

GUIDE TO CAPITAL GAINS TAX

TAXPACK REFERRED PUBLICATION

Covering:

- individuals who have sold their main residence
- individuals with complex capital gains tax obligations
- companies, trusts and funds.



HOW SELF-ASSESSMENT AFFECTS MOST INDIVIDUALS

Self-assessment means the Australian Taxation Office (ATO) uses the information you give in your tax return to work out your refund or tax bill. 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.

What are your responsibilities?

Even if someone else – including a tax agent – helps you to prepare your tax return, you are still legally responsible for the accuracy of the information.

What if you lodge an incorrect tax return?

Our computers continually check for missing or wrong information. We have audit programs designed to detect where taxpayers have not declared all of their assessable income or where they have incorrectly claimed deductions or tax offsets. If you become aware that your tax return is incorrect, you must contact us straightaway.

Initiatives to complement self-assessment

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

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

DO YOU NEED TO ASK FOR A PRIVATE RULING?

If you have a concern about the way 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 ATO describing your situation in detail and ask for advice. Include your tax file number. If you lodge your tax return before you receive your private ruling, be aware that the ruling may alter the accuracy of your return.

You can ask for a review of a private ruling decision if you disagree with it, even if you have not received your assessment. The ATO can give you more information about review procedures.

FEEDBACK

Reader feedback helps us to improve the information we provide. If you have any comments to make about this guide, please write to:

The Editor

Public Assistance Branch

Australian Taxation Office

PO Box 900

CIVIC SQUARE ACT 2608

As this is a publications area only, any tax matters will be passed on to a technical area. Otherwise you can ring our Personal Tax Infoline on **13 28 61** for help.

GUIDE TO CAPITAL GAINS TAX 2000–01

Covering:

- individuals who have sold their main residence
- individuals with complex capital gains tax obligations
- companies, trusts and funds.

ABOUT THIS GUIDE

This guide is designed for individuals, companies, trusts and funds completing paper-based income tax returns. It explains how capital gains tax works and will help you calculate your net capital gain or net capital loss for 2000–01 so you can meet your capital gains tax obligations. There are worksheets at the back of the guide to help you do this.

The guide also introduces the new *Capital gains tax (CGT) schedule 2001* (CGT schedule) which must be completed by companies, trusts and superannuation funds with capital gains tax obligations over a certain threshold. A CGT schedule has been included at the back of this guide for your entity's use if required.

If you would prefer to prepare and lodge your tax return electronically, you can use the ATO's *e-tax 2001* software package. The capital gains tax module includes a calculator for capital gains and capital losses and can be downloaded via the internet at **www.ato.gov.au**.

You may prefer to use the shorter, simpler *Personal investors guide to capital gains tax* if you are an individual who, during 2000–01:

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

If you are an individual who has sold a rental property or several parcels of shares during the year, use part B of this guide to find out how to complete your worksheets and tax return labels.

If you are a small business, you should obtain a copy of the short publication *Capital gains tax concessions for small business* from the sources listed at the back of this guide. Use part C of this guide to find out how to complete your worksheets, tax return labels and (if you are over the threshold) a CGT schedule.

If you are a company, trust or superannuation fund, use part C of this guide to find out how to complete your worksheets, tax return labels and (if you are over the threshold) the CGT schedule.

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INTRODUCTION

This guide is designed to help you work out whether any of the assets you own, or may own in the future, will be subject to capital gains tax. It tells you how to work out your capital gain or capital loss. It also covers what records you need to keep.

YOUR TAX RETURN

If you have a capital gain or capital loss for 2000–01, this guide will help you (as an individual) or your entity (company, trust or fund) complete the capital gains tax item in your paper-based tax return.

WORKSHEETS

You may wish to use capital gains tax worksheets to help you keep track of your records and make sure you pay no more capital gains tax than necessary.

There is a *Capital gain or loss worksheet* provided at the back of this guide that you may wish to use to work out your capital gain or loss for each capital gains tax 'event'. There is also a *CGT summary worksheet* that helps you summarise your capital gains and capital losses to produce the final net amount you need for your tax return. You can tear out these forms and complete them as you work through the guide.

CAPITAL GAINS TAX SCHEDULE

If you are an entity (for example a company, trust or fund) with total capital gains or capital losses of more than \$10 000 this income year, you need to complete a *Capital gains tax (CGT) schedule 2001* (CGT schedule). You can transfer the relevant amounts from your worksheets to your tax return and your CGT schedule.

The CGT schedule is explained in detail in part C and is provided at the back of this guide for your entity's use if required. The schedule replaces several return form labels used in past tax returns.

NOTE START TIME

The information in this guide applies to the 2000–01 income year. Throughout this guide, 11.45am legal time in the ACT on 21 September 1999 (also known as 'the start time') will be referred to as 11.45am on 21 September 1999.

CAPITAL GAINS TAX AND GST

If you are a company, trust or fund, you need to consider how capital gains tax interacts with the goods and services tax (GST) introduced on 1 July 2000.

IF YOUR ENTITY IS REGISTERED FOR GST...

Your GST registration may affect your calculation of a capital gain or capital loss.

Although you are generally entitled to input tax credits on the things you acquire for your business, GST is left out of capital gains tax calculations where it does not represent a real cost or benefit. This is in line with the ordinary income tax rules. The cost base of an asset does not include amounts of corresponding input tax credits to which you are entitled.

You may occasionally need to make adjustments to GST you have collected on assets you have disposed of, or to GST you have claimed as input tax credits (for example, where there is a change in a creditable purpose).

IF YOUR ENTITY IS NOT REGISTERED FOR GST...

If your entity is not GST-registered, any GST you incur when acquiring an asset will be included in your cost base, since you are not entitled to claim any associated input tax credits. As you do not include GST in the price of things you sell, your capital proceeds will not require any adjustment for GST.

MORE INFORMATION ABOUT GST

For more information about how GST affects your entity and whether you should be registered for GST, phone **13 24 78** and have your tax file number handy.

IMPORTANT THINGS TO REMEMBER

There have been some changes to capital gains tax which are explained in the publication *What's new?*, available from the sources listed at the back of this guide. These changes are reflected in the relevant chapters of this guide.

Following is a list of important things to keep in mind when calculating your capital gain or capital loss.

- For assets acquired before 11.45am on 21 September 1999, the indexation of the cost base of an asset is frozen as at 30 September 1999. You cannot use the indexation method to calculate your capital gain for assets acquired after this date.
- If you are not a company, you may be eligible for the CGT discount for any assets sold after 11.45am on 21 September 1999 (see chapter 2 for more information).
- The CGT averaging concession that was available for individual taxpayers and certain trustees has been removed for the 2000–01 and later income years.
- There are four small business capital gains tax concessions for capital gains made from CGT events after the start time. These are explained in *Capital gains tax concessions for small business*, available from the sources listed at the back of this guide.
- Plant eligible for depreciation is no longer relevant to capital gains tax, although other income tax provisions do apply.

MORE INFORMATION

If you need more information or would like a copy of any of the publications mentioned in this guide, refer to the sources listed at the back.

QUICK REFERENCE

General information about how capital gains tax works and how it applies to you	Page 2
Information about the three methods of calculating your capital gain: the indexation, discount and 'other' methods	Page 13
What records you need to keep for capital gains tax	Page 20
Capital gains tax implications of distributions from a managed fund or other unit trust	Page 23
How to calculate your capital gain or capital loss if you have sold shares or units	Page 28
What you need to know about capital gains tax if you sell your home	Page 44
What the capital gains tax implications are if your marriage breaks down	Page 70
Important information for people who are beneficiaries of a deceased estate	Page 74
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CHECK THIS SIGNPOST BEFORE YOU READ PART A OF THIS GUIDE

SIGNPOST

Do you understand the three methods of calculating a capital gain?	Read chapter 2 in part A, starting on page 13.
Have you received a distribution of a capital gain from a managed fund or other unit trust in 2000–01?	Read chapter 4 in part A, starting on page 23.
Have you sold shares or units in a unit trust in 2000–01?	Read chapter 5 in part A, starting on page 28.
Did you sell your home (main residence) in 2000–01?	Read chapter 6 in part A, starting on page 44.
Do you need help completing the capital gains item in your individual tax return?	Read the relevant chapters in part A, then work through part B.
Do you need help completing the capital gains item in your entity's tax return?	Read the relevant chapters in part A, then work through part C.

DOES CAPITAL GAINS TAX APPLY TO YOU?

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

WHAT IS CAPITAL GAINS TAX?

Capital gains tax (CGT) is the tax you pay on any capital gain you make and include in your annual income tax return.

You may make a capital gain (or profit) as a result of a CGT event, for example, when you sell an asset for more than you paid for it. You can also make a capital gain if a managed fund or other trust distributes a capital gain to you.

NOTE NEW TERMS

We may have used some terms that are not familiar to you. These words are described in the *Explanation of terms* at the back of this guide.

While we have sometimes used the word 'bought' rather than 'acquired', you may have acquired an asset without paying for it (for example, as a gift or through an inheritance). 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). For the purposes of this guide, all of these 'acquisitions' and 'disposals' are CGT events.

Generally, you can disregard any capital gain or capital loss you make on an asset you acquired before 20 September 1985 (pre-CGT). Also, any capital gain or capital loss made on a CGT event involving plant after 11.45am on 21 September 1999 is disregarded, although other income tax provisions apply.

If you are an individual, you show the total of your current year capital gains at label H item 17 in your tax return.

If you are completing your entity's tax return, capital gains are shown in the following items:

- *Company tax return 2001* (item 6)
- *Trust tax return 2001* (item 17), or
- *Fund income tax and regulatory return 2001* (item 9).

Capital gains tax affects your income tax if you have made a net capital gain this income year. Your net capital gain is:

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

You show your net capital gain at label A in the capital gains question in your tax return.

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

- whether a CGT event has happened (this is the question asked at label G)
- the time of the CGT event
- how to calculate the capital gain or capital loss
- whether there is any exemption or roll-over that allows you to reduce or disregard the capital gain or capital loss
- how to apply any capital losses
- whether the CGT discount applies, and
- whether you are entitled to any of the CGT concessions for small business.

WHAT IS A CGT EVENT?

CGT events are the different types of transactions or events that attract capital gains tax. Most CGT events involve a CGT asset, from which you make a capital gain or capital loss. There are exceptions, for example, where CGT events relate directly to capital receipts (capital proceeds).

There is a wide range of CGT events. Some happen often and affect many different people, while others are rare and affect only a few people. There is a summary of CGT events from A1 to K6 at appendix 3.

The most common CGT event happens if you dispose of an asset to someone else, for example, if you sell or give away an asset. Some other CGT events from which you may make a capital gain or capital loss include when:

- an asset you own is lost or destroyed (the destruction may be voluntary or involuntary)
- shares you own are cancelled, surrendered or redeemed
- you enter into an agreement not to work in a particular industry for a set period of time
- a trustee makes a non-assessable payment to you from a managed fund or other unit trust
- a company makes a payment (not a dividend) to you as a shareholder
- a liquidator declares that shares you own are worthless
- you receive an amount from a local council for disruption to your business assets by roadworks, or
- you stop being an Australian resident.

You make the capital gain or capital loss at the time of the event. Generally, your capital proceeds are what you receive from the CGT event.

For most CGT events, you make a capital gain if you receive an amount from the CGT event that is greater than your cost base, for example, if you received more for the asset than you paid. You make a capital loss if your reduced cost base is greater than your capital proceeds.

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

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

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

To work out your capital gain or capital loss, you need to know which CGT event applies. The type of CGT event affects when you can include the capital gain in your assessable income and how you calculate the capital gain or capital loss.

ORDER IN WHICH CGT EVENTS APPLY

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

TIME OF THE CGT EVENT

The timing of a CGT event is important because it tells you in which income year a capital gain or capital loss from the event affects your income tax.

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

EXAMPLE

CONTRACT

In June 2001 Sue enters into a contract to sell land. The contract is settled in October 2001.

Sue makes the gain in the 2000–01 year when she enters into the contract and not the 2001–02 income year when settlement takes place.

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

EXAMPLE

INSURANCE POLICY

Laurie owned a rental property that was destroyed by fire in June 2000. He received a payment under an insurance policy in October 2000. The CGT event happened in October 2000.

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

WHAT IS A CGT ASSET?

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

CGT assets fall into three categories: collectables, personal use assets and other assets.

COLLECTABLES

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

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

A collectable is also:

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

Any capital gain or capital loss you make from a collectable acquired for \$500 or less is disregarded. A capital gain or capital loss you make from an interest in a collectable is disregarded if the market value of the collectable when you acquired the interest was \$500 or less. However, if you acquired the interest for \$500 or less before 16 December 1995, a capital gain or capital loss is disregarded.

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

PERSONAL USE ASSETS

A personal use asset is:

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

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

If a CGT event happened to a personal use asset during or after the 1998–99 income year, any capital gain you make from the asset or part of the asset is disregarded if you acquired the asset for \$10 000 or less.

If you dispose of personal use assets individually that would usually be sold as a set, you obtain the exemption only if you acquired the set for \$10 000 or less.

ALL OTHER ASSETS

Assets that are not collectables or personal use assets include:

- land and buildings
- shares in a company
- rights and options
- leases
- units in a unit trust
- instalment receipts

- goodwill
- licences
- convertible notes
- your home (see *Exemptions* on page 11)
- contractual rights
- foreign currency, and
- any major capital improvement (above the improvement threshold) made to certain land or pre-CGT assets. Improvement thresholds are listed in the table on page 9.

PARTNERSHIPS

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

JOINT TENANTS

For capital gains tax purposes, individuals who own an asset as joint tenants are each treated as if they own an equal interest in the asset as a tenant in common (see page 77 for more information).

SEPARATE ASSETS: BUILDINGS AND STRUCTURES ON LAND

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

This may be the case if, on or after 20 September 1985:

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

WHAT ARE CAPITAL PROCEEDS?

'Capital proceeds' is the term used to describe the proceeds from a CGT event. This is usually an amount of money or the value of any property you receive (or are entitled to receive) as a result of a CGT event.

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

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

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

Capital proceeds from a CGT event are reduced if:

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

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

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

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

WHAT IS THE COST BASE?

For most CGT events, the cost base of a CGT asset is important in working out if you have made a capital gain. For some CGT events, however, the cost base is not relevant. In these cases, the provisions dealing with the relevant CGT event explain the amounts to use to work out your capital gain.

For example, if you enter into an agreement not to work in a particular industry for a set period of time, CGT event D1 specifies that you make a capital gain or capital loss by comparing the capital proceeds with the incidental costs.

In calculating a capital gain, you work out the cost base of the CGT asset involved, whereas in calculating a capital loss you work out the reduced cost base.

ELEMENTS OF THE COST BASE

The cost base of a CGT asset is made up of five elements. You need to add together all of these elements to work out your cost base for each CGT event.

Where relevant, the elements of the cost base are reduced by any GST included in the price.

First element: money paid for the asset

This element includes money paid (or required to be paid) for the asset and the market value of property given (or required to be given) to acquire the asset.

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

Examples of these incidental costs include an agent's commission, the cost of advertising to find a seller or buyer, stamp duty, and fees paid for professional services (for example, to an accountant, professional tax adviser, valuer or lawyer).

You can include expenditure for advice concerning the operation of the tax law as an incidental cost only if it was provided by a recognised professional tax adviser and you incurred the expenditure after 30 June 1989.

Do not include expenditure for which you have, or may have, a deduction for income tax purposes in any year.

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

Examples of these non-capital costs include interest, rates, land taxes, repairs and insurance premiums. They also include non-deductible interest on borrowings to re-finance a loan used to acquire a CGT asset and on loans used to finance capital expenditure you incur to increase an asset's value.

