



## Your main residence – home

Find out if your home is exempt from CGT, and what happens if you rent it out.

### Eligibility for main residence exemption

Check if you qualify for the main residence exemption and whether your home is considered a dwelling.

### Moving to a new main residence

Find out when the exemption starts for your new home and ends for your old home.

### Treating former home as main residence

How the CGT main residence exemption works if you move out and use the 6-year rule when renting out your former home.

### Living separately to your spouse or children

How to use the main residence exemption if you live in a different home to your spouse or children.

### Using your home for rental or business

Find out how your capital gains tax (CGT) main residence

### **Building or renovating your home**



How to get the main residence exemption for your land while you build your future home.

### **Destruction of your home**



Check if your insurance payment or land is exempt from CGT.

### **Compulsory acquisition of your home**



Find out if the payment you receive for compulsory acquisition of your home is exempt from CGT.

### **Home on more than 2 hectares**



Choose which part of your property is exempt from CGT if it is larger than 2 hectares.

### **Main residence exemption for foreign residents**



Check if you meet the life events test as a foreign resident to exempt your home from CGT.

QC 102684

## **Eligibility for main residence exemption**

Check if you qualify for the main residence exemption and whether your home is considered a dwelling.

## On this page

[Eligibility conditions](#)

[What is a main residence?](#)

[What is a dwelling?](#)

[Foreign residents](#)

## Eligibility conditions

Your main residence (your home) is exempt from CGT if you're an Australian resident and the dwelling:

- has been the home of you, your partner and other dependants for the whole period you have owned it
- hasn't been used to produce income – that is, you have not run a business from it, rented it out or 'flipped' it (bought it to renovate and sell at a profit)
- is on land of 2 hectares or less.

If you meet these conditions, you don't pay tax on any capital gain when you sell your home and you ignore any capital loss.

If you don't meet all these conditions, you may still be entitled to a partial exemption. You can work out the proportion that is exempt using the CGT property exemption tool.

**CGT property exemption tool**

For a summary fact sheet with common scenarios about CGT and eligibility for the main residence exemption that you can download as a PDF, see [Capital gains tax and the main residence exemption](#).

## What is a main residence?

Generally, a dwelling is considered to be your main residence if:

- you and your family live in it
- your personal belongings are in it
- it is the address your mail is delivered to
- it is your address on the electoral roll
- services such as gas and power are connected.

The length of time you stay in the dwelling and whether you intend to occupy it as your home may also be relevant.

To be your main residence, your property must have a dwelling on it and you must have lived in it. You're not entitled to the exemption for a vacant block. If you **subdivide** and sell land that used to be part of your home, you need to consider whether any profit is treated as a capital gain or income.

## What is a dwelling?

A dwelling is anything used wholly or mainly for residential accommodation, such as:

- a house or cottage
- an apartment or flat
- a strata title unit
- a unit in a retirement village
- a caravan, houseboat or other mobile home.

A flat or home unit often includes areas that are physically separate, such as a laundry, storeroom or garage. They are exempt from CGT on the same basis as the flat or unit. However, if you dispose of one of these structures separately from the flat or home unit (for example, you sell the garage), they are not exempt from CGT unless they were compulsorily acquired.

## Foreign residents

If you were not a resident of Australia for tax purposes while you were living in the property, you are unlikely to satisfy the requirements for the main residence exemption.

If you are a foreign resident when a CGT event happens to your residential property in Australia (for example, you sell it), you may not be entitled to claim the main residence exemption.

QC 69710

## Moving to a new main residence

Find out when the exemption starts for your new home and ends for your old home.

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### On this page

[Moving in](#)

[Moving to another main residence](#)

## Moving in

Your main residence is generally exempt from capital gains tax (CGT).

For CGT purposes, your home qualifies for the main residence exemption from the time you acquire it, provided you move in as soon as practicable.

If you buy your home, the 'time you acquire it' is the settlement date of the contract.

If:

- **there is a delay moving in because of illness or other unforeseen circumstances** – your home is still exempt, provided you move in as soon as the cause of the delay is removed (for example, when you recover from the illness)
- **you cannot move in because the property is being rented to someone** – the property does not become your main residence until you move in

- **you have not yet sold your old home** – you can treat both homes as your main residence for up to 6 months.

### **Example: moving in as soon as practicable**

Li Jing signed a contract to buy a townhouse in March. She took possession when settlement occurred in April.

In late March, Li Jing's employer sent her overseas on an assignment for 4 months. She moved into the townhouse when she returned in late July.

Li Jing's overseas assignment was unforeseen at the time she bought the townhouse. She moved in as soon as practicable after settlement of the contract. Therefore, she can treat the townhouse as her main residence from the date she acquired it.

If Li Jing treats the townhouse as her main residence for this period, she cannot treat any other property as her main residence (except for a limited time if she is moving house).

## **Moving to another main residence**

If you acquire a new home before you dispose of your old one, you can treat both as your main residence for up to 6 months.

You can do this if all of the following are true:

- you lived in your old home as your main residence for a continuous period of at least 3 months in the 12 months before you disposed of it
- you did not use your old home to produce income (such as rent) in any part of that 12 months when it was not your main residence
- the new property becomes your main residence.

### **Example: full exemption for both homes**

Jill and Norman bought their new home under a contract that settled in January and they moved in immediately.

They sold their old home under a contract that settled in April.

Both the old and new homes are treated as their main residence for the period January to April, even though they did not live in the old home during that period.

