a discounted capital gain of $400. Tim's statement shows that the fund had used the discount method to calculate the gain.

Tim grosses up the capital gain to $800 (that is, $400 x 2).

NOTE

Generally a managed fund will not have qualified for the 50% small business CGT reduction. However, if it did qualify for that concession as well as the CGT discount, multiply the gain by four. If it qualified for the small business reduction but not the CGT discount, multiply the gain by two.

STEP 3 Work out your total current year capital gains

Add up all the capital gains you received from funds (grossed up where necessary) together with any capital gains from other assets. Write the total of all of your capital gains for the current year at **H** item **17**.

If you have any capital losses, do not deduct them from the capital gains before showing the total amount at **H**.

Example

Tim's fund also distributed a capital gain of $100 calculated using the other method. Tim shows $900 ($800 + $100) at **H** item **17** on his tax return.

STEP 4 Applying capital losses against capital gains

If you have no capital losses from assets you disposed of this year and no net capital loss from an earlier year that you were able to carry forward to this year, go to step 5.

If you had capital losses (including net capital losses from earlier years) deduct them from your capital gains (the amount you wrote at **H**). You may do this in the order that gives you the greatest benefit.

OFFSETTING YOUR LOSSES

You will probably get **the greatest benefit** if you deduct capital losses from capital gains distributed from the fund in the following order:

1. capital gains calculated using the 'other' method
2. capital gains calculated using the indexation method, and then
3. capital gains calculated using the discount method.

If your capital losses (including net capital losses from earlier years) are greater than your capital gains, go to step 7.

Example

If Tim had a loss of $200 when he sold another CGT asset, he deducts his capital loss ($200) from his capital gain ($900) and arrives at $700. As he applied the loss first against the capital gain calculated using the 'other' method and then against the capital gain calculated using the discount method (after grossing it up), Tim can apply the CGT discount to the remaining $700.

LOSSES FROM PERSONAL USE ASSETS AND COLLECTABLES

A net capital loss from collectables can only be used to reduce capital gains from collectables. Losses from personal use assets must be disregarded. See the *Guide to capital gains tax* for more information.

Step 5 Applying the CGT discount

If you have any remaining grossed-up discount capital gains you can now apply the CGT discount – if applicable – and reduce them by 50%.

Remember, you cannot apply the CGT discount to capital gains distributed from the fund calculated using the indexation or 'other' method.

Example

Tim has applied his capital losses (including net capital losses from earlier years) to his capital gain. He now reduces the amount remaining by 50%:

$700 x 50% = $350

Tim has a capital gain of $350.

NOTE

If the capital gain from the managed fund qualified for the 50% small business CGT reduction, reduce it by 50% after you have reduced it by the 50% CGT discount if that also applied.

Step 6 Work out your net capital gain

Show at **A** item **17** the amount remaining after completing steps 1–5. This is your net capital gain for the year. Ignore step 7.

Example

Tim shows $350 at **A** item **17** on his tax return.

Step 7 Work out your carry-forward losses

If your capital losses (including net capital losses from earlier years) were greater than your capital gains, you were directed to this step from step 4.

If you have capital losses (including net capital losses from earlier years) remaining, you should not put anything at **A**.

At **V** show the amount by which your capital losses (including net capital losses from earlier years) are greater than your capital gains. You carry these capital losses forward to be applied against later year capital gains.

MORE INFORMATION

For more information about CGT and managed fund distributions, see the *Guide to capital gains tax*.

CHAPTER C2 NON-ASSESSABLE PAYMENTS FROM A MANAGED FUND

Non-assessable payments from a managed fund to a unit holder are common and may be shown on your statement from the fund as:

- tax-free amounts (where certain tax concessions received by the fund mean it can pay greater distributions to its unit holders)
- CGT-concession amounts (the CGT discount component of any actual distribution)
- tax-exempted amounts (generally made up of exempt income of the fund, amounts on which the fund has already paid tax or income you had to repay to the fund), or
- tax-deferred amounts (other non-assessable amounts, including indexation received by the fund on its capital gains and accounting differences in income).

NOTE

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

CGT-concession amounts received after 30 June 2001 and tax-exempted amounts (whenever they are received) 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 of your units for future purposes as follows:

- cost base – deduct the tax-deferred amount, or
- reduced cost base – deduct both the tax-deferred and tax-free amounts.

If the tax-deferred amount is greater than the cost base of your units, you include the excess as a capital gain. You can use the indexation method if you bought your units before 11.45am (by legal time in the ACT) on 21 September 1999.

A CGT-concession amount received before 1 July 2001 is taken off the cost base and reduced cost base.