You can include non-capital costs of ownership only in the cost base of assets acquired on or after 21 August 1991. You cannot include these non-capital costs in the cost base of any collectables or personal use assets.

These costs cannot be indexed or used to work out a capital loss. Do not include expenditure for which you have, or may have, a deduction for income tax purposes in any year.

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

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

Fifth element: capital costs to preserve or defend your title or rights to your asset

This element includes capital expenditure you incur to preserve or defend your title or rights to the asset, for example, if you paid a call on shares.

Assets acquired after 13 May 1997

If you acquired a CGT asset after 13 May 1997, the cost base of the asset does not include:

- any expenditure on the asset that has been (or can be) allowed as an income tax deduction. This applies to all elements of the cost base, or
- heritage conservation expenditure and landcare and water facilities expenditure incurred after 12 November 1998 that give rise to a tax rebate (now called a tax offset).

NOTE SPECIAL RULES FOR LAND

Special rules apply if you acquired land on or before 13 May 1997 but you incurred expenditure between this date and 1 July 1999 on constructing a building that is treated as a separate asset from the land for CGT purposes. If you think this may be relevant to you, contact the ATO for more information.

EXAMPLE

SPECIAL BUILDING WRITE-OFF DEDUCTION

Zoran acquires a rental property on 1 July 1997 for \$200 000. Before disposing of the property on 30 June 2001, he claims \$10 000 in special building write-off deductions.

At the time of disposal, the cost base of the property was \$210 250. Zoran must reduce the cost base of the property by \$10 000 to \$200 250.

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

Any expenditure you recoup does not form part of the cost base of a CGT asset. In working out whether you have made a capital gain or capital loss from a CGT event in the 2000–01 income year or in a later year, do not reduce the cost base by a recouped amount included in your assessable income.

EXAMPLE

RECOUPED EXPENDITURE

John bought a building in 1999 for \$200 000 and incurred \$10 000 in legal costs associated with the purchase. As part of a settlement, the vendor agreed to pay \$4000 of the legal costs. John did not claim as a tax deduction any part of the \$6000 he paid in legal costs.

He later sells the building. As he received reimbursement of \$4000 of the legal costs, in working out his capital gain he includes only \$6000 in the cost base.

INDEXATION OF THE COST BASE

If a CGT event happens in the 2000–01 income year in relation to a CGT asset you acquired before 21 September 1999, you may be able to use either the indexation method or the discount method to calculate your capital gain.

If you use the indexation method, some of the cost base expenditure you incurred up to 21 September 1999 may be indexed to account for inflation up to the September 1999 quarter. Only expenditure incurred before 21 September 1999 may be indexed because changes to the law mean indexation is frozen at that date. Refer to chapter 2 page 14 for more information.

If you acquired shares in the Commonwealth Bank of Australia (CBA) or Telstra 1 (the first public offer of Telstra shares), the dates from which indexation applies to each instalment paid are shown in *Recent share transactions* at appendix 2.

REDUCED COST BASE

The reduced cost base is the amount you take into account when you are working out whether you have made a capital loss when a CGT event happens to a CGT asset. Remember that a capital loss can only be used to reduce a capital gain – it cannot be used to reduce other income.

The reduced cost base of a CGT asset has the same five elements as the cost base (see previous page), except for the third element. The third element is any amount that is assessable because of a balancing adjustment for the asset, or that would be assessable if certain balancing adjustment relief was not available. These elements are not indexed and do not include any relevant GST input tax credits. You need to add together all of these elements for a CGT asset to find out your reduced cost base for the relevant CGT event.

The reduced cost base does not include any of those costs that have been (or can be) allowed as deductions, for example, write-off deductions for capital expenditure. It also does not include any expenditure that you have recouped, for example, a claim on an insurance policy (except for any recouped amount included in your assessable income).

EXAMPLE

WRITE-OFF DEDUCTION

Danuta acquired a new income-producing asset on 28 September 1994 for \$100 000. She sold it for \$90 000 in November 2000. During the period she owned it she was allowed write-off deductions of \$7500. Her capital loss is worked out as follows.

	\$
Cost base	100 000
Less write-off deduction	7 500
Reduced cost base	92 500
Less capital proceeds	90 000
Capital loss	2 500

MODIFICATIONS TO THE COST BASE AND REDUCED COST BASE

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

- you did not incur expenditure to acquire the asset

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

SPECIAL RULES FOR THE COST BASE AND REDUCED COST BASE

There are other rules that may affect the cost base or reduced cost base of an asset.

For example, they are calculated differently:

- when you first use your main residence to produce income (see chapter 6)
- for an asset that you receive as a beneficiary or as the legal personal representative of a deceased estate (see chapter 9), and
- for bonus shares or units, rights and options and convertible notes (see chapter 5).

DEBT FORGIVENESS

A debt is forgiven if you are freed from the obligation to pay it. A commercial debt that is forgiven may reduce your capital loss, your cost base or your reduced cost base. Commercial debt forgiveness rules apply to debts forgiven after 27 June 1996. A debt is a commercial debt if part or all of the interest payable on the debt is, or would be, an allowable deduction.

EXAMPLE

DEBT FORGIVENESS

On 1 July 2000, Josef had available net capital losses of \$9000. On 1 January 2001 he sold some shares for \$20 000. They had a cost base (no indexation) of \$7500. On 1 April 2001, a commercial debt of \$15 000 that Josef owed to AZC Pty Ltd was forgiven. Josef had no prior year revenue losses and no deductible capital expenditure.

Josef would work out what net capital gain to include in his assessable income as follows.

	\$
Available carried forward losses	9 000
Less debt forgiveness adjustment	9 000
Adjusted available carried forward loss	Nil
Cost base of shares (no indexation)	7 500
Less debt forgiveness adjustment	6 000
Adjusted cost base	1 500
Calculation of net capital gain	
Sale of shares	20 000
Adjusted cost base (no indexation)	1 500
Less carried forward loss	Nil
Discount capital gain	18 500
Less discount percentage (50%)	9 250
Net capital gain	9 250

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

- prior year revenue losses
- prior year net capital losses
- deductible expenditure, and
- cost bases of assets.

These rules do not apply if the debt is forgiven as a result of:

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

IMPACT OF CGT ON CAPITAL IMPROVEMENTS TO LAND

There are limited circumstances where a building or structure constructed on land you acquired on or after 20 September 1985 is considered to be a separate CGT asset from the land. These circumstances occur where certain balancing adjustment provisions apply to the building or structure. For example, a timber mill building is subject to a balancing charge adjustment if it is sold or destroyed, so it is treated as a separate asset from the land.

Land you acquire on or after 20 September 1985 adjacent to land you acquired before that date is taken to be a separate CGT asset even if it and the adjacent land are merged into one title.

EXAMPLE

ADJACENT LAND

On 1 April 1984 Dani bought a block of land. On 1 June 2000 she bought another block adjacent to the first one. Dani amalgamated the titles to the two blocks into one title.

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

CAPITAL IMPROVEMENTS TO PRE-CGT ASSETS

If you make a capital improvement to a CGT asset you acquired before 20 September 1985, this improvement will be treated as a separate asset and be subject to capital gains tax if certain conditions are met. These conditions relate to the improvement thresholds in the table below.

If these conditions are met, when a CGT event happens to the original asset, the cost base of the capital improvement must be:

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

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

The improvement threshold is changed to take account of inflation. The thresholds for 1985–86 to 2000–01 are shown in the following table.

Improvement thresholds for 1985–86 to 2000–01

INCOME YEAR	THRESHOLD (\$)	INCOME YEAR	THRESHOLD (\$)
1985–86	50 000	1993–94	80 756
1986–87	53 950	1994–95	82 290
1987–88	58 859	1995–96	84 347
1988–89	63 450	1996–97	88 227
1989–90	68 018	1997–98	89 992
1990–91	73 459	1998–99	89 992
1991–92	78 160	1999–2000	91 072
1992–93	80 036	2000–01	92 082

EXAMPLE

PERSONAL USE ASSET

In 1983 David bought a boat. In August 1997 he installed a new mast for \$30 000. He sold the boat for \$150 000 in the 2000–01 income year.

As the cost base (including indexation) of the new mast was less than \$92 802 when the boat was sold, the new mast is not treated as a separate asset. Therefore, because David bought the boat before 20 September 1985, capital gains tax does not apply.

ACQUIRING CGT ASSETS

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

- a CGT event happening (for example, the transfer of land under a contract of sale)
- other events or transactions happening (for example, a company issuing shares, where their issue is not a CGT event), or
- applying specific rules (for example, if a CGT asset passes to you as a beneficiary when someone dies).

TIME OF ACQUISITION

The time a CGT asset is acquired is important for three main reasons:

- capital gains tax generally does not apply to pre-CGT assets, that is, assets acquired before 20 September 1985
- the time determines whether the cost base of a CGT asset is indexed to take account of inflation, and the extent of that indexation (see chapter 2 page 13), and
- the time also determines whether you are eligible for the CGT discount – for example, one requirement is that you need to have owned a CGT asset for at least 12 months (see chapter 2 page 13).

If you acquire a CGT asset as a result of a CGT event, certain rules determine when you are taken to have acquired the asset. These rules depend on which CGT event is involved. For example, if you enter into a contract to purchase a CGT asset, the time of acquisition is when you enter into the contract. If someone disposes of an asset to you without entering into a contract, you acquire the asset when you start being the asset's owner. If a CGT asset passes to you as a beneficiary of someone who has died, you acquire the asset on the date of their death.

If you acquire a CGT asset without a CGT event happening, different rules apply to determine when you acquire the asset. If, for example, a company issues or allots shares to you, you acquire the shares when you enter into a contract to acquire them or, if there is no contract, at the time of their issue or allotment.

BECOMING A RESIDENT

Special capital gains tax rules apply to assets you own when you become a resident of Australia. You are taken to have acquired the assets at the time you became a resident.

This rule does not apply to pre-CGT assets or to assets that have a necessary connection with Australia, for example, land or a building in Australia, a share in a company resident in Australia, or a unit in a resident unit trust.

CHOICES

As a general rule, if you wish to have certain capital gains tax rules apply to you, you must make your choice by the day you lodge your tax return. Your choice will be evident from the way you prepared your return.

However, there are some exceptions:

- some replacement asset roll-overs for companies must be made earlier
- choices relating to the small business retirement exemption must be made in writing, and
- a longer period is allowed to choose the small business roll-over.

EXEMPTIONS AND ROLL-OVERS

There may be exemptions or roll-overs that allow you to reduce, defer or disregard your capital gain or capital loss. The most common exemption is if you dispose of an asset you acquired before 20 September 1985.

EXEMPTIONS

The exemptions listed below allow you to reduce or disregard a capital gain or capital loss you make from certain CGT events.

General exemptions

A capital gain or capital loss you make from any of the following is disregarded:

- a car (that is, a motor vehicle designed to carry a load of less than one tonne and fewer than nine passengers) or motor cycle or similar vehicle
- a decoration awarded for valour or brave conduct, unless you paid money or gave any other property for it
- collectables acquired for \$500 or less and personal use assets acquired for \$10 000 or less
- CGT assets used solely to produce exempt income
- shares in a Pooled Development Fund
- use of a GST Direct Assistance Certificate of up to \$200 value
- compensation or damages you receive for any wrong or injury you suffer in your occupation
- compensation or damages you receive for any wrong, injury or illness you or your relatives suffer
- compensation you receive under the firearms surrender arrangements
- winnings or losses from gambling, a game or a competition with prizes
- an amount you receive as reimbursement or payment of your expenses under the General Practice Rural Incentives Program or the Sydney Aircraft Noise Insulation Project
- a CGT asset that is your trading stock at the time of a CGT event
- a re-establishment grant made under section 52A of the *Farm Household Support Act 1992*
- a dairy exit payment under the *Farm Household Support Act 1992*
- a reimbursement or payment made under the M4/M5 Cashback Scheme
- some types of testamentary gifts, or
- plant (if the CGT event occurs after 11.45am on 21 September 1999).

Other exemptions

Any capital gain you make may be reduced if, because of a CGT event, an amount has been included in your assessable income other than as a capital gain. Any capital loss you make from the following is disregarded:

- the expiry, forfeiture, surrender or assignment of a lease if the lease is not used solely or mainly for the purpose of producing assessable income, and
- a payment to an entity of alienated personal services income that is included in an individual's assessable income (or any other amount attributable to that income).

A capital loss made by an exempt entity is also disregarded.

Specific exemption – main residence

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

ROLL-OVERS

Roll-over allows a capital gain or capital loss to be deferred or disregarded until a later CGT event happens to the asset. While there are several types of roll-over available, only three are covered in this guide.

Marriage breakdown

When an asset is transferred from one spouse to another after their marriage breakdown, any capital gains tax is deferred until a later CGT event happens (for example, when the former spouse sells the asset to someone else). For more examples of how CGT obligations are affected by marriage breakdown, see chapter 8.

Loss, destruction or compulsory acquisition of an asset

You may disregard a capital gain if a CGT asset has been lost or destroyed or is compulsorily acquired (see chapter 7).

Scrip for scrip

You may also be able to defer a capital gain if you dispose of your shares in a company – or interest in a trust – as a result of a takeover (see chapter 5 page 32).

WHERE TO NOW?

Chapter 2 in part A explains how to calculate a capital gain using the three methods (indexation, discount or 'other'). For more specific directions about how to calculate a capital gain for you or your entity, please go to:

- part B for individuals, and/or
- part C for companies, trusts and funds.

HOW TO WORK OUT YOUR CAPITAL GAIN OR CAPITAL LOSS

This chapter explains how to work out your capital gain or capital loss and calculate your net capital gains tax obligation.

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

You make a capital loss if your reduced cost base is greater than your capital proceeds – the excess is the amount of your capital loss.

NOTE NEW TERMS

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

THREE METHODS OF CALCULATING A CAPITAL GAIN

The three methods of calculating a capital gain are explained and compared in the table below.

The basic method of working out a capital gain is the 'other' method. This is the method you use for any CGT asset you have bought and sold within 12 months (that is, when neither the indexation nor discount method applies). As a general rule, to calculate your capital gain using the 'other' method, you subtract your cost base from your capital proceeds.

If you acquired your asset before 21 September 1999 and owned it for 12 months or more, you can use the indexation method to calculate your capital gain. This method allows you to increase the value of your cost base (and reduce your capital gain) by applying an indexation factor based on increases in the Consumer Price Index (CPI) up to September 1999.

If you use the discount method, you do not apply the indexation factor to the cost base, but you may be able to reduce your capital gain by the CGT discount (50% for individuals and trusts, or 33 ⅓% for complying superannuation funds). Generally, the discount method does not apply to companies.

Capital gain calculation methods

	Indexation method	Discount method	'Other' method
Description of method	Allows you to increase the cost base by applying an indexation factor based on CPI up to September 1999	Allows you to discount your capital gain	Basic method of subtracting the cost base from the capital proceeds
When to use each method	Use for an asset held for 12 months or more, if it produces a better result than the discount method. Only for use with assets acquired before 21 September 1999	Use for an asset held for 12 months or more, if it produces a better result than the indexation method	Use when neither the indexation nor the discount method apply (for example, if you have bought and sold an asset within 12 months)
How to calculate your capital gain using each method	Apply the relevant indexation factor (see CPI table at appendix 1) then subtract the indexed cost base from the capital proceeds (see worked example for Val on page 17)	Subtract the cost base from the capital proceeds, deduct any capital losses, then reduce by the relevant discount percentage (see worked example for Val on page 17)	Subtract the cost base (or the amount specified by the relevant CGT event) from the capital proceeds (see worked example for Marie-Anne on page 14)

If you held your CGT asset for 12 months or more, you may be able to choose either the discount method or the indexation method to calculate your capital gain, whichever gives you the best result.