## Exceeding the 6-month limit

If it takes longer than 6 months to dispose of your old home, the main residence exemption applies to both homes only for the last 6 months before you dispose of your old home.

For the period before this, when you owned both homes, you can choose which home to treat as your main residence. The other will be subject to CGT for that period.

### Example: partial main residence exemption for one home

Jeneen and John bought their old home under a contract that settled on 1 January 2000 and moved in immediately. It was their main residence until they bought another home, under a contract that settled on 1 January 2023.

They retained their old home after moving into the new one. They did not use the old home to produce income.

They sold the old home under a contract that settled on 1 October 2023. Jeneen and John owned this home for a total of 8,675 days.

Both homes are treated as their main residence for the period 1 April 2023 to 1 October 2023, the last 6 months that Jeneen and John owned their old home. One of the homes will not get the main residence exemption for 90 days from 1 January 2023 to 31 March 2023.

Jeneen and John have 2 options:

- They can claim the main residence exemption for their new home from the time they first move in. The capital gain on their old home is then partially assessable for CGT. The assessable proportion is multiplied by  $90 \div 8,675$ , which is the

number of days the old home was not their main residence divided by the total days they owned the old home.

- They can treat their old home as their main residence for the period 1 January 2023 to 31 March 2023, even though they have moved out. This means it is fully exempt. If they later sell their new home, it will be assessable for CGT for the 90-day period.

You can choose to continue treating your former home as your main residence after you move out. If you do this, you cannot treat your new home as your main residence (except for up to 6 months while you are moving house).

QC 66029

## Treating former home as main residence

How the CGT main residence exemption works if you move out and use the 6-year rule when renting out your former home.

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### On this page

[How it works](#)

[Eligibility](#)

[When and how to make the choice](#)

[Former home not used for income](#)

[Former home used for income](#)

[Former home used for income before you move out](#)



## How it works

Your main residence (your home) is generally exempt from CGT.

Usually, a property stops being your main residence when you stop living in it. However, for CGT purposes you can continue treating a property as your main residence:

- for up to 6 years if you used it to produce income, such as rent (sometimes called the '6-year rule')
- indefinitely if you didn't use it to produce income.

During the time that you treat the property as your main residence after you stop living in it:

- It continues to be exempt from CGT (the same as if you were still living in it, even if you start renting it out after you leave).
- You can't treat any other property as your main residence (except for up to 6 months if you are **moving house**).

## Eligibility

The property must have:

- been your main residence first – you can't apply the main residence exemption to a period before a property first becomes your main residence (for example, if you rented out your home before you lived in it, the main residence exemption doesn't apply to the period you rented out your home)
- **stopped being your actual main residence** – that is, you stopped living in it.

If the property was continuously your **main residence**, the usual rules for the main residence exemption apply. This means if you use it to produce income, such as rent, you will be entitled to only a partial main residence exemption from CGT.

If you are a foreign resident when a CGT event happens to your residential property in Australia (for example, you sell it), generally you aren't entitled to claim the main residence exemption. See **Main residence exemption for foreign residents**.


## When and how to make the choice

You choose to treat a property as your main residence in the income year a CGT event happens to the property when preparing your tax return – for example, the year you sell it based on the contract sale date, **not** the settlement date.

You may own both the property:

- you choose to treat as your main residence when you no longer live in it
- you actually lived in.

In this case, you make the choice in the income year you first sell one of those properties.

To see how to complete myTax when you've sold a rental property, watch our video [How to complete myTax when you've sold a rental property](#) .

## Former home not used for income

If you don't use your former home to produce income (for example, you leave it vacant or use it as your holiday house) you can treat it as your main residence for an unlimited period after you stop living in it. This only applies if you aren't treating another property at the same time as your main residence.

### Example: former home not used to produce income

Bill bought a unit and lived in it for 3 years. He then moved out to live with a friend while his son occupied the unit rent free.

Bill didn't treat any other property as his main residence.

Twelve years later, he sold the unit and claimed the main residence exemption from CGT.

## Former home used for income

If you use your former home to produce income (for example, you rent it out or make it available for rent), you can choose to treat it as your

main residence for up to 6 years after you stop living in it. This is sometimes called the '6-year rule'.

You can choose when to stop the period covered by your choice. For example, if you rented it out for 5 years, you can choose to treat the property as your main residence for 3 years.

If you're absent more than once when owning the property, the 6-year period applies to each period of absence. A period of absence stops when you either stop renting your home and:

- move back in
- leave it vacant.

**Watch:** Selling a rental property that was your home

Media:Example: former home not used to produce income  
<http://tv.ato.gov.au/ato-tv/media?v=bd1bdiubfs6pgq>

### **Example: ending the period covered by the choice early**

James:

- signed a contract to buy a house in Brisbane on 15 September 2012 and moved in as soon as the contract settled.
- moved to Perth on 10 October 2014 and rented out his Brisbane house

- signed a contract to buy a new house in Perth on 3 October 2019 and moved in as soon as the contract settled
- signed a contract to sell the house in Brisbane on 1 March 2024.

When he completed his 2023–24 tax return, James decided to treat the Brisbane house as his main residence for the period after he moved out in October 2014 until he purchased his new main residence in Perth in October 2019. This is a period of less than 6 years. This means James is entitled to claim a partial main residence exemption under the '6-year rule'.

As James decided not to treat the Brisbane house as his main residence after he bought the Perth house, he is subject to CGT for that period. This means James must include a capital gain or loss in the period not covered by the main residence exemption in his 2024 tax return (from October 2019 until March 2024).