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

CHAPTER C3
WORKED EXAMPLES FOR MANAGED FUND DISTRIBUTIONS

The following worked examples take the steps explained in chapter C1 and put them into different scenarios to demonstrate how they work.

If you have received a distribution from a managed fund, you may be able to apply one or more of these examples to your circumstances to help you work out your CGT obligation for 2003–04 and complete item **17** on your tax return.

Example 1: 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 by 50% under the CGT discount method ($100), he includes the grossed-up amount ($200) in his total current year capital gains.

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

$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 discount gain 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 ☒

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

CGT consequences for Bob

The tax-deferred amount Bob received is not included in his income or 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**

REMEMBER

A CGT-concession amount is only taken off the cost base and reduced cost base if it was received BEFORE 1 July 2001.

Example 2: Ilena's capital loss is greater than her capital gains calculated under the indexation method and 'other' method.

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

- $65 discounted capital gain
- $50 capital gain calculated using the 'other' method, and
- $40 capital gain calculated using the indexation method.

The statement shows Ilena's distribution also included:

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

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

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

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 amounts to show at 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 x 2 = $130

To work out her total current year capital gains Ilena adds her grossed-up capital gain to her capital gains calculated under the indexation method and 'other' method:

$130 + $50 + $40 = $220

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

Now Ilena subtracts her capital losses from her capital gains.

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

1. subtracts as much as possible of her capital losses (which were $100) against her indexed and 'other' method capital gains. Her gains under these methods were $40 and $50 respectively, a total of $90, so she subtracts $90 of her capital losses against these capital gains:
   $90 – $90 = $0 (indexed and 'other' method capital gains)
2. subtracts her remaining capital losses after step 1 ($10) against her discounted capital gains ($130):
   $130 – $10 = $120 (discounted capital gains)
3. applies the CGT discount to her remaining discounted capital gains:
   ($120 X 50%) = $60 (discounted capital gains)

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

$0 (indexed and 'other') + $60 (discounted) = $60 net capital gain

Ilena completes item **17** on her 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** 60.~~00~~

Total current year capital gains **H** 220.~~00~~

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

CGT consequences for Ilena

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**

APPENDIXES

APPENDIX 1
SOME MAJOR SHARE TRANSACTIONS

COMPANY	DETAILS OF TRANSACTION
AMP Ltd	**Demutualisation** The acquisition cost for AMP Ltd shares was $10.43 per share and the 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 our fact sheet *AMP Group demerger.*
BHP Billiton Limited	**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 BHP Steel shares they received in relation to those post-CGT BHP Billiton shares. In November 2003 BHP Steel Limited changed its name to BlueScope Steel Limited.
Commonwealth Bank of Australia Ltd	**Public share offer** For the first instalment: Acquisition date was (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 were $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.
CSR Limited – Rinker Group Limited	**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 Rinker shares they received in relation to those post-CGT CSR 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*.

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 of Harris Scarfe Holdings Ltd to choose to make a capital loss in 2002–03 equal to the reduced cost base of the share under CGT event G3.
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 of this guide, 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** The acquisition cost for IOOF shares was $2.53 per share and the acquisition date was 14 June 2002.
MIM Holdings Ltd (MIM)	**Takeover** On 24 June 2003 Xstrata plc purchased all shares in MIM 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 roll-over relief for shareholders: demerger of Tethyan Copper Company Limited from Mincor Resources NL.*

COMPANY	DETAILS OF TRANSACTION
NRMA Insurance Group Ltd (NIGL)	**Demutualisation** The acquisition cost of NIGL shares allocated to shareholders was $1.78 per share. The acquisition date was 19 June 2000. For additional shares purchased through the facility, the acquisition cost was $2.75 and the acquisition date was 6 August 2000.
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 under CGT event G3.
Over 50s Mutual Friendly Society Limited (OFM Ltd)	**Demutualisation** The acquisition cost of OFM Ltd shares was $1.65 per share and the 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)*. **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 – for example, Pasminco shareholders who agree to sell their shares but hold them on trust for the buyer until the sale can be completed. See *Taxation Determination TD 2004/13: 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 Security (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 Sonic shares between these shares and the 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 per share exceed 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 11.45am (by legal time in the ACT) on 21 September 1999. For the final instalment: Similarly, no indexation applied. **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 capital proceeds of $1.50 per share. Shareholders made a capital loss in 2003–04 equal to the amount by which the reduced cost base of each share exceeds the capital proceeds of $1.50.
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 WMCR shares they received in relation to those post-CGT Alumina shares. See *Class Ruling CR 2002/81 – Income tax: Capital gains: demerger rollover relief for shareholders: demerger of WMC Ltd*.
Woolworths Limited	**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. Shareholders made a capital gain in 2002–03 equal to the amount by which the capital proceeds of $2.88 exceeds the cost base of each share. If the share's reduced cost base exceeds $2.88, the difference will be a capital loss.