THE 'OTHER' METHOD

If you have bought and sold your asset within 12 months, you must use the 'other' method to calculate your capital gain as neither the indexation nor discount methods apply. This is the simplest of the three methods.

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

If your asset cost you more than you sold it for, you may have made a capital loss and may have a reduced cost base (see page 19 at the end of this chapter).

THE INDEXATION METHOD

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

- a CGT event happens to an asset you acquired before 11.45am on 21 September 1999, and
- you owned the asset for 12 months or more.

This means that at the time of the CGT event, you can increase each element of the cost base by an indexation factor (other than the third element – non-capital costs of ownership).

As indexation is frozen as at 30 September 1999, you can index your cost base only up to the September 1999 quarter.

There are some exceptions to the requirement that you must have owned the asset for at least 12 months for indexation to apply.

EXAMPLE

CALCULATING A CAPITAL GAIN USING THE 'OTHER' METHOD

Marie-Anne bought a property for \$150 000 under a contract dated 24 June 2000. The contract provided for the payment of a deposit of \$15 000 on that date, with the balance of \$135 000 to be paid on settlement on 5 August 2000.

Marie-Anne paid stamp duty of \$5000 on 20 July 2000. On 5 August 2000, she received an account for solicitors fees of \$2000, which she paid as part of the settlement process.

She sold the property on 15 October 2000, the day the contracts were exchanged, for \$215 000. Marie-Anne incurred costs of \$1500 in solicitors fees and \$4000 in real estate fees.

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

	\$
Deposit	15 000
Balance	135 000
Stamp duty	5 000
Solicitors fees	2 000
Solicitors fees for sale of property	1 500
Real estate fees	4 000
Cost base (total)	162 500
Marie-Anne works out her capital gain as follows:	
Capital proceeds	215 000
Less cost base	162 500
Capital gain using 'other' method	52 500

Assuming Marie-Anne has not made any other capital losses or capital gains in the 2000–01 year and does not have any prior year net capital losses, the net capital gain to be included in item 17 in her tax return is \$52 500.

For example, you can use the indexation method:

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

The indexation factor is worked out based on the CPI figures at appendix 1.

For CGT events that occurred after 30 June 1999, the indexation factor is the CPI figure for the September 1999 quarter (123.4) divided by the CPI figure for the quarter in which you incurred costs relating to the asset.

If the CGT event happened on or after 21 September 1999, you use this formula:

$$\text{Indexation factor} = \frac{\text{CPI figure for quarter ending 30.9.1999}}{\text{CPI figure for quarter in which expenditure was incurred}}$$

If the CGT event happened before 21 September 1999, you use this formula:

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

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

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

If you purchased shares in the Commonwealth Bank of Australia (CBA) or Telstra 1 (the first public offer of Telstra shares), see appendix 2 for the dates from which indexation applies to each instalment paid.

THE DISCOUNT METHOD

The discount method is one of the ways to calculate your capital gain if:

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

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

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

CERTAIN CAPITAL GAINS ARE EXCLUDED

There are certain CGT events to which the CGT discount cannot be applied.

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

Another example is if you bought an asset and, within 12 months, you agreed to sell it to someone where the sale would occur after you had owned the asset for more than 12 months. Any capital gain resulting from this would not qualify for the CGT discount.

The full list of CGT events from A1 to K6 is shown in the summary at appendix 3. The CGT discount does not apply to CGT events D1, D2, D3, E9, F1, F2, F5, H2, J2, J3 or K1.

DISCOUNT PERCENTAGE

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

The discount percentage is 50% for individuals and trusts, and 33⅓% for complying superannuation funds.

CHOOSING BETWEEN THE INDEXATION AND DISCOUNT METHODS

For assets you have held for 12 months or more, you may have the choice of using either the indexation method or the discount method to calculate your capital gain. There is no one factor you can use as a basis to select the best option, as it depends on the type of asset you own, how long you have owned it, the dates you owned it and the past rates of inflation. It is probably best to calculate your capital gain using both methods to find out which gives you the best result. This is shown in the worked example for Val on page 17 and the completed *Capital gain or loss worksheet* on page 18.

EXAMPLE

CHOOSING THE INDEXATION OR THE DISCOUNT METHOD

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

She paid stamp duty of \$5000 on 20 July 1991. On 5 August 1991, she received an account for solicitors fees of \$2000, which she paid as part of the settlement process.

She sold the property on 15 October 2000 (the day the contracts were exchanged) for \$215 000. She incurred costs of \$1500 in solicitors fees and \$4000 in real estate fees.

Val's capital gain using the indexation method

	\$	Indexation factor	\$
Deposit	15 000	123.4/106.0 1.164 =	17 460
Balance	135 000	123.4/106.6 1.158 =	156 330
Stamp duty	5 000	123.4/106.6 1.158 =	5 790
Solicitors fees	2 000	123.4/106.6 1.158 =	2 316
Solicitors fees for sale of property (indexation does not apply)			1 500
Real estate fees (indexation does not apply)			4 000
Cost base (total)			187 396

Val works out her capital gain as follows:

Capital proceeds	215 000
Less cost base	187 396
Capital gain	27 604

(Val's total current year capital gain using this method)

Assuming Val has not made any other capital losses or capital gains in the 2000–01 year and does not have any prior year net capital losses, her net capital gain using the indexation method is \$27 604.

Val's capital gain using the discount method

	\$
Deposit	15 000
Balance	135 000
Stamp duty	5 000
Solicitors fees	2 000
Solicitors fees	1 500
Real estate fees	4 000
Cost base (total)	162 500

Val works out her capital gain as follows:

Capital proceeds	215 000
Less cost base	162 500
Discount capital gain	52 500
(Val's total current year capital gain for this method)	
Less 50% discount	26 250
(as Val has no capital losses)	
Net capital gain	26 250

As the discount method provides Val with the best result, she will show the amounts worked out using the discount method in her tax return rather than the amounts worked out using the indexation method.

The following shows how Val might complete the *Capital gain or loss worksheet* using both methods.

This worksheet helps you calculate a capital gain for each CGT asset or any other CGT event¹ using the indexation method², the discount method³ and/or the 'other' method. It also helps you calculate a capital loss.

Shares and
Real estate

Shares and units (in unit trusts)
Real estate

Other CGT assets and any other CGT events⁴
Collectables⁵

Val's property at 15 Smith St, Oldtown

15/10/2000

Date of CGT event	15/10/2000
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Elements of the cost base or reduced cost base

[illegible]

Capital gain calculation

Indexation method ²	Discount method ³	'Other' method (CGT asset held less than 12 months)
Capital proceeds ¹¹	\$ 215 000	Capital proceeds ¹¹
Less: cost base indexed	\$ 187 396	Less: cost base unindexed
Capital gain (a)	\$ 27 604	Capital gain
Choose capital gain (a) or (b) Capital gain \$ 52 500		

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

Capital loss calculation

Capital loss	
Reduced cost base	\$
Less: capital proceeds ¹¹	\$
Capital loss¹²	\$

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

HOW TO CALCULATE A CAPITAL LOSS

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

However, the reduced cost base is not relevant for some types of CGT events. In these cases, the particular CGT event explains the amounts to use (see the *Summary of CGT events* at appendix 3).

NOTE REDUCED COST BASE

You cannot index a reduced cost base.

EXAMPLE

WRITE-OFF DEDUCTION

Antonio acquired a new income-producing asset on 28 September 1994 for \$100 000. He sold it for \$90 000 in November 2000. During the period he owned it, he was allowed write-off deductions of \$7500. Antonio works out his capital loss as follows.

Cost base	100 000
Less write-off deduction	7500
Reduced cost base	92 500
Less capital proceeds	90 000
Capital loss	2 500

EXAMPLE

APPLYING LOSSES AND THE CGT DISCOUNT

Sharni acquired some shares in June 1992 and some units in a unit trust in May 1996. She has a net capital loss of \$12 000 from the 1999–2000 income year (a prior year), and makes a further capital loss of \$6000 in August 2000 (the current year).

Sharni sells the shares in July 2000 and makes a capital gain of \$4000 using the indexation method. She then sells the units during February 2001 and makes a capital gain of \$22 000 using the discount method.

Sharni may choose to apply her capital losses in any order. However, she must subtract all of her capital losses from her capital gains before applying the CGT discount to any remaining discount method capital gain.

She chooses to apply the \$6000 current year capital loss firstly against the \$4000 gain realised in July 2000, leaving a current year capital loss balance of \$2000.

EXAMPLE

CAPITAL LOSS (REDUCED COST BASE GREATER THAN THE CAPITAL PROCEEDS)

In July 1996 Chandra bought 800 shares at \$3 per share. He incurred brokerage fees and stamp duty of \$100. In December 2000, Chandra sold all 800 shares for \$2.50 per share. He incurred brokerage fees of \$75. He made a capital loss, calculated as follows.

Calculation of reduced cost base

Date expense incurred	Description of expense	Expense \$
July 1996	Purchase price	2400
July 1996	Brokers fee and stamp duty	100
December 2000	Brokers fee and stamp duty	75
Reduced cost base		2575

Calculation of capital loss

Reduced cost base	2575
Capital proceeds 800 x \$2.50	2000
Capital loss	575

\$4000 – \$6000 = \$2000 capital loss remaining
Sharni then applies the remaining \$2000 current year capital loss and the prior year net capital loss of \$12 000 (a total of \$14 000) against the discount method gain of \$22 000.

\$22 000 – \$14 000 = \$8000

She then applies the CGT discount of 50% to the remaining capital gain of \$8000.

\$8000 x 50% = \$4000

This means Sharni's net capital gain for 2000–01 is \$4000.

NOTE DEDUCTING CAPITAL LOSSES

If Sharni had deducted her capital losses first from her discount capital gains, her net capital gain would have been
[(\$22000 – \$18000) x 50% + \$4000] = \$6000

KEEPING RECORDS

You must keep records of everything that affects the capital gains and capital losses that you make for five years after the last relevant CGT event has happened. There are penalties if you do not keep adequate records.

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

If you leave an asset to another person when you die, the asset may be subject to capital gains tax when a CGT event happens to that asset in the future, for example, if your daughter (the beneficiary) sells the house (the asset) you have left her in your will.

You can help your beneficiaries reduce the impact of capital gains tax by making sure that you keep all relevant documents relating to assets you acquire.

WHAT RECORDS DO YOU NEED TO KEEP?

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

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

- the nature of the act, transaction, event or circumstance
- the day it happened
- who did the act or who were the parties to the transaction, and
- how the act, transaction, event or circumstance is relevant to working out the capital gain or capital loss.

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

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

RECORDS RELATING TO REAL ESTATE

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

Even though your family home is usually exempt, if you acquired it on or after 20 September 1985 it is advisable to keep all records relating to the home, just as you would for other items of real estate. If the home ceases to be fully exempt at some time in the future, you will need to know the full cost of the home so that you do not pay more capital gains tax than necessary. If you do not have sufficient records, reconstructing them could be difficult. See chapter 6 page 46 for details of when your home may not be fully exempt.

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

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

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

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

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

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

RECORDS RELATING TO SHARES IN COMPANIES AND UNITS IN UNIT TRUSTS

Most of the records you need to keep to work out your capital gains tax 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
- the date and amount of any calls if shares were partly paid
- the sale price if you sell them, and
- any commissions paid to brokers when you buy or sell them.

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

RECORDS RELATING TO BONUS SHARES

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

For any bonus shares issued before 1 July 1987, you need to know when the original shares were acquired. If you acquired them on or after 20 September 1985, you will also need to know what they cost. Flowchart 1 at appendix 4 summarises the different rules applying to the treatment of bonus shares.

Keep a record of any amounts you paid to acquire the bonus shares and any amounts taxed as a dividend when they were issued. Keep your records for five years after you dispose of any of your shares or units.

RECORDS RELATING TO INHERITING AN ASSET

You must keep special records when you inherit an asset as a beneficiary of the estate of a person who died on or after 20 September 1985. If the asset was acquired by the deceased person before 20 September 1985, you need to know the market value of the asset at the date of the person's death and the amount of any relevant costs incurred by the executor or trustee. This is the amount that the asset is taken to have cost you. If the executor or trustee has a valuation of the asset, obtain a copy of that valuation report. Otherwise you will need to obtain your own valuation.

If the asset you inherit was acquired by the deceased person on or after 20 September 1985, you need to know full details of all relevant costs incurred by the deceased person and by the executor or trustee. Obtain those details from the executor or trustee. Even if you inherit a house that was the family home of the deceased person, you need to keep records of costs paid by the deceased person in case you are not able to claim an exemption for the house after you inherit it.

If, after 20 August 1996, you inherit a house that was the family home of the deceased and it was not regarded as being used to produce income at the time of death, you will be taken to have acquired the house at its market value at the date of death. Make sure you keep details of any other costs you have paid out for the asset since the date you inherited it.

ASSET REGISTERS

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

If you choose to keep an asset register, transfer the following information to it from the normal records you need to keep for capital gains tax purposes:

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

This information must be certified by a registered tax agent or a person approved by the Commissioner of Taxation.

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

For more information about asset registers, obtain a copy of the publication *CGT asset register* from the sources listed at the back of this guide.

EXCEPTIONS

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

IT IS NEVER TOO LATE

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

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

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

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

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

The main thing is to obtain as many details as possible so you can reconstruct your records, and to make sure you keep sufficient records in the future.

TRUST DISTRIBUTIONS

Distributions from trusts (including managed funds) can include two types of amounts that affect your capital gains tax obligation:

- capital gains, and
- non-assessable payments.

This chapter shows how to record a capital gain distributed from a trust, including non-assessable payments. These payments mostly affect the cost base of units in a unit trust (including managed funds) but can create a capital gain. Non-assessable payments do not affect beneficiaries of a discretionary trust.

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

NOTE NEW TERMS

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

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

EXCLUDING NET CAPITAL GAINS FROM PARTNERSHIPS AND TRUSTS INCOME ITEM

If you are a beneficiary of a trust, you may be entitled to (or may have received) a share of the net income of the trust which includes some of the trust's net capital gain.

In this case, you deduct your net capital gain included in your share of the trust income from your share of the trust income and show the remainder in the *Partnerships and trusts income* item in your tax return (item 12 for individuals).

NOTE ITEM 12 FOR INDIVIDUALS

Item 12 in the tax return for individuals asks you to exclude net capital gains from the amount of trust income shown at label U item 12 in your tax return. In your distribution statement, the trust should state the amount(s) of capital gain in your trust distribution.

In place of the amount you exclude, you are treated as having a capital gain (or capital gains) worked out, as explained below.

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

EXAMPLE

CAPITAL GAIN GREATER THAN SHARE OF TRUST NET INCOME

Debra's trust distribution shows that she received \$2000 as her share of the net income of a trust.

This is made up of a primary production loss of \$5000, non-primary production income of \$2000 and a net capital gain of \$5000.

In item 12 in her tax return, Debra will show \$5000 loss from primary production at label L and \$5000 non-primary production income at U.

She excludes only \$2000 from item 12 because her share of the net income of the trust (\$2000) is less than her share of the net capital gain. The \$2000 is the amount Debra uses in working out her net capital gain at label A item 17 in her tax return.

CGT CONCESSIONS OBTAINED BY A TRUST

There are special rules that mean concessions obtained by trusts can be passed on to the beneficiaries of the trust.

You may be a beneficiary who is entitled to a share of the income of a trust that includes a capital gain reduced by the CGT discount or the small business 50% active asset reduction. In this case, you need to gross up your capital gain by multiplying it by two. You multiply by four your share of any part of the net capital gain received from a trust that the trust has reduced by both the CGT discount and the small business 50% active asset reduction.