### **Example: dwelling used to produce income for up to 6 years**

Lisa:

- signed a contract to buy a house in 2002 and moved in as soon as the contract settled
- stopped living in the house in 2013
- signed a contract to sell the house in 2023.

While she lived in the house, she didn't use it to produce income.

During the 10-year period after she moved out, Lisa:

- rented the house out for 3 years
- left it vacant for 2 years
- rented it out again for 3 years
- left it vacant again for 2 years.

The total period Lisa used the house to produce income was 6 years, which meets the 6-year limit for treating it as her main residence. It doesn't matter if the 6 years is broken. While the house is vacant, the period is unlimited because the house is not being used to produce income.

Lisa can choose to treat the house as her main residence for the entire 10-year period after she stopped living in it and disregard her capital gain or loss on the sale of the house.

Lisa must include the CGT event in her tax return in the year of the contract sale date, even if she chooses to treat the house as her main residence for the period she stopped living in it. Lisa can claim the 'Main residence exemption' in her tax return.

### **Example: dwelling used to produce income during multiple absences**

Jez signed a contract to purchase a house in 2004 and moved in as soon as the contract settled. Jez:

- Stopped living in the house in 2013 because he had to move for work, so he rented it out for the next 5 years.
- Moved back into the house in 2018 and treated it as his main residence for 2 years.
- Moved out again in 2020 and rented the house out, this time for 3 years.
- Entered into a contract to sell the house in 2023.

While Jez lived in the house, he did not use it to produce income.

The 6-year limit applies separately to each period of absence immediately following a period Jez lived in the property. This means Jez can choose to treat the house as his main residence for both rental periods and disregard his capital gain or loss on the sale of the house.

Jez must include the CGT event in his tax return in the year of the contract sale date and claim the 'Main residence exemption'

in his tax return.

## What happens if the 6-year limit is exceeded

If you use your former home to produce income for more than 6 years in one absence, it is subject to CGT for the period after the 6-year limit.

To work out your CGT when you dispose of your home:

- you need to work out your cost base, which is the market value of your home at the time you first used it to produce income, plus any allowable costs since then (this is the **home first used to produce income rule**)
- your capital gain or loss is based on the portion of time after first using your home to produce income; that is, over the 6-year limit.

### Example: former home used to produce income for more than 6 years

Roya bought an apartment for \$180,000. She immediately started living in the apartment as her main residence:

- On 29 September 1997, Roya moved interstate and rented out the apartment and at that time the market value of the apartment was \$220,000.
- During her time interstate she didn't acquire another property.
- In July 2022, she returned to her home state and continued to rent out the apartment.
- She sold the apartment for \$555,000 under a contract that settled on 29 September 2022.
- She incurred \$15,000 in agent's and solicitor's fees when she sold.
- She had no other capital gains or losses.

As Roya rented out the apartment, she can treat it as her main residence during her absence for a maximum of 6 years. This is the period 29 September 1997 to 29 September 2003.

Roya must treat the apartment as though she acquired it:

- on the date she first used it produce income (29 September 1997)
- at the market value at that time (\$220,000).

Roya works out her CGT as follows:

- Capital proceeds – cost base = capital gain  
 $\$555,000 - (\$220,000 + \$15,000) = \$320,000$
- Non-main residence days (days over 6-year limit)  
 30 September 2003 to 29 September 2022 = 6,940 days
- Ownership period days (from deemed acquisition date)  
 29 September 1997 to 29 September 2022 = 9,132 days
- Assessable capital gain  
 $\$320,000 \times (6,940 \text{ days} \div 9,132 \text{ days}) = \$243,188$

She is eligible to use the 50% CGT discount to reduce her capital gain:

- $\$243,188 \times 50\% = \$121,594$

Roya is not entitled to a full main residence exemption. She must also report a net capital gain of \$121,594 on her 2023 tax return for the period the main residence exemption wasn't applied.

## Former home used for income before you move out

If you use any part of your home to produce income before you stop living in it, you can't apply the continuing main residence exemption to that part.

This means you can't get the main residence exemption for that part of your home either before or after you stop living in it.

### Example: home used for income before ceasing to live in it

Helen signed a contract to buy a house in 2006 and moved in as soon as possible after settlement. Helen:

- used 75% of the house as her main residence and the remaining 25% as a doctor's surgery
- moved out and rented out the house in 2018
- signed a contract to sell the house in 2024, making a capital gain of \$400,000.

Helen chooses to treat the house as her main residence for the 6 years it was rented out.

As 25% of the house was used to produce income during the period before Helen stopped living in it, the same proportion of the capital gain is assessable:

$$\$400,000 \times 25\% = \$100,000$$

## When does a property stop being your main residence?



A property usually stops being your main residence when you stop living in it.

QC 66030

## When does a property stop being your main residence?

A property usually stops being your main residence when you stop living in it.

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However, you can choose to continue treating your former home as your main residence for capital gains tax purposes even if you no longer live in it.



There are a number of factors that indicate whether a property is no longer your main residence:

- you and your family no longer live in it
- your personal belongings are not kept in it
- it is no longer the address your mail is delivered to
- it is no longer your address on the electoral roll
- services such as gas and power are no longer connected.

The weight given to each of these factors depends on individual circumstances. The length of time you are absent from the property, and any intention you have to re-occupy it, may also be relevant.

### **Example: property stops being main residence during work posting**

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Duc has lived in his house with his family for 5 years. It has been his main residence for the whole period he has owned it.