For more information about share transactions in earlier years, visit our website at **www.ato.gov.au**

APPENDIX 2
CONSUMER PRICE INDEX (CPI)

ALL GROUPS – WEIGHTED AVERAGE OF EIGHT CAPITAL CITIES				
Year	**Quarter ending**			
	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*

* 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.

EXPLANATION OF TERMS

The page number indicates the first time each term is used.

Capital gain **p. 3**
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 **p. 3**
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 loss **p. 3**
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). Your capital loss is your reduced cost base less your capital proceeds.

Capital proceeds **p. 4**
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
- the market value if you give them away.

CGT asset **p. 3**
The CGT assets covered by this guide are shares and units.

However, CGT assets also include collectables (such as jewellery), assets for personal use (such as furniture or a boat) and other assets (such as an investment property, vacant land or a holiday home). If you have made a capital gain from the sale of one or more of these assets, you may need to read the *Guide to capital gains tax*.

CGT-concession amounts **p. 7**
These amounts are the CGT discount component of any actual distribution from a managed fund.

CGT event **p. 3**
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.

Cost base **p. 4**
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
- certain incidental costs of acquiring or selling it – brokerage, stamp duty, investment consultants fees and legal fees
- 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 establish, preserve or defend your ownership 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.

Demerger rollover **p. 14**
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 fixed 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 **p. 3**
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, AMP or NRMA), you are not subject to CGT 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.

If you hold a policy in an overseas insurance company that demutualises, you may be subject to CGT at the time of the demutualisation.

Discount method **p. 4**
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, and
- 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 can reduce your capital gain by the CGT discount of 50%. 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 can choose either the discount method or the indexation method, whichever gives you the better result.

The examples in part B of this guide show you how the discount method works.

Discounted capital gain p. 15
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 the CGT discount.

Dividend reinvestment plans p. 13
Under these plans, shareholders can choose to use their dividend 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.

Gross up p. 15
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.

Income year p. 4
The income year is the financial year relating to your current income tax return.

Indexation factor p. 4
The indexation factor is worked out based on the Consumer Price Index (CPI) in appendix 2 of this guide.

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. You may have different indexation factors for different amounts included in your cost base.

Indexation method p. 4
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 to each item of expenditure in your cost base (based on increases in the Consumer Price Index up to September 1999).

Some examples in part B of this guide show you how the indexation method works.

You may prefer to use the discount method for CGT events after 11.45am (by legal time in the ACT) on 21 September 1999 if that method gives you better result.

LIC capital gain amount p. 14
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. (Refer to the instructions for dividend income at item **11** on the tax return or item **8** if you use the tax return for retirees and the example on page 14 of this guide.)

Net capital gain p. 3
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 or small business concession to which you are entitled.

You show the result at A item **17** on your tax return, or item **9** if you use the tax return for retirees.

Non-assessable payment p. 3
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 p. 4
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).

Reduced cost base p. 4
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 p. 5
Rollover allows a capital gain to be deferred or disregarded until a later CGT event happens.

Scrip-for-scrip rollover p. 5
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 p. 13
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.

Takeovers and mergers **p. 13**

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-deferred amounts **p.7**

These amounts include indexation received by a managed fund on its capital gains and accounting differences in income. Tax-deferred amounts reduce both the cost base and reduced cost base of your units in a managed fund.

Tax-exempted amounts **p. 7**

These amounts are generally made up of exempt income of the managed fund – such as amounts on which the fund has already paid tax or income you had to repay to the fund. Tax-exempted amounts do not affect the cost base and reduced cost base of your units in a managed fund.

Tax-free amounts **p. 7**

These amounts allow the managed fund to pay a greater distribution to its unit holders. This is due to certain tax concessions funds can receive. Tax-free amounts affect the reduced cost base but not the cost base of your units in a managed fund.

YOUR NOTES

YOUR NOTES

MORE INFORMATION

This guide only covers basic capital gains tax issues relating to shares and managed funds for personal investors and is not designed to cover all circumstances.

For the Tax Office's most up-to-date and comprehensive information about capital gains tax, visit our website at **www.ato.gov.au**

Publications

Publications referred to in this guide are:

- *General value shifting regime in brief* (NAT 8933—6.2003)
- *Guide to capital gains tax 2004* (NAT 4151—6.2004)
- *Guide to capital gains tax concessions for small business* (NAT 8384—5.2004)
- *You and your shares* (NAT 2632—6.2004)

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- phone the Tax Office on **13 28 61**, or
- seek advice from a recognised tax adviser.

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