NOTE GROSSED-UP GAINS

If the trustee has already shown the grossed-up amount of the discounted capital gain on your distribution statement, that is the amount you show in your tax return.

You do not gross up any part of the net capital gain you received from a trust that the trust has not reduced by one of these concessions. In this case, you are treated as having a capital gain equal to your share of that part of the trust net capital gain.

This latter capital gain and the grossed-up amounts are treated as extra capital gains you made.

NOTE NO DOUBLE TAXATION

You are not taxed twice on these extra capital gains because you did not include your capital gains from the trust at the *Partnerships and trusts income item* (item 12 for individuals).

The method of calculating a net capital gain is then applied to these extra capital gains to determine your net capital gain.

Firstly, reduce the extra capital gains by any capital losses you have not used to reduce other capital gains. Secondly, if there are any grossed-up capital gains remaining, reduce these by one or both of the concessions originally used by the trust – that is, the CGT discount (except for company beneficiaries) and/or the small business 50% active asset reduction.

In applying capital losses, you will probably find that you receive the best result by deducting them from capital gains distributed from the fund in the following order:

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

EXAMPLE

DISTRIBUTION WHERE THE TRUST CLAIMED CONCESSIONS

Serge is a beneficiary in the Shadows Unit Trust. He receives a distribution of \$2000 from the trust. This distribution includes \$250 of net income remaining after a \$1000 capital gain made by the trustee was reduced by the CGT discount and the small business 50% active asset reduction.

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

He calculates his net capital gain as follows.

	\$
Gross up the share of trust net capital gain (\$250) by multiplying by 4	1000
Deduct capital losses	<u>100</u>
	900
Apply the CGT discount of 50%	<u>450</u>
	450
Apply the 50% active asset reduction	<u>225</u>
Net capital gain	225

Serge will show \$1000 at label H item 17 in his tax return, which is his total current year capital gain.

His net capital gain to be shown at label A is \$225. He will show a trust distribution of \$1750 (\$2000 – \$250) at label U item 12.

NOTE APPLYING THE CONCESSIONS

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

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

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

NON-ASSESSABLE PAYMENTS FROM A UNIT TRUST

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

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

If you receive non-assessable payments from a unit trust, you need to make cost base adjustments while you own the units. Those adjustments will affect the amount of any capital gain or capital loss you make on disposal of your units. If certain amounts exceed your cost base, you may also make a capital gain on the excess in the year of receipt of those non-assessable payments.

NOTE CAPITAL LOSS

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

If relevant to you, non-assessable payments may be shown on your distribution statement as:

- tax-free amounts (where certain tax concessions allowed to the trust, for example, deductions for the cost of buildings, means 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 trust, amounts on which the trust has already paid tax, or income you had to repay to the trust), or
- tax-deferred amounts (other non-assessable payments, including indexation allowed to the fund on its capital gains and accounting differences in income).

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

- cost base – add the tax-deferred amounts and the CGT-concession amounts received before 1 July 2001 and deduct the total from the cost base, or
- reduced cost base – add the tax-deferred amounts, the CGT-concession amounts received before 1 July 2001 and the tax-free amounts and deduct the total from the reduced cost base.

You must adjust the cost base or reduced cost base of the units when you sell them. The amount of the adjustment is based on the amount of non-assessable payments you received up to the date of sale. You use the adjusted cost base or reduced cost base to work out your capital gain or capital loss (see chapter 2 page 19 for more information).

The cost base and reduced cost base adjustments are more complex if you deducted capital losses from a grossed-up capital gain. If this applies to you, the 'Ilena' example on page 27 shows how to make the adjustments.

EXAMPLE

BOB HAS RECEIVED A NON-ASSESSABLE AMOUNT

Bob owns units in OZ Investments Fund which distributed income to him for the year ending 30 June 2001. The fund gave him a statement showing he had received \$550 assessable income, including the following capital gains:

- \$100 using the discount method (grossed-up amount \$200)
- \$75 using the indexation method, and
- \$28 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 \$1200 and \$1050 respectively.

Bob has no other capital gains or losses for the 2000–01 income year.

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

Bob works out how much of the fund distribution to show as income by deducting the total of the capital gains on his statement from the total assessable income distributed to him:

$$\$550 - \$203 = \$347.$$

Bob shows the \$347 at item 12 – *Partnerships and trusts*.

As Bob has a capital gain which the fund reduced under the CGT discount of 50% (\$100),

he includes the grossed-up amount (\$200) in his total current year capital gain.

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

$$\$200 + \$75 + \$28 = \$303$$

As Bob has no other capital gains or losses, his net capital gain is the amount of capital gain included in his distribution from the fund (\$203).

Bob completes item 17 as follows:

17 Capital gains	
Did you have a CGT event during the year?	<input checked="" type="checkbox"/> YES <input type="checkbox"/> NO
You must also print <input checked="" type="checkbox"/> in the YES box at 18 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 00

Records Bob needs to keep

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

Bob did not deduct any capital losses from his discount method capital gains, so he deducts the tax-deferred amount from both the cost base and reduced cost base of his units as follows:

Cost base	\$1200
Less tax-deferred amount	\$ 105
New cost base	\$1095
Reduced cost base	\$1050
Less tax-deferred amount	\$ 105
New reduced cost base	\$ 945

EXAMPLE

ILENA'S CAPITAL LOSS IS GREATER THAN HER NON-DISCOUNTED CAPITAL GAIN

Ilena invested in XYZ Managed Fund. The fund makes an income distribution of \$400 to Ilena for the year ending 30 June 2001 and provides her with a statement that shows her distribution included:

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

The statement shows Ilena's distribution also included:

- \$115 tax-deferred amount, and
- \$35 tax-free amount.

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

From her records, Ilena knows the cost base and reduced cost base of her units are \$5000 and \$4700 respectively.

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

Ilena follows these steps to work out the amounts to show at item 17.

To work out how much of the fund distribution to show as income, Ilena subtracts the total of the capital gains on her statement from the income distribution:

$$\$400 - (\$65 + \$90) = \$245.$$

Ilena shows the \$245 at item 12 – *Partnerships and trusts*.

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:

$$\$65 \times 2 = \$130$$

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

$$\$130 + \$90 = \$220$$

She shows her total current year capital gains (\$220) at label H item 17.

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

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

- first subtracts her capital losses from her non-discounted capital gains:
 $\$90 - \$90 = \$0$
- then subtracts any remaining capital losses from her grossed-up gains:
 $\$130 - \$10 = \$120$

Ilena applies the CGT discount of 50% to the remaining grossed-up capital gains:
 $\$120 - (\$120 \times 50\%) = \$60$

Ilena adds up the capital gains remaining after applying the CGT discount. The total is her net capital gain:

$$\$60 + \$0 = \$60$$

Ilena completes item 17 as follows:

17 Capital gains

Did you have a CGT event during the year? ☐ NO ☒ YES

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

Net capital gain **A**

Total current year capital gains **H**

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

Records Ilena needs to keep

The tax-deferred and tax-free amounts Ilena received are not included in her income nor 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 deducted \$10 capital losses from her grossed-up capital gain before she applied the CGT discount of 50%. In effect, \$5 of the tax-deferred amount was offset against her capital losses. So she reduces the tax-deferred amount by \$5 and deducts the remainder (\$110) from the cost base and reduced cost base of her units as follows:

Cost base	\$5000
Less tax-deferred amount	\$ 110
New cost base	\$4890
Reduced cost base	\$4700
Less tax-deferred amount (\$110)+	
tax-free amount (\$35)	\$ 145
New reduced cost base	\$4555

INVESTMENT IN SHARES AND UNITS

This chapter explains your capital gains tax obligations if you sold or otherwise disposed of any shares or units in a unit trust (including a managed fund) in 2000–01. For information about distributions from a unit trust in 2000–01, see chapter 4.

NOTE MANAGED FUND

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

HOW CAPITAL GAINS TAX AFFECTS SHARES AND UNITS

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

As a general rule, if you acquire any shares or units on or after 20 September 1985, you may have to pay tax on any capital gain you make when a CGT event happens to them. This would usually be when you sell or otherwise ‘dispose of’ them. This is known as a CGT event A1. You will find a list of all CGT events at appendix 3.

NOTE NEW TERMS

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

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

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

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

The rest of this chapter explains these rules and contains examples showing how they work in practice. The flowcharts at appendix 4 will also help you work out whether the special rules apply to you.

If you need more information about how other income tax provisions affect your share investments, obtain a copy of *You and your shares* from the sources listed at the back of this guide.

IDENTIFYING SHARES OR UNITS SOLD

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

This can be very important because shares or units bought at different times may have different amounts included in their cost.

In calculating the capital gain or capital loss when disposing of only part of an investment, you need to be able to identify which ones you have disposed of. Also, when you dispose of any shares or units you acquired before 20 September 1985, any capital gain or capital loss you make is generally disregarded.

If you have kept complete records, you should generally be able to identify which particular shares or units you have disposed of (for example, by reference to share certificate numbers, CHESS statements, brokers statements or other records showing details of shares bought and sold). Alternatively, you may wish to use a 'first in, first out' basis where you treat the first shares or units you bought as being the first you disposed of.

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

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

EXAMPLE

IDENTIFYING WHEN SHARES OR UNITS WERE ACQUIRED

Boris bought 1000 shares in WOA Ltd on 1 July 1997. He bought another 3000 in the company on 1 July 2000.

In December 2000, WOA Ltd issued Boris with a CHESS statement for his 4000 shares. When he sold 1500 of the shares on 1 January 2001, he was not sure whether they were the shares he bought in 2000 or whether they included the shares bought in 1997.

Because Boris could not identify when he bought the particular shares he sold, he decided to use the 'first in, first out' method and nominated the 1000 shares bought in 1997 plus 500 of the shares bought in 2000.

PURCHASE OF SHARES BY INSTALMENTS

If you have purchased shares over two or more instalments, you should seek advice from the ATO about your capital gains tax obligation (see also *Recent share transactions* at appendix 2).

If you bought shares in the Commonwealth Bank of Australia (CBA) or the first float of Telstra from the Government (through instalment receipts) and you sold them during the year, you may have to pay capital gains tax.

If you use the indexation method to calculate your capital gain, indexation of the instalments is available from the following dates:

for CBA – first instalment – 13 July 1996
– final instalment – 14 November 1997

for Telstra – first instalment – 15 November 1997
– final instalment – 17 November 1998.

If you subscribed to the second issue of Telstra shares, this would have been after 21 September 1999 and you cannot use the indexation method for these shares.

DEMUTUALISATION OF INSURANCE COMPANIES

If you hold a policy in an insurance company that is demutualising, you may be subject to capital gains tax. A company demutualises when it changes its membership interests to shares (for example, the NRMA).

The insurance company may give you an option either to keep the share entitlement or to take cash by selling the shares under contract through an entity set up by the company. If you choose to keep the shares, you will not be subject to capital gains tax until you eventually sell them. Usually the company will advise you of your cost base for the shares you received.

However, if a cash option is available and you take it, you need to include any capital gains in your tax return in the income year in which you entered into the contract to sell the shares, even though you may not receive the cash until a later income year.

There are similar rules if you are a member of a non-insurance organisation which demutualises. The demutualising company will write out to all potential 'shareholders' and advise them of the cost base in each instance, sometimes referred to as the 'embedded value'. Even though you did not pay anything to acquire the shares, they have a value that is used for capital gains tax purposes.

SHARE BUY-BACKS

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

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

If the information provided by the company is not sufficient for you to calculate your capital gain or capital loss, refer to *Recent share transactions* at appendix 2 or to the sources of further information listed at the back of this guide.

SHARES IN A COMPANY IN LIQUIDATION

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

However, you may realise a capital loss on worthless shares when a court order is given to dissolve the company. Also, if a company is wound up voluntarily, shareholders may realise a capital loss either three months after a liquidator lodges a return showing that the final meeting of the company has been held, or on another date declared by a court. The cancellation of shares as a result of the dissolution of the company is an example of CGT event C2.

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

EXAMPLE

BUY-BACK OFFER

Sam bought 4500 shares in Company A in January 1994 at a cost of \$5 per share. In February 2001, Sam applied to participate in a buy-back offer to dispose of 675 shares (15%). Company A approved a buy-back of 10% (450) of the shares on 15 June 2001. The company sent Sam a cheque on 5 July for \$4050 (450 shares x \$9). No part of the distribution is a dividend.

Sam works out his capital gain for 2000–01 as follows.

If he chooses to use the indexation method:

Capital proceeds	\$4050
Cost base 450 shares x \$5 (\$2250 x 1.118 including indexation)	\$2515
Capital gain	\$1535

If he chooses to use the discount method:

Capital proceeds	\$4050
Cost base	\$2250
Discount capital gain	\$1800

Sam has no capital losses to apply against this capital gain and decides that the discount method will provide him with the best result. He will include \$900 (\$1800 x 50%) in his assessable income.

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

These rules do not apply:

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

TAKEOVERS AND MERGERS

If a company in which you owned shares was taken over or merged with another company, you may have a capital gains tax obligation if you were required to dispose of your existing shares.

In certain circumstances, if you acquire new shares in the takeover or merged company, you may be able to defer paying capital gains tax until a later CGT event happens. For more information, see *Scrip for scrip roll-over* on page 32.

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

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

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

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

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

EXAMPLE

TAKEOVER

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

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

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

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

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

EXAMPLE

TAKEOVER OFFER

Gunther owns 100 shares in Windsor Ltd, each with a cost base of \$9. He accepts a takeover offer from Regal Ltd which provides for Gunther to receive one Regal share plus \$10 cash for each share in Windsor. Gunther receives 100 shares in Regal and \$1000 cash. Just after Gunther is issued shares in Regal, each share is worth \$20.

Gunther has received \$10 cash for each of his 100 Windsor shares and so has ineligible capital proceeds of \$1000.

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

$$\frac{\$1000}{\$3000} \times \$900 = \$300$$

Gunther's capital gain is as follows:

\$1000	–	\$300	=	\$700
Ineligible		cost base		capital gain
proceeds				
(cash)				

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

$$\$900 - \$300/100 = \$6$$

SCRIP FOR SCRIP ROLL-OVER

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

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

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

Roll-over is only available if the exchange is a result of the acquiring entity (or the wholly owned group of which it is a member) becoming the owner of 80% or more of the original company or trust.

An entity (or group) can become the owner of 80% or more of the relevant interests in the original entity as a result of acquiring additional interests or cancelling interests held by others.

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

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

The roll-over allows you to disregard the capital gain made from the original shares, units or other interest. You are taken to have acquired the replacement shares, units or other interest for the cost base or a portion of the cost base of the original interest (you use a portion if an original interest is not exchanged for a single replacement interest – for example, if one share is exchanged for two).

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

EXAMPLE

SCRIP FOR SCRIP ROLL-OVER

Stephanie owns ordinary shares in Reef Ltd. On 29 February 2001, she accepts a takeover offer from Starfish Ltd under which she receives one ordinary share and one preference share for each Reef share. The market value of the Starfish shares just after Stephanie acquires them is \$20 for each ordinary share and \$10 for each preference share.

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

The offer made by Starfish Ltd satisfies all the requirements for scrip for scrip roll-over.

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

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

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

NOTE APPORTIONING THE COST BASE

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

Cost base of
ordinary share: $\$20/30 \times \$15 = \$10$

Cost base of
preference share: $\$10/30 \times \$15 = \$5$

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

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

DIVIDEND REINVESTMENT PLANS

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

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

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

EXAMPLE

DIVIDEND REINVESTMENT PLANS

Natalie owns 1440 shares in PHB Ltd. The shares are currently worth \$8 each. In November 2000, the company declared a dividend of 25 cents per share.