Duc accepts a 2-year posting overseas for work. During this period:

- Duc's family will travel and live with him overseas
- Duc cancels his utility connections and places all of his personal belongings in storage
- he has his mail redirected to his overseas address and updates his address on the electoral roll.

The house stops being Duc's main residence for the period of his absence.

Depending on his other circumstances, he may choose to continue to treat the house as his main residence while he is away.

### **Example: property stops being main residence during extended travel**

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Eric and Lorraine have owned their family home for 10 years.

They have both retired and for the past few years have travelled the country for 3 to 4 months of each year in their caravan.

When they travel, Eric and Lorraine:

- take some personal items with them and leave the rest in storage at their home
- divert their mail to their daughter, who looks after anything urgent
- notify their utility providers and government agencies of their travel plans and provide an email address for anything that needs their immediate attention
- turn off the mains gas and water to their house but do not disconnect their utilities accounts
- leave their mains electricity switched on as they have solar panels, which generate a feed-in credit for them while they are away.

Eric and Lorraine are away from their home for a significant part of the year. While they are away, they make the caravan their home.

The house stops being Eric and Lorraine's main residence for the period of their absence.

Depending on their other circumstances, they may choose to continue to treat the house as their main residence while they are absent.

### **Example: property does not stop being main residence during holiday**

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Rajini bought a unit in which she has lived for 2 years. It has been her main residence for the whole period she has owned it.

Rajini goes on holiday to Bali for 2 weeks each year over the summer.

Rajini leaves some of her more personal possessions, such as her jewellery and laptop, with her parents while she is away.

The unit does not stop being Rajini's main residence while she is on holiday.

QC 66031

## Living separately to your spouse or children

How to use the main residence exemption if you live in a different home to your spouse or children.

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### On this page

[Having a different home from your dependent child](#)

[Having a different home from your spouse](#)

[Definition of spouse](#)

## Having a different home from your dependent child

If you and a dependent child under 18 years of age have different homes for a period, for capital gains tax (CGT) purposes you must choose one of the homes as the main residence for both of you for the period.

## Having a different home from your spouse

If you and your spouse have different homes for a period, for CGT purposes you and your spouse must either:

- choose one of the homes as the main residence for both of you for the period
- each nominate one of the different homes as your main residence for the period.

If you nominate different homes for the period and you own 50% or less of the home you have nominated, you qualify for an exemption for your share. If you own more than 50%, your share is exempt for half the period you and your spouse have different homes. The same rule applies to your spouse.

This rule applies to each main residence the spouses nominate, whether they have sole ownership or own the home jointly (either as joint tenants or tenants in common).

### **Example: spouses with different main residences**

On 1 July 1998 Kathy and her spouse Grahame entered into a contract to purchase a townhouse which they lived in together. Grahame owned 70% of the townhouse and Kathy owned the other 30%.

On 1 August 2000 they entered into a contract to purchase a beach house, which they owned in equal shares.

From 1 May 2001:

- Kathy lived in their beach house and nominated it as her main residence.
- Grahame kept living in the townhouse and nominated it as his main residence.

On 15 April 2023 Kathy and Grahame entered into a contract for the sale of both the townhouse and beach house.

#### **Beach house**

As the beach house was Kathy's main residence and she owned 50% of it, she disregards her share of any capital gain or loss for the period she and Grahame had different homes (1 May 2001 to 15 April 2023).

As Grahame did not live in the beach house or nominate it as his main residence when he and Kathy had different homes, he includes his share (50%) of any capital gain or loss for any of the period he owned it.

### **Townhouse**

The total capital gain on the sale of the townhouse was \$100,000.

Grahame's share of the capital gain is \$70,000 (reflecting his 70% ownership interest). Because Grahame owned more than 50% of the townhouse, it is taken to have been his main residence for half of the period when he and Kathy had different homes. He is entitled to the main residence exemption for the entire period that he and Kathy lived together in the townhouse.

The amount of the gain that Grahame disregards under the main residence exemption is:

- his share of capital gain
- multiplied by: days the spouses have one main residence (1 July 1998 to 30 April 2001)
- divided by: total days the property was owned (1 July 1998 to 15 April 2023)
- equals: amount of gain disregarded for the period that spouses have one main residence.

That is:

$$\$70,000 \times (1,035 \text{ days} \div 9,055 \text{ days}) = \$8,001$$

*plus*

- his share of capital gain
- multiplied by: 50%
- multiplied by: days the spouses have separate main residences (1 May 2001 to 15 April 2023)
- divided by: total days the property was owned (1 July 1998 to 15 April 2023)
- equals: amount of gain disregarded for the period that spouses have separate main residences.

That is:

$$\$70,000 \times 50\% \times (8,020 \text{ days} \div 9,055 \text{ days}) = \$30,999$$

The total amount disregarded by Grahame is:

$$\$8,001 + \$30,999 = \$39,000$$

Grahame's capital gain on the townhouse is therefore:

$$\$70,000 - \$39,000 = \$31,000$$

Kathy's share of the \$100,000 capital gain on the townhouse is \$30,000, reflecting her 30% ownership interest. She is entitled to the main residence exemption for the period that she and Grahame lived together in the townhouse. The amount she disregards is:

- her share of capital gain
- multiplied by: days the spouses have one main residence (1 July 1998 to 30 April 2001)
- divided by: total days the property was owned (1 July 1998 to 15 April 2023)
- equals: amount of gain disregarded for the period that spouses have one main residence.