Natalie could either take the \$360 dividend as cash (1440 x 25 cents) or receive 45 additional shares in the company (360/8).

Natalie decided to participate in the dividend reinvestment plan and received 45 new shares on 20 December 2000. She included the \$360 dividend in her 2000–01 taxable income.

For capital gains tax purposes, she acquired the 45 new shares on 20 December 2000 for \$360.

BONUS SHARES

Bonus shares are additional shares a shareholder receives as a dividend in whole or in part. You may also pay an amount to obtain them.

If you receive bonus shares on or after 20 September 1985, you may have to pay capital gains tax if you dispose of them. You may have to modify the cost base and the reduced cost base of bonus shares if they are taxed as a dividend.

The table below explains how the timing of your bonus shares affects your capital gains tax.

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

Date	CGT implications of timing of bonus shares
From 20 Sept.1985 to 30 June 1987 incl.	Many bonus shares issued were paid out of a company's non-taxable capital profits, accumulated in an asset revaluation reserve from a share premium account. These bonus shares are not usually treated as taxable dividends.
From 1 July 1987 to 30 June 1998 incl.	The paid-up value of bonus shares issued is taxed as a dividend unless paid from a share premium account.
From 1 July 1998	The paid-up value of bonus shares issued is not taxed as a dividend unless part of the dividend was paid in cash or paid as part of a dividend reinvestment plan.

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

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

Flowchart 1 at appendix 4 summarises the different rules applying to different bonus shares issued on or after 20 September 1985.

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

BONUS SHARES ISSUED WHERE NO AMOUNT IS TAXED AS A DIVIDEND

If you acquired the original shares on or after 20 September 1985, the acquisition date of bonus shares is the date you acquired the original shares. If an issue of bonus shares relates to both the original shares and the bonus shares, the acquisition date of the additional bonus shares is the date the original shares were issued. The cost of your original shares now covers your bonus shares as well.

The cost base or reduced cost base of the bonus shares is calculated by apportioning the amounts paid for the original shares between the original shares and the bonus shares. Effectively, this results in a reduction of the cost base of the original shares.

For original shares acquired before 20 September 1985, your capital gains tax obligations depend on whether your shares are fully paid or partly paid. Any calls paid on partly paid bonus shares are also included in the cost base or reduced cost base of the bonus shares.

EXAMPLE

FULLY PAID BONUS SHARES

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

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

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

Date original shares acquired	CGT implications of fully paid versus partly paid bonus shares
Before 20 Sept. 1985 (fully paid shares)	If the bonus shares are <i>fully paid</i> , the acquisition date of the bonus shares is the date you acquired the original shares. Therefore, if you acquired the original shares before 20 September 1985, any capital gain or capital loss you make from the sale of the bonus shares is disregarded.
Before 20 Sept. 1985 (partly paid shares)	With certain exceptions, if the bonus shares were <i>partly paid</i> and you have made a call payment, the acquisition date for the bonus shares is the date when the liability to pay the amount arose. The cost of acquiring them includes their market value just before that date. A copy of a newspaper's stock market listing for that day is an appropriate record. Exceptions – For pre-10 December 1986 partly paid up bonus shares, the date of acquisition is the date you acquired the original shares. For post-10 December 1986 partly paid up bonus shares, the date of acquisition is also the date you acquired the original shares, provided you have not paid any amount subsequently (otherwise it becomes the date the liability to pay the amount arose).

EXAMPLE

PARTLY PAID BONUS SHARES

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

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

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

For capital gains tax purposes, Klaus is treated as having acquired the bonus shares on the date he became liable to pay the call (1 April 1989). The cost base of the bonus shares will include the amount of the call payment (50 cents) plus the market value of the shares immediately before the call was made.

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

BONUS SHARES ISSUED WHERE THE PAID-UP VALUE IS TAXED AS A DIVIDEND

Where the paid-up value of bonus shares is taxed as a dividend, you may have to pay capital gains tax when you dispose of the bonus shares, regardless of when you acquired the original shares. The acquisition date of the bonus shares is the date they were issued. Their cost base is the amount of the dividend, plus any call payments you made to the company if they were only partly paid.

The exception to this rule is where you received the bonus shares before 1 July 1987. Their cost base is calculated as if the amount was not taxed as a dividend (see *Bonus shares issued where no amount is taxed as a dividend* on page 34).

EXAMPLE

COST BASE OF BONUS SHARES

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

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

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

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

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

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

If Mark disposes of the shares after 11.45am on 21 September 1999, he can calculate his capital gain using either the indexation method or the discount method.

BONUS UNITS

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

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

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

Flowchart 2 at appendix 4 summarises the rules applying to bonus units issued on or after 20 September 1985.

BONUS UNITS ISSUED WHERE NO AMOUNT IS INCLUDED IN ASSESSABLE INCOME

If you did not include any amount in your assessable income for the issue of bonus units, the acquisition date of the bonus units is the date you acquired the original units to which they relate.

The table below explains your capital gains tax obligation in these cases.

EXAMPLE

UNIT TRUSTS

Sarah is a unit holder in the CPA Unit Trust. She bought 1000 units on 1 September 1985 for \$1 each and 1000 units on 1 July 1996 for \$2 each. On 1 March 1997, the unit trust made a one-for-one bonus unit issue to all unit holders. Sarah received 2000 new units. She did not include any amount in her assessable income as a result.

The 1000 new units issued for the original units she acquired on 1 September 1985 are also treated as having been acquired on that date and are therefore not subject to capital gains tax.

However, the 1000 new units issued for the original units she acquired on 1 July 1996 are subject to capital gains tax. Their cost base is worked out by spreading the cost of the original units (\$2000) acquired on that date over both the original units and the bonus units. Each of the units therefore has a cost base of \$1.

BONUS UNITS ISSUED WHERE AN AMOUNT IS INCLUDED IN ASSESSABLE INCOME

If you include any amount in your assessable income as a result of the issue of bonus units, their acquisition date is the date they were issued, regardless of when you acquired the original units. The cost base of bonus units is the amount included in your assessable income as a result of the issue of those units, plus any calls you made if they were only partly paid.

Date original shares acquired	CGT implications of bonus units
Before 20 Sept. 1985	The acquisition date of the bonus units is the date you acquired the original units. Therefore, if you acquired the original units before 20 September 1985, any capital gain or capital loss you make when you dispose of the bonus units is disregarded. Exception – For bonus units issued on or after 10 December 1986, if you were obliged to pay a further amount for the bonus units, the units are treated as having been acquired at the time the liability for first payment arises. They are subject to capital gains tax. The cost base includes the market value of the bonus units immediately before the liability to pay arises, plus any further amount paid.
From 20 Sept. 1985	The cost base is calculated by apportioning the amounts paid for the original units between the original units and the bonus units, resulting in a reduction of the cost base of the original units.

RIGHTS OR OPTIONS TO ACQUIRE SHARES OR UNITS

ACQUISITION OF RIGHTS OR OPTIONS AND THEIR COST BASE

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

If the rights and options are offered at no cost, you are taken to have acquired them at the same time as you acquired the original shares or units. Therefore, if you acquired the original shares or units before 20 September 1985, any capital gain or capital loss you make from the sale of the rights or options is disregarded.

If you acquired your original shares or units (or rights or options from another entity) on or after 20 September 1985, they are treated much like any other CGT asset and are subject to capital gains tax. This is also the case if you paid the company or trust an amount for them.

COST BASE AFTER EXERCISING RIGHTS OR OPTIONS TO ACQUIRE SHARES OR UNITS

Many people decide to exercise their rights or options to acquire new shares or units rather than sell them. No capital gains tax is payable at the time you exercise the rights or options.

Exercising rights or options on or after 20 September 1985

If you exercise them on or after 20 September 1985, some special rules apply for calculating the cost base for shares or units acquired as a result.

You may be in a situation where:

- a company in which you are a shareholder issues you with rights or options to acquire shares, or
- after 28 January 1988, a unit trust in which you are a unit holder issues you with rights or options to acquire units.

If you pay nothing in these situations, the amount included in the cost base or reduced cost base of the shares or units you acquire depends on when you acquired your original shares or units.

Where original shares or units were acquired before 20 September 1985

You may have acquired the original shares or units before 20 September 1985 and paid nothing for the issue of the rights or options. In this case, the first element of the cost base or reduced cost base for the shares or units you acquire on exercising your rights or options is the sum of:

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

Where original shares were acquired on or after 20 September 1985

The situation is different if you acquired the original shares or units on or after 20 September 1985 and paid nothing for the issue of the rights or options. In this case, the first element of the cost base or reduced cost base for the shares or units you acquire on exercising your rights or options is simply the amount you pay for the shares or units.

You may be in a situation where:

- a company in which you are a shareholder issues you with rights or options to acquire shares, or
- after 28 January 1988, a unit trust in which you are a unit holder issues you with rights or options to acquire units.

If you make a payment in one of these situations, the first element of the cost base or reduced cost base for the shares or units you acquire on exercising your rights or options is the sum of:

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

If the original shares or units were acquired before 20 September 1985, the rights or options are taken to have been acquired before that date. This means the first element of the cost base for the shares or units is the sum of the market value of the rights or options at the time you exercise them and the amount you paid for the shares or units. This is the case whether or not you make a payment to the company for the issue of the rights or options.

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

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

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

- the amount you actually paid for the rights or options, and
- the amount you paid for the shares or units.

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

EXAMPLE

SALE OF RIGHTS

Shanti owns 2000 shares in ZAC Ltd. She bought 1000 shares on 1 June 1985 and 1000 shares on 1 December 1996.

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

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

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

EXAMPLE

RIGHTS EXERCISED

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

There are no capital gains tax consequences arising from the exercise of the rights.

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

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

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

CONVERTIBLE NOTES

A convertible note is another type of investment you can make in a company or unit trust.

A convertible note earns interest on the amount you pay to acquire the note until the note's expiry date. On expiry of the note, you can either ask for the return of the money paid or convert that amount to acquire new shares or units.

The amount of capital gain or capital loss you make when you convert or dispose of a convertible note is the difference between:

- the cost of the note, and
- the sale price (or value) of the shares or units you received.

If you acquired convertible notes between 20 September 1985 and 10 May 1989 inclusive, these are generally subject to capital gains tax if you make a capital gain or capital loss when you convert or dispose of the notes. However, this is not the case if that capital gain or capital loss is included in other parts of your income or deductions.

If you acquired any convertible notes after 10 May 1989, they will generally not be subject to capital gains tax. Instead, any capital gain or capital loss you make is included under a provision dealing with the disposal of securities.

CONVERSION OF NOTES TO SHARES

If you convert a convertible note acquired from a company before 20 September 1985 and do not make any further payment to the company on the conversion, the shares you receive are treated as if you acquired them before 20 September 1985. Therefore, any capital gain or capital loss is disregarded.

In all other cases, the shares acquired by the conversion of a convertible note on or after 20 September 1985 will be subject to capital gains tax and the shares are taken to be acquired when the conversion happens.

You may have acquired a convertible note before 20 September 1985 and paid or given something in relation to the conversion. In this case, the cost base of the shares received as a result of the conversion will include:

- the market value of the note at the time of conversion, and
- what you paid or gave.

You may have acquired the convertible note on or after 20 September 1985 and, as a traditional security, the capital gain or capital loss you made on the conversion of the note was already included as income or deductions. In this case, the cost base of the shares is the market value at the time of the conversion.

If you acquired the convertible note on or after 20 September 1985, and it was not a traditional security, the cost base of the shares will include:

- the amount you paid to acquire the note, and
- any amount you paid in relation to the conversion.

CONVERSION OF NOTES TO UNITS

Special rules also apply to convertible notes issued by a unit trust after 28 January 1988 and before 11 May 1989. Any capital gain or capital loss made on their conversion to units in the unit trust is disregarded. Their cost base for future capital gains tax purposes includes both the cost of the convertible note and any further amount payable on the conversion.

Where convertible notes were issued prior to 28 January 1988 and later converted into units, the cost base of the units received should include any amount payable on conversion plus the market value of the note at the time of conversion.

A capital gain or capital loss may arise on conversion of the note (except where notes were acquired before 20 September 1985) depending on the amount of capital proceeds received. The amount of capital proceeds is the value of the units received.

EXAMPLE

CONVERTING NOTES TO SHARES

David bought 1000 convertible notes in DCS Ltd for \$5 each on 1 July 1983. Their expiry date was 1 July 1988, at which time shares in DCS Ltd were worth \$10 each.

He decided to convert the notes to shares and no extra payment to the company was required upon conversion. The shares are treated as having been acquired when the notes were acquired (1 July 1983). Any capital gain or capital loss made on the shares is disregarded.

David bought another 1000 convertible notes in DCS Ltd on 1 July 1986. These notes also cost \$5 each. On expiry of the notes on 1 July 1999, shares in the company were worth \$7 each. David also converted those notes to shares, which are subject to capital gains tax.

As no further amount is payable on conversion of the notes, the cost base of the shares is the \$5 originally paid for the note. If David uses the indexation method to calculate his capital gain, he can index the \$5 from 1 July 1986 when he became liable to pay the cost of the notes.

EMPLOYEE SHARE SCHEMES

Some companies encourage employees to purchase shares in the company. If shares are issued to an employee at a discount, the value of the discount is usually included in the employee's taxable income.

For capital gains tax purposes, the cost base of the shares is the amount paid to the company when you acquire them, plus the amount of the discount included in your assessable income under the ordinary tax provisions. These provisions will specify the amount of discount to include.

Different options are open to employees and, depending on the nature of the employer's scheme and what options the employee has taken, the cost base of the shares will be affected differently.

You may need to seek advice from the ATO if you need help calculating the cost base of your employee shares and the capital gains tax consequences if you have sold your shares or are thinking about selling them.

EXAMPLE

EMPLOYEE SHARE PLANS

Manfred has been employed by MegaCorp Ltd for 13 years. Along with other employees who have been with the company for more than five years, he has been invited to participate in the company's employee share scheme. He is offered 100 shares for each year of service.

Manfred agrees to participate and is required to pay \$1 per share, a total of \$1300. In addition, the company informs Manfred that he must include \$325 in his taxable income as the amount of the discount on allotment of the shares. The cost base of the shares for capital gains tax purposes is therefore a total of \$1625 (\$1300 + \$325), or \$1.25 per share.

NON-ASSESSABLE PAYMENTS

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

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

NON-ASSESSABLE PAYMENTS FROM A COMPANY (CGT EVENT G1)

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

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

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

When you sell the shares, you compare the capital proceeds from the sale with the cost base or reduced cost base of the shares at the time of sale to see if you have made a capital gain or a capital loss.

From the 1998–99 income year, payments to shareholders from a liquidator can be disregarded if the company is dissolved within 18 months of the payment. These payments will form part of the capital proceeds for the cancellation of those shares.

EXAMPLE

NON-ASSESSABLE PAYMENTS

Rob bought 1500 shares in RAP Ltd on 1 July 1994 for \$2 each. On 30 November 2000, as part of a shareholder-approved scheme for the reduction of RAP's share capital, he received a non-assessable payment of 50 cents per share. At that date, the cost base of each share (without indexation) was \$2.20.

As the amount of the payment is not more than the cost base (without indexation), the cost base of each share at 30 November 2000 is reduced by the amount of the payment to \$1.70 (\$2.20 – 50 cents). As Rob has chosen not to index the cost base, he can claim the CGT discount if he disposes of the shares in future.

NON-ASSESSABLE PAYMENTS FROM A UNIT TRUST (CGT EVENT E4)

It is quite common for a unit trust to make non-assessable payments to unit holders. Your capital gains tax obligations in this situation are explained in chapter 4 on page 25.

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

USING THE CAPITAL GAIN OR LOSS WORKSHEET FOR SHARES

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

Refer to page 13 in chapter 2 for a description of each method and when you can use each one.

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

EXAMPLE

USING ALL THREE METHODS TO CALCULATE A CAPITAL GAIN

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

On 1 July 2000 Kimbin Ltd offered each of its shareholders one right for each four shares owned to acquire shares in the company for \$1.80 each. The market value of the shares at the time was \$2.50.

On 1 August 2000, Tony exercised all rights and paid \$1.80 per share.

On 1 December 2000 Tony sold all his shares in Kimbin Ltd for \$3.00 each. He incurred a stockbrokers fee of \$500 and stamp duty of \$50.

NOTE SEPARATE RECORDS

Tony has two parcels of shares – those he acquired on 1 July 1993 and those he acquired at the time he exercised all rights, 1 August 2000. He needs to keep separate records for each parcel and apportion the stockbrokers fee of \$500 and stamp duty of \$50.

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

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

$$\$7500 - \$4610 = \$2890$$

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

$$\$30\,000 - \$23\,257 = \$6743$$

This means his net capital gain would be:

\$2890	+	\$6743	=	\$9633
('other' method)		(indexation method)		(net capital gain)

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

$$\$30\,000 - \$20\,740 = \$9260$$

He applies the CGT discount of 50%:

$$\$9260 \times 50\% = \$4630$$

This means his net capital gain would be:

\$2890	+	\$4630	=	\$7520
('other' method)		(discount method)		(net capital gain)

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

CAPITAL GAIN OR LOSS WORKSHEET

This worksheet helps you calculate a capital gain for each CGT asset or any other CGT event¹ using the indexation method², the discount method³ and/or the 'other' method. It also helps you calculate a capital loss.

CGT asset type or CGT event

Shares and units (in unit trusts) ☒ Real estate ☐

Other CGT assets and any other CGT events⁴ Collectables⁵ ☐ ☐

Description of CGT asset or CGT event

Tony's 2500 shares in Kimbin Ltd — Exercise of rights, given 1.7.2000, exercised 1.8.2000

Date of acquisition

01/08/2000

Date of CGT event

01/12/2000

Elements of the cost base or reduced cost base

	1	2	3	4	5	6	7
	Amount	Amounts to be deducted for cost base ⁹	Cost base (1 – 2)	Amounts to be deducted for reduced cost base ⁹	Reduced cost base ⁹ (1 – 4)	Indexation factor ¹⁰	Cost base indexed (3 x 6)
Acquisition or purchase cost of the CGT asset ⁶	4500		4500				
Incidental costs to acquire the CGT asset							
Incidental costs that relate to the CGT event ⁷	110		110				
Non-capital costs of ownership of the CGT asset ⁸							
Capital expenditure to increase the asset's value that is reflected in the state or nature of the CGT asset at the time of the CGT event							
Capital costs to establish, preserve or defend title to, or a right over, the CGT asset							
	Cost base unindexed		4610				
	Reduced cost base						
	Cost base indexed						

Capital gain calculation

Indexation method ²	Discount method ³	'Other' method (CGT asset held less than 12 months)
Capital proceeds ¹¹	Capital proceeds ¹¹	Capital proceeds ¹¹
\$	\$	\$
Less: cost base indexed	Less: cost base unindexed	Less: cost base unindexed
\$	\$	\$
Capital gain (a)	Capital gain (b)	Capital gain
\$	\$	\$
Choose capital gain (a) or (b) Capital gain \$		

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

Capital loss calculation

Capital loss
Reduced cost base
\$
Less: capital proceeds ¹¹
\$
Capital loss ¹²
\$

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

CAPITAL GAIN OR
LOSS WORKSHEET

This worksheet helps you calculate a capital gain for each CGT asset or any other CGT event¹ using the indexation method², the discount method³ and/or the 'other' method. It also helps you calculate a capital loss.

CGT asset type or CGT event

Shares and units (in unit trusts) ☒ Real estate ☐

Other CGT assets and any other CGT events⁴ ☐ Collectables⁵ ☐

Description of CGT asset or CGT event

Tony's 10 000 shares in Kimbin Ltd

Date of acquisition

01/7/1993

Date of CGT event

01/12/2000

Elements of the cost base or reduced cost base

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

Capital gain calculation

Indexation method ²	Discount method ³	'Other' method (CGT asset held less than 12 months)
Capital proceeds ¹¹	Capital proceeds ¹¹	Capital proceeds ¹¹
\$ 30 000	\$ 30 000	\$
Less: cost base indexed	Less: cost base unindexed	Less: cost base unindexed
\$ 23 257	\$ 20 740	\$
Capital gain (a)	Capital gain (b)	Capital gain
\$ 6743	\$ 9 260	\$
Choose capital gain (a) or (b)	Capital gain	\$ 9 260

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

Capital loss calculation

Capital loss
Reduced cost base
\$
Less: capital proceeds ¹¹
\$
Capital loss ¹²
\$

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

Generally, you can ignore a capital gain or capital loss from a CGT event that happens to a dwelling that is your main residence (also referred to as 'your home').

To obtain full exemption from capital gains tax:

- the dwelling must have been your home for the whole period you owned it, and
- the dwelling must not have been used to produce assessable income, and
- any land on which the dwelling is situated must be two hectares or less.

If you are not fully exempt, you may be partially exempt if:

- the dwelling was your main residence during only part of the period you owned it, or
- you used the dwelling to produce assessable income, or
- the land on which the dwelling is situated is more than two hectares.

Short absences from your home, for example annual holidays, do not affect your exemption.

NOTE NEW TERMS

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

SPECIAL RULES

There are special rules for a dwelling you acquire as a beneficiary or the legal representative of a deceased estate. These rules are explained in chapter 9.

There are some special capital gains tax rules that are *not* covered in this chapter that may affect you if your home was:

- destroyed and you receive money or another asset as compensation or under an insurance policy
- transferred by you as a result of the breakdown of your marriage
- transferred to you as a result of its conversion to strata title, or
- compulsorily acquired by an Australian government agency.

This chapter also does not cover the sale of a rental property, although there is a worked example at appendix 5 showing how to calculate your capital gain or capital loss in this instance. For more information about this situation and the others listed above, you may wish to consult your tax adviser.

If you own more than one dwelling during a particular period, only one of them can be your main residence at any one time.

The exception to this rule is if you move from one main residence to another. In this case you can treat two dwellings as your main residence for a limited time (see page 53 for more information). Special rules apply if you have a different main residence from your spouse or dependent children (see page 57).

WHAT IS A DWELLING?

A dwelling can be any building or part of a building suitable for residential accommodation. Examples include:

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

This list is not exhaustive. Any structure or place where people live could be a dwelling.

Any land the dwelling is on is included as part of the dwelling but it only qualifies for the main residence exemption if the land and the dwelling are sold together. Land adjacent to the dwelling may also qualify for exemption (see page 47 for more information).

WHAT IS AN OWNERSHIP INTEREST?

In the case of a flat or home unit, you have an ownership interest if you have:

- a legal or equitable interest in a strata title in the flat or home unit, or
- a licence or right to occupy the flat or home unit, or
- a share in a company that owns a legal or equitable interest in the land on which the flat or home unit is constructed and that share gives you a right to occupy the flat or home unit.

In the case of a dwelling that is not a flat or home unit, you have an ownership interest if you have:

- a legal or equitable interest in the land on which it is constructed, or
- a licence or right to occupy it.

In the case of land, you have an ownership interest if you have:

- a legal or equitable interest in it, or
- a right to occupy it.

An equitable interest may include life tenancy of a dwelling that you acquire, for example, under a deceased's will. This is known as a life interest.

WHEN DO YOU ACQUIRE AN OWNERSHIP INTEREST?

For the purposes of the main residence exemption, you have an ownership interest in a dwelling or land you acquire under a contract from the time you obtain legal ownership (unless you have a right to occupy it at an earlier time).

You have legal ownership of a dwelling or land from the date of settlement of the contract of purchase (unless you have a right to occupy it at an earlier time) until the date of settlement of the contract of sale. This period is called your ownership period. If the home is your main residence for the whole of the ownership period, and you do not use it to produce assessable income, the home is fully exempt.

EXAMPLE

FULL EXEMPTION

Frank signed a contract on 14 August 1998 to purchase land from a developer and to have a house constructed on the land. Under the contract, settlement did not occur until construction was completed on 26 October 1999.

Frank moved into the house immediately upon settlement of the contract he had with the developer, that is, 26 October 1999. He did not have a right to occupy the house at an earlier time under the purchase contract. He signed the contract to sell it on 25 May 2001 and settlement occurred on 20 July 2001. The house was Frank's main residence for the full period he owned it and he did not use any part of it to produce income.

For capital gains tax purposes, Frank is taken to have acquired the land on which the house was constructed on the date he entered into the contract – 14 August 1998. However, because the house was Frank's main residence for the whole period between settlement of the purchase contract and settlement of the sale contract, it is fully exempt.

The period between when Frank entered into the purchase contract and actually lived in the house – 14 August 1998 to 25 October 1999 – is ignored. This is because the relevant dates for the main residence exemption are the settlement dates or, if you had a right under the purchase contract to occupy the dwelling at an earlier time, that time until settlement of the sale contract.

RELEVANT DATES IN APPLYING THE PART EXEMPTION

If your main residence is not fully exempt, the dates you enter into the purchase and sale contracts are important. You enter into a contract when you exchange or otherwise execute the contract.

The dates you enter into the contracts are relevant for a number of reasons, as outlined below.

- 1** A CGT event occurs when you enter into the sale contract, and any capital gain is included in your tax return for the year of income in which the CGT event occurs.
- 2** If the sale contract was entered into before 11.45am on 21 September 1999 and you held the dwelling for at least 12 months, you can use the indexation method to calculate any capital gain. To do this, you index the cost base of the property from the date you entered into the purchase contract until the date you entered into the sale contract. If you make a capital loss, you cannot index the cost base.
- 3** If the purchase contract was entered into after 11.45am on 21 September 1999 and you held the dwelling for at least 12 months, you reduce your capital gain by the CGT discount of 50%, after applying any capital losses.
- 4** If the purchase contract was entered into before 11.45am on 21 September 1999 and the sale contract was entered into after this time – and you held the dwelling for at least 12 months – you can use either the indexation or the discount method to calculate your capital gain. To use the discount method, you reduce your capital gain by the CGT discount of 50% after applying any capital losses. To use the indexation method, you index the cost base of the property from the date you entered into the purchase contract until 30 September 1999, or until the date you entered into the sale contract if this was earlier than 30 September 1999. If you make a capital loss, you cannot index the cost base.

The settlement dates are still used to calculate the period for which the main residence exemption applies.

EXAMPLE

PART EXEMPTION

The facts are the same as in the example on the previous page except that Frank rented out the house from 26 October 1999 – the date of settlement of the purchase contract – until 2 March 2000.

Frank makes a capital gain of \$30 000 on the house. To work out the part of the capital gain that is exempt, Frank must determine how many days in his ownership period the dwelling was not his main residence.

Frank had an ownership interest in the property from settlement of the purchase contract (26 October 1999) until settlement of the sale contract (20 July 2001) – a total of 634 days.

The period between the dates the purchase contract was signed (14 August 1998) and settled (25 October 1999) is ignored. Because the house was not Frank's main residence from 26 October 1999 to 2 March 2000 (129 days), he does not obtain the exemption for this period.

Frank calculates his net capital gain as follows:

$$\begin{array}{l} \text{Capital gain } \$30\,000 \times \frac{129 \text{ days}}{634 \text{ days}} \\ = \text{taxable portion } \$6104 \end{array}$$

Because Frank entered into the purchase contract before 11.45am on 21 September 1999 and entered into the sale contract after this time (and he owned the house for at least 12 months), he can choose either the indexation or the discount method to calculate his capital gain. Frank decides to reduce his gain by the CGT discount of 50% after applying any capital losses.

Because Frank signed the sale contract on 25 May 2001, the CGT event occurred in the 2000–01 income year, even though settlement occurred in the next income year. Frank shows the capital gain in his 2000–01 income tax return.

IS THE DWELLING YOUR MAIN RESIDENCE?

You need to take the following factors into account in working out whether a dwelling is your main residence:

- the length of time you live there – there is no minimum time a person has to live in a home before it is considered to be their main residence
- whether your family lives there
- whether you have moved your personal belongings into the home
- the address to which your mail is delivered
- your address on the electoral roll
- the connection of services (for example, telephone, gas or electricity), and
- your intention in occupying the dwelling.

A mere intention to construct or occupy a dwelling as your main residence – without actually doing so – is not sufficient to obtain the exemption.

In certain circumstances, you may choose to treat a dwelling as your main residence even though:

- you no longer live in it (for more information, see *Continuing main residence status after dwelling ceases to be your main residence* on page 54), or
- you are yet to live in it but will do so as soon as practicable after it is constructed, repaired or renovated and you will continue to live in it for at least three months (for more information, see *Constructing, renovating or repairing a dwelling on land you already own* on page 56).

MOVING INTO A DWELLING

A dwelling is considered to be your main residence from the time you acquired your ownership interest in it if you moved into it as soon as practicable after that time. This would generally be the date of settlement of the purchase contract. This means if there is a delay in moving in because of illness or other reasonable cause, the exemption is still available from when you acquired your ownership interest in the dwelling.

If you could not move in because the dwelling was being rented to someone, you are not considered to have moved in as soon as practicable after you acquired your ownership interest.

As explained earlier, there is a special rule that allows you to treat more than one dwelling as your main residence for a limited time if you are changing main residences (see *Moving from one main residence to another* on page 53).

LAND ADJACENT TO THE DWELLING

The land adjacent to a dwelling is also exempt if:

- during the period you owned it, the land is used mainly for private and domestic purposes in association with the dwelling, and
- the total area of the land around the dwelling, including the land on which it stands, is not greater than two hectares (4.94 acres). If the land used for private purposes is greater than two hectares, you can choose which two hectares are exempt.

Land is adjacent to your dwelling if it is close to, near, adjoining or neighbouring the dwelling.

If you sell any of the land adjacent to your dwelling separately from the dwelling, the land is not exempt. It is only exempt when sold with the dwelling. There is an exception if the dwelling is accidentally destroyed and you sell the vacant land (see *Destruction of dwelling and sale of land* on page 57).

Any part of the land around a dwelling used to produce income is not exempt, even if the total land is less than two hectares. However, the dwelling and any buildings and other land used in association with it remain exempt if you do not use them to produce income.

EXAMPLE

LAND USED FOR PRIVATE PURPOSES

Tim buys a home with 15 hectares of land in November 1999. He uses 10 hectares of the land to produce income and 5 hectares for private purposes. Tim can obtain the main residence exemption for the home and two hectares of land he selects out of the five hectares that are used for private purposes.

Tim obtains a valuation which states that the home and two hectares of land that he has selected are worth two-thirds of the total value of the property. The relative values of the different parts of the property remained the same between the purchase and the sale.

Tim enters into a contract to sell the property on 8 May 2001. The capital gain from the property is \$15 000. Tim may claim the main residence exemption on the two-thirds of the capital gain attributable to the house and two hectares of land – that is, \$10 000.

Because he sold the home after 11.45am on 21 September 1999 and owned it for at least 12 months, Tim reduces his remaining \$5000 gain (attributable to the land) by the CGT discount of 50% after applying any capital losses.

SUBDIVISION OF LAND AROUND A DWELLING

If you subdivide a block of land, each block that results is registered with a separate title. For capital gains tax purposes, the original land parcel is divided into two or more separate assets. Subdividing the land does not in itself change the ownership of the subdivided blocks. Therefore, you do not make a capital gain or a capital loss at the time of the subdivision.