That is:

$$\$30,000 \times (1,035 \text{ days} \div 9,055 \text{ days}) = \$3,429$$

Kathy's capital gain on the townhouse is therefore:

$$\$30,000 - \$3,429 = \$26,571$$

### **CGT discount**

Kathy and Grahame can use the CGT discount to reduce their respective capital gains (after applying any capital losses) because they owned the townhouse and beach house for at least 12 months and are Australian residents. (For the townhouse, which was bought before 21 September 1999, they have the option of indexing the cost base instead of using the discount.)

This rule also applies if you choose to **treat a property as your main residence after you move out**, and this choice results in you having a

different main residence from your spouse or a dependent child for a period.

### **Example: different main residences and continuing main residence**

On 5 February 1999 Anna and her spouse Mark bought a townhouse and moved in together. Anna owned more than 50% of the townhouse.

Before moving into the townhouse Anna had lived alone in her own flat. After moving into the townhouse she rented out her flat.

On 11 March 2000 Anna sold her flat. She chose to treat the flat as her main residence from 5 February 1999 until she sold it, under the 'continuing main residence status after moving out' rule.

On 29 April 2024 Anna and Mark sold their townhouse.

Because of Anna's choice, Mark had a different main residence from Anna for the period 5 February 1999 to 11 March 2000. Therefore, Mark must either:

- treat Anna's flat as his main residence for that period, or
- nominate the townhouse as his main residence for that period.

If he chooses to treat Anna's flat as his main residence, a part of any capital gain Mark makes when he sells the townhouse will be taxable. He will not get an exemption for the townhouse for the period that he nominated Anna's flat as his main residence (that is, 5 February 1999 to 11 March 2000).

If Mark nominates the townhouse as his main residence, he qualifies for a full exemption on any capital gain he makes when it is sold because he owns 50% or less of it. However, because Mark and Anna had different main residences as a result of Mark's choice, and Anna owned more than 50% of the flat, her gain on the flat will only qualify for a 50% exemption for the period from 5 February 1999 to 11 March 2000.

Anna's capital gain on the townhouse for the period 5 February 1999 to 11 March 2000 is taxable.

## Definition of spouse

Your spouse is another person who is:

- legally married to you
- in a relationship with you, and the relationship is registered under a prescribed state or territory law, or
- not legally married to you but lives with you on a genuine domestic basis in a relationship as a couple.

QC 66032

## Using your home for rental or business

Find out how your capital gains tax (CGT) main residence exemption is affected if you earn income from your home.

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### On this page

[How it works](#)

[Market Valuation](#)

[Check if CGT applies – the interest deductibility test](#)

[Work out the assessable part of your capital gain or loss](#)

[Value of home when first used to produce income](#)

[Rental property becomes your main residence](#)

[Small business CGT concessions](#)

## How it works



Your **main residence** (your home) is exempt from CGT if you are an Australian resident.

If you rent out part of your home or run a business from home, you're not entitled to the full main residence exemption from CGT.

When you sell your home, the part you used for rental or to run a business is subject to CGT.

You can usually claim income tax deductions for the area of your home used to produce assessable income.

To work out your capital gain or loss, you take into account:

- the floor area used as a rental or to run a business, including through the sharing economy
- the period you used it for this purpose
- whether you [first started using your home for rental or business](#) after 20 August 1996.

## Market Valuation

You should get a market valuation of your home when you first start using it for rental or business, if this was after 20 August 1996.

You need to know this value to calculate your capital gain or loss when you sell it.

If you move out of your home and rent it out, you can **continue treating your former home as your main residence** for up to 6 years. However, you can't claim a main residence exemption for any other property for the same period.

## Check if CGT applies – the interest deductibility test

You may not be entitled to a full main residence exemption if you use part of your home for producing assessable income. To determine if part of the capital gain is assessable, you need to determine if you would be allowed a deduction for your home loan interest if you had borrowed money to acquire your home (interest deductibility test).

The interest deductibility test must be applied regardless of whether you did or did not borrow money to acquire your home.

If you are or would be eligible to claim part of the interest expense, your home is subject to CGT to the same extent.

If you have a home loan, you can't:

- reduce the capital gain by not claiming some or all of the interest
- increase the cost base of your home by the amount of interest you choose not to claim.

You can still get a full main residence exemption if someone else uses part of your home to produce income and you receive no income from that person for the use of the property.

## **Renting out part of your home**

If you rent out part of your home (for example half of the floor area) for a period, you would be entitled to claim a deduction for half of any home loan interest for that period and half of the capital gain (or loss) for the period would be assessable.

## **Running a business from home**

You are running a business from home if it's your principal place of business and you have space set aside just for this purpose. Merely working from home occasionally or by choice doesn't qualify.

You're entitled to deduct part of any home loan interest if:

- part of your home is set aside exclusively as a place of business and is clearly identifiable as such
- that part of the home isn't readily adaptable for private use – for example, a doctor's surgery located in a doctor's home.

You're not entitled to deduct interest expenses if:

- you use a home study to do work usually done at your place of work
- you do paid child-minding at home (unless part of your home is set aside exclusively for that purpose).

You are only eligible for the full main residence exemption if you're not entitled to deduct interest expenses.

## **Work out the assessable part of your capital gain or loss**

You can use the **CGT property exemption tool** to calculate the portion of your home that is subject to CGT.

Alternatively, you can work out the assessable part of your capital gain or loss as follows:

**Step 1:** Work out the capital gain or loss on your home based on its value when you first used it to produce income.

There are exceptions if you first used your home to produce income before 21 August 1996 or inherited your home. See [Value of home when first used to produce income](#).