However, you may make a capital gain or capital loss when you sell the subdivided blocks. The date you acquired the subdivided blocks is the date you acquired the original parcel of land and the cost base of the original land is divided between the subdivided blocks on a reasonable basis.

NOTE WHEN THE PROFIT IS ORDINARY INCOME

You may have made a profit from the subdivision and sale of land which occurred in the ordinary course of your business or which involved a commercial transaction or business operation entered into with the purpose of making a profit. In this case, the profit is ordinary income (see Taxation Ruling TR 92/3). Any capital gain from the land is reduced by the amount otherwise included in your assessable income.

EXAMPLE

DWELLING PURCHASED BEFORE 20 SEPTEMBER 1985, LAND SUBDIVIDED AFTER THAT DATE AND HOUSE BUILT ON SUBDIVIDED LAND

In 1983, Mike bought a block of land that was less than two hectares. He subdivided the land into two blocks in May 2000 and began building a house on the rear block, which he finished in August 2000. He sold the rear block (including the house) in October 2000 for \$150 000. Mike obtained a valuation from a qualified valuer, who valued the rear block at \$70 000 and the house at \$80 000. The construction cost of the house was \$65 000.

Mike acquired the rear block before 20 September 1985, so it is not subject to capital gains tax. As the new house was constructed after 20 September 1985 on land purchased before that date, the house is taken to be a separate asset from the land. Mike is taken to have acquired the house in May 2000 – when he began building it. Mike made a capital gain of \$15 000 (\$80 000 – \$65 000) when he sold the house because he did not use it as his main residence.

As Mike had owned the house for less than 12 months, he used the 'other' method to calculate his capital gain.

EXAMPLE

DWELLING PURCHASED ON OR AFTER 20 SEPTEMBER 1985 AND LAND SUBDIVIDED AFTER THAT DATE

Kym bought a house on a 0.1 hectare block of land in June 2000 for \$250 000. The house was valued at \$80 000 and the land at \$170 000. Kym lived in the house as her main residence. In January 2001 she subdivided the land into two blocks of equal size. She incurred \$10 000 in survey, legal and subdivision application fees and \$1000 to connect water and drainage to the rear block. In March 2001 she sold the rear block for \$100 000.

As Kym sold the rear block of land separately, the main residence exemption does not apply to that land. She contacted several local real estate agents who advised her that the value of the front block was \$15 000 higher than the rear block. Kym apportioned the \$170 000 original cost base into \$77 500 for the rear block (45.6%) and \$92 500 for the front block (54.4%).

The cost base of the rear block is calculated as follows:

	\$
Cost of the land	77 500
45.6% of the cost of survey, legal and application fees	4 560
Cost of connecting water and drainage	1 000
Total	83 060

The capital gain on the sale of the rear block is \$16 940. As Kym had owned the land for less than 12 months, she used the 'other' method to calculate her capital gain.

Kym will obtain the full exemption for her house and the front block if they are used as her main residence for the full period she owns them.

EXAMPLE

DWELLING PURCHASED BEFORE 20 SEPTEMBER 1985 AND LAND SUBDIVIDED AFTER THAT DATE

Max bought a house in May 1983. He subdivided the land into two blocks in June 1999 and sold the rear block in October 2000.

The rear block is exempt because he acquired the land in May 1983 – that is, before 20 September 1985.

OTHER STRUCTURES ASSOCIATED WITH THE DWELLING

A flat or home unit often includes areas (for example, a laundry, storeroom or garage) that are physically separate from the flat or home unit. As long as these areas are used primarily for private or domestic purposes in association with the flat or home unit for the whole period you own it, they are exempt on the same basis as the flat or home unit is exempt.

However, if you dispose of one of these structures separately from the flat or home unit, they are not exempt.

PART EXEMPTION

Main residence for only part of the period you owned it

If a CGT event happens in relation to a dwelling you acquired on or after 20 September 1985 and that dwelling was not your main residence for the whole time you owned it, you obtain only a part exemption.

The part of the capital gain that is taxable is calculated as follows:

$$\begin{array}{l} \text{Total capital gain} \\ \text{made from the} \\ \text{CGT event} \end{array} \times \frac{\begin{array}{l} \text{Number of days in} \\ \text{your ownership period} \\ \text{when the dwelling was} \\ \text{not your main residence} \end{array}}{\begin{array}{l} \text{Total number of days} \\ \text{in your ownership} \\ \text{period} \end{array}}$$

EXAMPLE

MAIN RESIDENCE FOR THE FIRST PART OF THE OWNERSHIP PERIOD

Andrew bought a house under a contract that was settled on 1 July 1990 and moved in immediately. On 1 July 1993 he moved out and began to rent out the house. He did not choose to treat the house as his main residence for the period after he moved out, although he could have done this under the rule *Continuing main residence status after dwelling ceases to be your main residence* (see page 54). The *Home first used to produce income* rule (explained on page 52) does not apply.

This is because Andrew used the home to produce income before 21 August 1996. The contract for the sale of the house was settled on 1 July 1999 and Andrew made a capital gain of \$10 000. The capital gain is:

$$\$10\,000 \times \frac{2191}{3287} = \$6666$$

As Andrew entered into the contract for sale of the house before 11.45am on 21 September 1999, he cannot use the discount method to calculate his capital gain, but he can use the indexation method.

EXAMPLE

MAIN RESIDENCE FOR THE SECOND PART OF THE OWNERSHIP PERIOD

Thérèse bought a house under a contract that was settled on 11 March 1993 and rented it out immediately. On 29 June 1996 she stopped renting it out and moved in. Thérèse sold the house under a contract that was settled on 15 March 2001 and made a capital gain of \$20 000. The capital gain is:

$$\$20\,000 \times \frac{1206}{2926} = \$8243$$

As Thérèse entered into the contract to acquire the house before 11.45am on 21 September 1999 and entered into the contract to sell it after that time – and she held it for at least 12 months – she can use either the indexation or the discount method to calculate her capital gain.

NOTE PERIOD OF ABSENCE

Thérèse cannot choose to treat the house as her main residence during the period she was absent under the rule *Continuing main residence status after dwelling ceases to be your main residence* (see page 54) because the house was not her main residence before she rented it out. Also, the *Home first used to produce income* rule (explained on page 52) does not apply because Thérèse used the home to produce income from the date she purchased it.

If a dwelling was not your main residence for the whole time you owned it, some special rules may entitle you to a full exemption or extend the part exemption you would otherwise obtain. These rules apply to land or a dwelling if:

- you choose to treat the dwelling as your main residence, even though you no longer live in it (see *Continuing main residence status after dwelling ceases to be your main residence* on page 54)
- you moved into the dwelling as soon as practicable after its purchase (see *Moving into a dwelling* on page 47)
- you are changing main residences (see *Moving from one main residence to another* on page 53)
- you are yet to live in the dwelling but will do so as soon as practicable after it is constructed, repaired or renovated and you will continue to live in it for at least three months (see *Constructing, renovating or repairing a dwelling on land you already own* on page 56), or
- you sell vacant land after your main residence is accidentally destroyed (see *Destruction of dwelling and sale of land* on page 57).

Dwelling used to produce income

Usually you cannot obtain the full main residence exemption if you use any part of the dwelling to produce income. However, there is a special rule if:

- you first used the dwelling to produce income after 20 August 1996, and
- you would obtain only a part exemption because the dwelling was used to produce income, and
- you would have obtained a full exemption if you had disposed of the dwelling just before you first used it to produce income.

For more information, see *Home first used to produce income* on page 52.

Assuming this rule does not apply to you, part of any capital gain you make may be taxable if you:

- acquired it on or after 20 September 1985 and used it as your main residence, and
- used any part of it to produce income during all or part of the period you owned it, and
- would be allowed a deduction for interest had you incurred it on money borrowed to acquire the dwelling.

If you run a business or professional practice in part of your home, you would be entitled to deduct part of the interest on money you borrowed to acquire the dwelling if:

- part of the dwelling is set aside exclusively as a place of business and is clearly identifiable as such, and
- that part of the home is not readily adaptable for private use, for example, a doctor's surgery located within the doctor's home.

If you rent out part of your home, you would be entitled to deduct part of the interest if you had borrowed money to acquire the dwelling.

You would not be entitled to deduct any interest expenses if, for convenience, you use a home study to undertake work usually done at your place of work. Similarly, you would not be entitled to deduct interest expenses if you do paid child-minding at home unless a special part of the home was set aside exclusively for that purpose. In these situations, you would still obtain a full main residence exemption.

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

When a CGT event happens in relation to the home, the proportion of the capital gain or loss that is taxable is an amount that is reasonable having regard to the extent to which you would have been able to deduct the interest on money borrowed to acquire the home.

In most cases this is the proportion of the floor area of the home that is set aside to produce income and the period the home is used to produce income.

EXAMPLE

RENTING OUT PART OF A HOME

Thomas purchased a home under a contract that was settled on 1 July 1996 and sold it under a contract that was settled on 30 June 2001. The home was his main residence for the entire five years.

Throughout the period Thomas owned the home, a tenant rented one bedroom, which represented 20% of the home. Both Thomas and the tenant used the living room and kitchen, which represented 30% of the home. Only Thomas used the remainder of the home. Therefore Thomas would be entitled to a 35% deduction for interest if he had incurred it on money borrowed to acquire his home. The *Home first used to produce income* rule (explained on page 52) does not apply because Thomas used the home to produce income from the date he purchased it.

Thomas made a capital gain of \$20 000 when he sold the home. Of this total gain, the following proportion is not exempt:

Capital gain X % of floor area = Taxable portion

\$20 000 X 35% = \$7000

As Thomas entered into the contract to acquire the home before 11.45am on 21 September 1999 and entered into the contract to sell it after that time – and held it for at least 12 months – he can use either the indexation or the discount method to calculate his capital gain.

EXAMPLE

RUNNING A BUSINESS IN PART OF A HOME FOR PART OF THE PERIOD OF OWNERSHIP

Ruth bought her home under a contract that was settled on 1 January 1999. She sold it under a contract that was entered into on 1 November 2000 and was settled on 31 December 2000. It was her main residence for the entire two years.

From the time she bought it until 31 December 1999 Ruth used part of the home to operate her photographic business. The rooms were modified for that purpose and were no longer suitable for private and domestic use. They represented 25% of the total floor area of the home.

When she sold the home, Ruth made a capital gain of \$8000. The following proportion of the gain is taxable:

Capital gain	X	% of floor area	X	% period of ownership
= taxable portion				
\$8000	X	25%	X	50%
= \$1000				

As Ruth entered into the contract to acquire the home before 11.45am on 21 September 1999 and entered into the contract to sell it after that time – and held it for at least 12 months – she can use either the indexation or the discount method to calculate her capital gain.

The *Home first used to produce income* rule (explained below) does not apply because Ruth used the home to produce income from the date she purchased it.

For more information on rental properties (for example, negative gearing and deductions) obtain a copy of the publication *Rental properties* from the sources listed at the back of this guide.

Home first used to produce income

If you start using your main residence to produce income for the first time after 20 August 1996, a special rule affects the way you calculate your capital gain or capital loss.

In this case, you are taken to have acquired the dwelling at its market value at the time it is first used to produce income if *all* of the following apply:

- you acquired the dwelling on or after 20 September 1985, and
- you first used the dwelling to produce income after 20 August 1996, and
- when a CGT event happens in relation to the dwelling, you would obtain only a part exemption because the dwelling was used to produce assessable income during the period you owned it, and
- you would have been entitled to a full exemption if the CGT event happened to the dwelling immediately before you first used it to produce income.

If a deceased's main residence passed to you as a beneficiary or as trustee of their estate on or after 20 September 1985, you are taken to have acquired the dwelling at its market value at the time it was first used to produce your income only if:

- the last three dot points above all apply, and
- the CGT event did not happen in relation to the dwelling within two years of the person's date of death.

NOTE FULL EXEMPTION

You may have made the choice to treat a dwelling as your main residence under *Continuing main residence status after dwelling ceases to be your main residence* (see page 54). In this case, the dwelling is fully exempt and the *Home first used to produce income* rule does not apply.

In working out the amount of capital gain or capital loss, the period before the dwelling is first used by you to produce income is not taken into account. The extent of the exemption depends on the period after that time and the proportion of the home used to produce income. The following example explains this.

EXAMPLE

HOME FIRST USED TO PRODUCE INCOME AFTER 20 AUGUST 1996

Louise purchased a home in December 1991 for \$200 000. The home was her main residence. On 1 November 1999 she started to use 50% of the home for a consultancy business. At that time the market value of the house was \$220 000.

She decided to sell the property in August 2000 for \$250 000. As Louise had not ceased living in the home, she could not obtain a full exemption under the *Continuing main residence status after dwelling ceases to be your main residence* rule (see page 54). The capital gain is 50% of the proceeds less the cost base.

Percentage of use	X	(proceeds – cost base)	=	capital gain
50%	X	\$250 000 – \$220 000	=	\$15 000

Louise is taken to have acquired the property on 1 November 1999 at a cost of \$220 000. Because she is taken to have acquired it at this time, Louise is taken to have owned it for less than 12 months and must use the 'other' method to calculate her capital gain.

MOVING FROM ONE MAIN RESIDENCE TO ANOTHER

If you acquire a new home before you dispose of your old one, both dwellings are treated as your main residence for up to six months if:

- the old dwelling was your main residence for a continuous period of at least three months in the 12 months before you disposed of it, and
- you did not use it to produce assessable income in any part of that 12 months when it was not your main residence, and
- the new dwelling becomes your main residence.

If you dispose of the old dwelling within six months of acquiring the new one, both dwellings are exempt for the whole period between when you acquire the new one and dispose of the old one.

If you disposed of your old home before 1 July 1998, both homes are exempt for a maximum of three months.

EXAMPLE

EXEMPTION FOR BOTH HOMES

Jill and Norman bought their new home under a contract that was settled on 1 January 2001 and moved in immediately. They sold their old home under a contract that was settled on 15 April 2001. Both the old and new homes are treated as their main residence for the period 1 January to 15 April even though they did not live in the old home during that period.

If it takes longer than six months to dispose of your old home, both homes are exempt only for the last six months before you dispose of the old one. You obtain only a part exemption when a CGT event happens in relation to your old home.

EXAMPLE

PART EXEMPTION FOR A FIRST HOME

Jeneen and John bought their first home under a contract that was settled on 1 January 1996 and moved in immediately. It was their main residence until they bought their second home under a contract that was entered into on 2 November 1999 and settled on 1 January 2000.

They retained the first home after moving into the new one but did not use it to produce income. They sold the first home under a contract that was settled on 30 September 2000. They owned this home for a total period of 1735 days.

Both homes are treated as their main residence for the period 31 March 2000 to 30 September 2000, the last six months that Jeneen and John owned their first home. Therefore, their first home is treated as their main residence only for the period before they moved into their new home and during the last six months before its sale.

The 90 days from 1 January 2000 to 30 March 2000, when it was not their main residence, are taken into account in calculating the proportion of their capital gain that is taxable (90/1735ths).

Because they entered into the contract to acquire their old home before 11.45am on 21 September 1999 and entered into the contract to sell it after that time – and held it for at least 12 months – Jeneen and John can use either the indexation or the discount method to calculate their capital gain.

CONTINUING MAIN RESIDENCE STATUS AFTER DWELLING CEASES TO BE YOUR MAIN RESIDENCE

In some cases you can choose to have a dwelling treated as your main residence even though you no longer live in it. This choice needs to be made only for the income year that the CGT event happens to the dwelling – that is, the year that you enter into a contract to sell it. If you make this choice, you cannot treat any other dwelling as your main residence for that period (except for a limited time if you are changing main residences – see *Moving from one main residence to another* on page 53).