**Step 2:** Determine the portion of your home's floor area that you set aside to produce income.

**Step 3:** Multiply steps 1 × 2. If you:

- used your home to produce income right up to when you sold it, this is your assessable capital gain or loss – you don't need to continue
- stopped using your home to produce income before you sold it – continue to step 4.

**Step 4:** Determine the number of days you used your home to produce income.

**Step 5:** Determine the number of days from the date you first used your home to produce income until you sold it.

**Step 6:** Your net capital gain is step 3 × (step 4 ÷ step 5).

### **Example: part of home used for income throughout ownership period**

Thomas bought a house on 1 July 2001 for \$300,000. He sold it on 30 June 2024 for \$700,000. The house was his main residence for the entire time.

Throughout the period Thomas owned the house a tenant rented one bedroom, which represented 20% of the house.

Both Thomas and the tenant used the living room, bathroom, laundry and kitchen, which represented 30% of the house.

Only Thomas used the remainder of the house. This means Thomas is entitled to a 35% deduction (20% + (30% ÷ 2 people))

for home loan interest (if he incurred it).

Using the [steps above](#), Thomas works out his net capital gain as follows.

1. Thomas used his home to produce income from the time he acquired it. Therefore, he uses its initial value to work out his capital gain:  
 $\$700,000 - \$300,000 = \$400,000$ .
2. The portion of the floor area set aside for rental is 35%.
3. Thomas' net capital gain is  $\$400,000 \times 35\% = \$140,000$ . As he used his home for income right up to when he sold it, he doesn't need to apportion the time it was used to produce income.

As Thomas owned his house for at least 12 months he can use the CGT discount (50% for individuals) to reduce his capital gain.

Thomas's net capital gain would be \$70,000.

### **Example: part of home used for income for part of ownership period**

Fatima bought a house in December 1996 for \$200,000. It was her main residence.

- On 1 November 2016 she started to use 40% of the house for a consultancy business. At that time the market value of the house was \$520,000.
- On 1 August 2020 she shifted her consultancy practice to separate business premises and used her home solely for private purposes.
- On 1 May 2024 she sold her house for \$620,000.

Using the [steps above](#), Fatima works out her net capital gain as follows.

1. Her capital gain based on the value of her home when she first used it to produce income is  $\$620,000 - \$520,000 = \$100,000$ .

2. The portion of her home's floor area set aside for business was 40%.
3.  $\$100,000 \times 40\% = \$40,000$ . As Fatima stopped using her home for business before she sold it, she continues to step 4.
4. Fatima used her home to produce income from 1 November 2016 to 1 August 2020, a total of 1,370 days.
5. The period from when she first used her home to produce income until she sold it is 2,739 days (1 November 2016 to 1 May 2024).
6. Fatima's net capital gain is  $\$40,000 \times (1,370 \div 2,739) = \$20,007$ .

For CGT purposes, Fatima is treated as if she acquired the house on 1 November 2016. This is more than 12 months before she sold it, so she can use the CGT discount (50% for individuals) to reduce her capital gain.

Fatima's net capital gain would be \$10,003.

## Value of home when first used to produce income

If you use your home to produce income you are generally taken to have acquired it at the time you first used it for this purpose.

This means when you sell your home, you work out the capital gain or loss using its market value at the time you first used it to produce income.

This is called the 'home first used to produce income rule'.

If you sell your home within 12 months of when you first use it to produce income, you can't use the CGT discount.

### Exclusions

If you:

- use your home to produce income from the time you acquire it, the rule doesn't affect you – for an example, see [Rental property becomes your main residence](#)

- inherit a dwelling that was a deceased's main residence – the rule doesn't apply if you sell the dwelling within 2 years
- choose to continue treating a property as your main residence after you move out – if the property is fully exempt, the rule doesn't apply.

### **Example: 'Home first used to produce income rule' does not apply**

Peter bought a house on 1 October 2010 for \$550,000. He rented it out until 30 June 2013.

Peter moved into the house on 1 July 2013 and lived in it for the entire period until it was sold on 30 March 2023 for \$780,000.

The 'home first used to produce income rule' doesn't apply as the house was rented from the time Peter acquired it. This means that Peter isn't required to use the market value of the house at the time it was first used to produce income.

Peter works out the capital gain based on the cost base of \$550,000. Peter is entitled to the main residence exemption from 1 July 2013 to 30 March 2023 (3,560 days).

The assessable part of Peter's capital gain will be calculated as follows:

1. Capital gain for the entire period is  $\$780,000 - \$550,000 = \$230,000$
2. Peter's home was rented out for 1,004 days (1 October 2010 to 30 June 2013)
3. Peter's total period of ownership was 4,564 days.
4. Capital gain for the period that was rented out is  $\$230,000 \times (1,004 \div 4,564) = \$50,577$ .

Peter is entitled to the CGT discount of 50% which will reduce his capital gain.

Peter's net capital gain would be \$25,288.

### **When the rule applies**

Apart from the exclusions above, the rule applies if all the following are true:

- you acquired the property on or after 20 September 1985
- you first used the property to produce income after 20 August 1996
- when you sell the property (or another CGT event happens to it), you would be entitled to a partial CGT exemption because you used it to produce income during the period you owned it
- you would have been entitled to a full exemption if the sale or other CGT event happened to the property immediately before you first used it to produce income.

### **Example: home becomes a rental property**

Erin bought a house in July 2012 for \$450,000.

- The house was her main residence until she moved into a new house on 1 August 2023.
- On 2 August 2023 she began renting out the old house.
- At that time, the market value of the old house was \$650,000.

Erin didn't want to treat the old house as her main residence under the 'continuing main residence status after moving out' option as she wanted the new house to be treated as her main residence from the date she moved into it.

In June 2024 Erin sold the old house for \$696,000. Erin is taken to have acquired the old house for \$650,000 on 2 August 2023 and calculates her capital gain to be \$46,000.

Because Erin is taken to have acquired the old house on 2 August 2023, she is taken to have owned it for less than 12 months and can't use the CGT discount to reduce her capital gain.

**Watch:** Selling a rental property that was your home

Media:Running a business from home

<http://tv.ato.gov.au/ato-tv/media?v=bd1bdiubfs6pgq>

## Rental property becomes your main residence

If your rental property becomes your main residence, your eligibility for a main residence exemption is limited to the period you lived in the property. For the period the property was rented out, you will be liable for CGT when you sell the property.

Use the following formula to work out your CGT when you sell your property:

$$\text{Capital gain or loss} \times (\text{number of days the property was used to produce income} \div \text{total number of days you owned the property})$$

The total number of days you owned the property is calculated using the contract purchase and sale dates, not settlement dates.

You can also use the **Capital gains tax property exemption tool** to work out what percentage of your capital gain is exempt from capital gains tax (CGT).

### Example: Rental property becomes your home

Farnaz entered into a contract to purchase a property on 21 October 2016 for \$449,000. She immediately rented out the property.



The property was rented for 2 years, until Farnaz moved into the property on 16 November 2018. Farnaz lived in the property as her main residence until she signed a contract to sell her home on 1 April 2023 for \$987,500.

Farnaz works out her net capital gain as follows:

1. Capital gain is \$538,500 (worked out as \$987,500 – \$449,000)
2. Number of days owned is 2,354
3. Number of days the property was used to produce income is 756
4. Assessable capital gain is  
$$\$538,500 \times (756 \div 2,354) = \$172,942$$
5. Net capital gain after applying the 50% CGT discount for owning the property for over 12 months is \$86,471 (worked out as  $\$172,942 \times 50\%$ )

Farnaz includes a net capital gain of \$86,471 in her 2023 tax return.

## Small business CGT concessions

If you're not entitled to a full main residence exemption because you use your home for business purposes, you may be able to apply the **small business CGT concessions** to reduce your capital gain.

The concessions aren't available if the main use of the premises is to earn rental income.

QC 66033

## Building or renovating your home

How to get the main residence exemption for your land while you build your future home.

**Last updated** 18 June 2024

## On this page

[Eligibility for exemption before you move in](#)

[How to apply the exemption](#)

[If the owner dies during construction](#)

## Eligibility for exemption before you move in

If you build a dwelling on land you already own, the land normally is not exempt from capital gains tax (CGT) until the dwelling becomes your main residence.

However, you can treat the land as your main residence for up to 4 years before you move in if you:

- have an ownership interest (other than a life interest) in the land
- build, repair or renovate a dwelling on the land, or finish a partly constructed dwelling
- move into the dwelling as soon as practicable after it is finished and continue to use it as your main residence for at least 3 months.

The same option is available if you build a new dwelling to replace a dwelling that was demolished or destroyed. You can treat the vacant land as your main residence for up to 4 years while building your new home.

## How to apply the exemption

If you choose to treat land as your main residence until your home is finished:

- the land is exempt from the time you acquire it or for up to 4 years before you move in, whichever is shorter
- if you or anyone else occupies a dwelling that is already on the land, the exemption period does not start until that dwelling is vacated
- you cannot treat any other dwelling as your main residence for the same period (except for a limited time if you are **moving from one main residence to another**)

- you cannot choose to have a shorter period of exemption for the new dwelling in order to exempt your old home for part of the construction period.

### **Example: treating land as main residence**

Ahmed built a new dwelling on a vacant block of land he bought, and moved from his old home into the new one. His key dates are:

- 3 November 1996 – bought old home
- 3 September 2009 – bought land for new dwelling
- 2 September 2023 – finished building new dwelling
- 1 October 2023 – sold old home
- 7 October 2023 – moved into new dwelling (this was as soon as practicable after completion).

Ahmed can treat the new dwelling as his main residence from 7 October 2019. This is the 4 years immediately before the new dwelling actually becomes his main residence.

If he chooses to do this, Ahmed's old home is exempt:

- from 3 November 1996 (when he acquired it) until 6 October 2019 (just before he began treating the dwelling under construction as his main residence)
- for the 6 months before he disposed of it – that is, from 1 April 2023 to 1 October 2023 – because during this period he can treat both dwellings as his main residence under the rules for moving from one main residence to another.

## **If the owner dies during construction**

The exemption can still apply if the owner of the dwelling under construction were to die at any time between:

- entering into contracts for the construction work
- the end of the first 3 months of residence in the new home.

The surviving joint owner (or if none, the trustee of the deceased estate) can choose to treat the land and dwelling as the deceased's main residence. The conditions are the same, except that the exemption period ends when the deceased died.

QC 66034

## Destruction of your home

Check if your insurance payment or land is exempt from CGT.

**Last updated** 18 June 2024

If your home is destroyed accidentally (such as through a natural disaster), you can apply the **main residence exemption** to any money you receive as a result.

This means if your home was fully exempt before it was destroyed, then:

- if you sell your vacant land, it is exempt from capital gains tax (CGT)
- any insurance payment or other compensation is exempt from CGT.

If your home was only partially exempt before it was destroyed, CGT will apply to the part that was not exempt. For example, CGT will apply if:

- you used part of your home for **rental or business**
- your home was on **more than 2 hectares of land**.

If you **move to a new home** before you sell the vacant land of your former home, you can treat both as your main residence for up to 6 months.

If you **build a new home** on your land, you can treat the land as your main residence for up to 4 years before you move in. During this period you cannot claim the main residence exemption for any other dwelling.

We can help you **deal with a disaster** – for example, by helping you reconstruct your tax records or allowing early access to refunds.

# Compulsory acquisition of your home

Find out if the payment you receive for compulsory acquisition of your home is exempt from CGT.

**Last updated** 18 June 2024

## On this page

[How CGT applies when your home is compulsorily acquired](#)

[What is compulsory acquisition?](#)

[Records you need to keep](#)

## How CGT applies when your home is compulsorily acquired

If all or part of your home is compulsorily acquired, you can apply the main residence exemption to any money or other compensation you receive.

If your home is compulsorily acquired and you are entitled to the full **main residence exemption**, you ignore any capital gain or loss.

You are also covered by the main residence exemption if only part of your property is compulsorily acquired, such as:

- land adjacent to your home
- a structure associated with your home, such as a garage.

You can apply the main residence exemption to a **maximum of 2 hectares** of your property during your ownership.

To be exempt the land must be used for private purposes.

If the land you use for private purposes is larger than 2 hectares, you can nominate which part the exemption will apply to. However, the 2-hectare total must always include the land underneath your dwelling.

This limit may be reached in stages through multiple **capital gains tax (CGT) events**.

You also ignore a capital gain or loss from the compulsory acquisition of land adjacent to an inherited dwelling.

### **Example: compulsory acquisition and main residence exemption**

Rene and Vidia live in a house on a 10-hectare block. It is their main residence. The land underneath the house is 0.03 hectares of the block.

The Department of Roads compulsorily acquired a 1.2 hectare strip of their land.

Rene and Vidia chose to treat the 1.2 hectare strip as part of their main residence. The money they received from the acquisition was therefore exempt from CGT.

A few years later, Rene and Vidia had a second compulsory acquisition. The Water Company purchased one hectare of their remaining land.

This time the couple could not claim a full exemption from CGT.

Their home still qualified as their main residence, but the main residence exemption is limited to 2 hectares during their ownership.

As they had previously used the exemption for 1.2 hectares, and their house occupies 0.03 hectares, the maximum they can claim for the second acquisition is:

$$2 \text{ hectares} - 1.2 \text{ hectares} - 0.03 \text{ hectares} = 0.77 \text{ hectares}$$

Since 0.77 hectares is 77% of the one hectare that was compulsorily acquired, Rene and Vidia could only treat this percentage of the gain or loss as exempt from CGT.

## What is compulsory acquisition?

Compulsory acquisition is when a government agency takes possession of all or part of your property.

It may also be done by an entity acting on behalf of government.

## Records you need to keep

You must keep records when you claim the main residence exemption from CGT.

We sometimes request evidence (for a review or audit) to support your income tax self-assessment.

The records you may be asked to provide include, but are not limited to:

- proof of the compulsory acquisition arrangement
- evidence of how your property qualifies as a main residence
- calculations of your capital gain or loss
- site plans or other documents showing that the total compulsorily acquired land during your ownership is 2 hectares or less.

QC 66036

## Home on more than 2 hectares

Choose which part of your property is exempt from CGT if it is larger than 2 hectares.

**Last updated** 18 June 2024

### On this page

[Which part of your land is exempt](#)

## Which part of your land is exempt

When selling your home you can claim the main residence exemption from capital gains tax (CGT) for up to 2 hectares of the land your home is on.

If your land is used for private purposes and is greater than 2 hectares, you can choose which 2 hectares are exempt. The rest is subject to CGT.

If any part of the land is used to produce income it is not exempt. This is the case even if the total land area is less than 2 hectares.

The 2 hectares you choose must include the land that is under your dwelling.

### Example: land used for private purposes

Mohammed bought a house with 15 hectares of land. He used 10 hectares for apple farming and 5 hectares for private purposes. Mohammed can get the main residence exemption for:

- the house
- 2 hectares of land he selects out of the 5 hectares that he uses for private purposes (the land he selects must include the land under the house).

After 9 years, Mohammed decided to sell. He had his house valued. The valuation stated that the house and the 2 hectares of land he had selected were worth two-thirds of the total value of the property.

Mohammed can claim the main residence exemption for two-thirds of the capital gain on the sale of the property.

## Selling land separately from dwelling

If you sell land separately from your dwelling it is subject to CGT unless either:



- your dwelling has been accidentally destroyed and you sell the vacant land
- vacant land adjacent to your dwelling is compulsorily acquired.

If the dwelling is not sold with the land – for example, because the dwelling is a caravan and has been removed or sold separately – the sale of the land is subject to CGT.

QC 66037

## **Our commitment to you**

We are committed to providing you with accurate, consistent and clear information to help you understand your rights and entitlements and meet your obligations.

If you follow our information and it turns out to be incorrect, or it is misleading and you make a mistake as a result, we will take that into account when determining what action, if any, we should take.

Some of the information on this website applies to a specific financial year. This is clearly marked. Make sure you have the information for the right year before making decisions based on that information.

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