If you do not use it to produce income, you can treat the dwelling as your main residence for an unlimited period after you cease living in it.

If you *do* use it to produce income, you can choose to treat it as your main residence while you use it for that purpose for up to six years after you cease living in it. You are entitled to another maximum period of six years each time the dwelling again becomes, and then ceases to be, your main residence. If, as a result of you making this choice, the dwelling is fully exempt, the *Home first used to produce income* rule (explained on page 52) does not apply.

If you are absent more than once during the period you own the home, the six-year maximum period that you can treat it as your main residence while you use it to produce income applies separately to each period of absence.

EXAMPLE

ONE PERIOD OF ABSENCE OF 10 YEARS

Home ceases to be the main residence and is used to produce income for one period of six years

Lisa buys a house after 20 September 1985 but ceases to use it as her main residence for the 10 years immediately before she sells it. During this period, she rents it out for six years and leaves it vacant for four years.

Lisa chooses to treat the dwelling as her main residence for the period after she ceased living in it, so any capital gain or capital loss she makes on the sale of the dwelling is disregarded. The maximum period the dwelling can continue to be her main residence while it is used to produce income is six years. However, while the house is vacant, the period is unlimited, which means the exemption applies for the whole 10 years.

In addition to this, because the dwelling is fully exempt as a result of Lisa making this choice, the *Home first used to produce income* rule (explained on page 52) does not apply.

Home used to produce income for more than one period totalling six years

In the 10-year period after Lisa stopped living in the dwelling she rents it out for three years, leaves it vacant for two years, rents it out for the next three years, then once more leaves it vacant for two years.

If she chooses to treat the dwelling as her main residence for the period after she ceased living in it, any capital gain or capital loss she makes on selling it is again disregarded. This is because the total period the home was used to produce income during her absence is not more than six years.

EXAMPLE

HOME CEASES TO BE THE MAIN RESIDENCE AND IS USED TO PRODUCE INCOME FOR MORE THAN SIX YEARS DURING A SINGLE PERIOD OF ABSENCE

1 July 1990 Ian bought a home in Sydney and used it as his main residence.

1 January 1992 Ian was posted to Brisbane and bought another home there.

1 January 1992 to 31 December 1996 Ian rented out his Sydney home during the period he was posted to Brisbane.

31 December 1996 Ian sold his Brisbane home and the tenant in his Sydney home left.

The five years are the first period the Sydney home was used to produce income for the purpose of the six-year test.

1 January 1997 Ian was posted from Brisbane to Melbourne for three years and bought a home in Melbourne. He did not return to his Sydney home.

1 March 1997 Ian again rented out his Sydney home – this time for two years.

28 February 1999 The tenant of his Sydney home left.

The two years from 1997 to 1999 are the second period the Sydney home was used to produce income under the six-year test. The combined periods it was used to produce income are now seven years because Ian's Sydney home did not become his main residence at any time between the two periods it was used to produce income.

31 December 1999 Ian sold his home in Melbourne.

31 December 2000 Ian returned to his home in Sydney and it again became his main residence.

28 February 2001 Ian sold his Sydney home.

Ian chose to treat the Sydney home as his main residence for the period after he ceased living in it. However, he cannot obtain the main residence exemption for the whole period of ownership because the combined periods it was used to produce income (1 January 1992 to 31 December 1996 and 1 March 1997 to 28 February 1999) total more than six years.

As a result, the Sydney house is not exempt for the period it was used to produce income that exceeds the six-year period – that is, one year.

If the capital gain on the disposal of the Sydney home is \$50 000, the amount of the gain that is taxable is calculated as follows:

Period of ownership of the Sydney home:

1 July 1990 to 28 February 2001 3896 days

Periods the Sydney home was used to produce income after Ian ceased living in it:

1 January 1992 to 31 December 1996 1827 days

1 March 1997 to 28 February 1999 730 days
2557 days

First six years the Sydney home was used to produce income:

1 January 1992 to 31 December 1996 1827 days

1 March 1997 to 28 February 1998 365 days
2192 days

Income-producing for more than six years after Ian ceased living in it:

365 days

Proportion of capital gain taxable in 2000–01

$$365 \times \frac{\$50\,000}{3896} = \$4684$$

Because Ian entered into the contract to acquire the house before 11.45am on 21 September 1999 and entered into the contract to sell it after that time – and owned it for at least 12 months – he can use either the indexation or the discount method to calculate his capital gain.

In addition, any capital gains Ian made on the sale of both his Brisbane home in 1996–97 and his Melbourne home in 1999–2000 are taxable.

NOTE 21 AUGUST 1996 IMPORTANT

The *Home first used to produce income* rule explained on page 52 does not apply because the home was used by Ian to produce income before 21 August 1996.

HOME USED TO PRODUCE INCOME AND THEN YOU CEASE LIVING IN IT

If you use any part of your home to produce income before you cease living in it, you cannot apply the rule *Continuing main residence status after dwelling ceases to be your main residence* to that part. This means you cannot obtain the main residence exemption for that part of the dwelling either before or after you cease living in it.

EXAMPLE

CEASING TO LIVE IN A HOME AFTER PART OF IT IS USED TO PRODUCE INCOME

Helen purchased a home under a contract that was settled on 1 July 1992 and she moved in immediately. She used 75% of the home as her main residence and the remaining 25% as a doctor's surgery, which she used until 30 June 1995.

On 1 July 1995 she moved out and rented out the home until it was sold under a contract that was settled on 30 June 2001. Helen chose to treat the dwelling as her main residence for the six years it was rented out. She made a capital gain of \$10 000 when the home was sold.

As 25% of the home was not used as her main residence during the period before Helen ceased living in it, part of the capital gain is taxable, calculated as follows:

$$\$10\,000 \times 25\% = \$2500$$

Because Helen entered into the contract to acquire the house before 11.45am on 21 September 1999 and sold it after that time – and owned it for at least 12 months – she can use either the indexation or the discount method to calculate her capital gain.

The *Home first used to produce income* rule does not apply because Helen first used the home to produce income before 21 August 1996 and because she used it to produce income from the time she purchased it.

CONSTRUCTING, RENOVATING OR REPAIRING A DWELLING ON LAND YOU ALREADY OWN

Generally, if you build a dwelling on land you already own, the land does not qualify for exemption until the dwelling becomes your main residence. However, you can choose to treat land as your main residence for up to four years before the dwelling becomes your main residence in certain circumstances. If you make this choice, the land is exempt for the period both before construction and after it becomes your main residence.

You can choose to have this exemption apply if you acquire an ownership interest (other than a life interest) in land, and you:

- build a dwelling on the land, or
- repair or renovate an existing dwelling on the land, or
- finish a partly constructed dwelling on the land.

There are a number of conditions that must be satisfied before you can claim the exemption. You must first finish building, repairing or renovating the dwelling and then:

- move into the dwelling as soon as practicable after it is finished, and
- continue to use the dwelling as your main residence for at least three months after it becomes your main residence.

The land, including the dwelling that is being built, renovated, repaired or finished on it, is exempt for the shorter of the following periods:

- the four-year period immediately before the date the dwelling becomes your main residence, or
- the period between the date you acquired the land and the date the dwelling becomes your main residence.

The period of exemption usually starts from the date you acquired the land. However, if after you acquired the land you or someone else occupied a dwelling that was already on the land, the period of exemption starts from the date that dwelling was vacated.

If you make this choice, you cannot treat any other dwelling as your main residence for the period, except for a limited time under the rule *Moving from one main residence to another* (explained on page 53).

Therefore, if you have a dwelling you acquired on or after 20 September 1985 and you live in it while you build your new home, you must decide whether to:

- maintain the exemption for your old home, or
- have the exemption apply to the land (including the dwelling that is being built, renovated, repaired or finished on it) for the shorter of:
 - the time from when you acquire the land until the new home becomes your main residence, or
 - the four-year period immediately before the date on which the new home becomes your main residence.

If you acquired your old main residence before 20 September 1985 it is exempt. This means you will benefit from choosing to treat the land on which the dwelling is to be built, renovated, repaired or finished as your main residence for the relevant dates above.

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

EXAMPLE

CHOOSING TO CLAIM EXEMPTION FOR THE LAND FROM THE DATE OF CONSTRUCTION

Grant bought vacant land on which to build a new home under a contract that was settled on 3 September 1997. He bought his previous home under a contract that was settled on 3 November 1991.

Grant finished building his new home on 8 September 2000. He moved into it on 7 October 2000, which was as soon as practicable after completion. He sold his previous home under a contract that was settled on 1 October 2000.

If Grant wants to, he can:

- treat the new home as his main residence from 3 September 1997, and
- claim the exemption for his previous home from 3 November 1991 to 2 September 1997.

Both homes are also exempt from 1 April 2000 to 1 October 2000, the date Grant disposed of the old home. This is because the maximum six-month exemption outlined in the section *Moving from one main residence to another* on page 53 also applies.

If you were to die at any time between entering into contracts for the construction work and the end of the first three months of residence in the new home, this exemption can still apply.

If you owned the land as a joint tenant and you die, the surviving joint tenant (or, if none, the trustee of your estate) can choose to treat the land and the dwelling as your main residence for the shorter of:

- four years before your death, or
- the period starting when you acquired the land and ending when you die.

DESTRUCTION OF DWELLING AND SALE OF LAND

If your home is accidentally destroyed and you then dispose of the vacant land on which it was built, you can choose to treat the land as your main residence.

If you make this choice, the land is exempt from the time your home was destroyed until you dispose of the land, as well as for the period it was used as part of your main residence. The maximum amount of land that can be exempt is two hectares. You cannot claim the main residence exemption for this period for any other dwelling, except for a limited time if you are changing main residences (see *Moving from one main residence to another* on page 53).

HAVING A DIFFERENT HOME FROM YOUR SPOUSE OR DEPENDENT CHILD

If you and a dependent child have different homes at a particular time, you must choose one of the homes as the main residence for both of you for the period.

If you and your spouse have different homes at a particular time, you and your spouse must either:

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

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

The same applies to your spouse. If your spouse owns 50% or less of the home they have nominated, they qualify for an exemption for their share. However, if your spouse owns more than 50% of the home, their share is exempt for only half the period you had different homes.

This rule applies if:

- you choose to treat a dwelling as your main residence when you no longer live in it (see *Continuing main residence status after dwelling ceases to be your main residence* on page 54), and
- this choice results in you having a different main residence from your spouse or a dependent child for a period.

EXAMPLE

SPOUSES WITH DIFFERENT MAIN RESIDENCES

Under a contract that was settled on 1 July 1996, Kathy and her spouse Grahame purchased a townhouse where they lived together. Grahame owns 70% of the townhouse while Kathy owns the other 30%.

Under a contract that was settled on 1 August 1998, they purchased a beach house which they own in equal shares. From 1 May 1999, Kathy lives in their beach house while Grahame keeps living in the townhouse. Grahame nominated the townhouse as his main residence and Kathy nominated the beach house.

Kathy and Grahame sell the beach house under a contract that was settled on 15 April 2001. As it is Kathy's home and she owns 50% of it, her share of any capital gain or capital loss is disregarded for the period she and Grahame had different homes (1 May 1999 – 15 April 2001). As Grahame did not live in the beach house or nominate it as his main residence when he and Kathy had different homes, his share of any capital gain or capital loss is not ignored for any of the period he owned it.

Grahame and Kathy also sell the townhouse under a contract that was settled on 15 April 2001. Because Grahame owns more than 50% of the townhouse, it is taken to have been his main residence for half of the period when he and Kathy had different homes.

If the total capital gain on the sale of the townhouse is \$10 000, Grahame's share of the capital gain is \$7000 (reflecting his 70% ownership interest). The portion of the gain that Grahame disregards under the main residence exemption is:

$$\begin{array}{l}
 \$7000 \times \frac{1034 \text{ days}}{1749 \text{ days}} \quad \begin{array}{l} \text{(townhouse was} \\ \text{Grahame's home and} \\ \text{Kathy had a different} \\ \text{home)} \end{array} \\
 \text{plus} \quad \begin{array}{l} \text{(when Grahame} \\ \text{and Kathy had the} \\ \text{different homes)} \end{array} \\
 \$7000 \times 50\% \times \frac{715 \text{ days}}{1749 \text{ days}} \quad \begin{array}{l} \text{(total ownership period)} \\ \text{period)} \end{array} \\
 = \$4138 \\
 = \$1431
 \end{array}$$

The total amount disregarded by Grahame is:

$$\$4138 + \$1431 = \$5569$$

As Grahame bought the townhouse before 11.45am on 21 September 1999 and entered into the contract to sell it after that time – and owned his share for at least 12 months – he can use either the indexation or the discount method to calculate his capital gain.

Kathy's share of the \$10 000 capital gain on the townhouse is \$3000, reflecting her 30% ownership interest. The portion she disregards is:

$$\begin{array}{l}
 \$3000 \times \frac{1034 \text{ days}}{1749 \text{ days}} \quad \begin{array}{l} \text{(when the townhouse} \\ \text{was Kathy's home)} \end{array} \\
 \text{(total ownership period)}
 \end{array}$$

(1034 days = period before 1 May 1999 and after 15 April 2001)

As Kathy entered into the contract to buy the townhouse before 11.45am on 21 September 1999 and entered into the contract to sell it after that time – and owned her share for at least 12 months – she can use either the indexation or the discount method to calculate her capital gain.

EXAMPLE

DIFFERENT MAIN RESIDENCES

Anna and her spouse Mark jointly purchased a townhouse under a contract that was settled on 5 February 1999 and both lived in it from that date until 29 April 2001, when the contract of sale was settled.

Before 5 February 1999, Anna had lived alone in her own flat, which she rented out after moving to the townhouse. She then sold her flat and settled the sale on 11 March 2000. Anna chooses to treat the flat as her main residence from 5 February 1999 until she sold it under *Continuing main residence status after dwelling ceases to be your main residence* (see page 54).

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

Therefore, Mark must either:

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

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

If Mark nominates the townhouse as his main residence, he qualifies for a full exemption on any capital gain he makes when it is sold because he owned 50% or less of it. However, because Mark and Anna have different main residences as a result of Mark's choice, and Anna owns more than 50% of the flat, her gain on the flat will only qualify for a 50% exemption for the period from 5 February 1999 to 11 March 2000. Any capital gain Anna makes on the townhouse is taxable except for the period from 12 March 2000 to 29 April 2001 and the part that is ignored under the *Moving from one main residence to another* rule (see page 53).

MAJOR CAPITAL IMPROVEMENTS TO A DWELLING ACQUIRED BEFORE 20 SEPTEMBER 1985

If you acquired a dwelling before 20 September 1985 and you make major capital improvements after that date, part of any capital gain you make when a CGT event happens in relation to the dwelling could be taxable. Even though you acquired the dwelling before capital gains tax started, major capital improvements are taken as separate CGT assets from the original asset and may therefore be subject to capital gains tax in their own right if they are made on or after 20 September 1985.

If the dwelling is your main residence and the improvements are used as part of your home, they are still exempt. This includes improvements on land adjacent to the dwelling (for example, installing a swimming pool) if the total land, including the land on which the home stands, is two hectares or less.

However, if the dwelling is not your main residence or you used the improvements to produce income for any period, the part of any gain that is attributable to the improvements for that period is taxable.

A capital improvement is taken to be major if its original cost (indexed for inflation) is more than 5% of the amount you receive when you dispose of the dwelling and the improvement is also over a certain threshold. The threshold increases every year to take account of inflation.

Improvement thresholds for 1985–86 to 2000–01

INCOME YEAR	THRESHOLD (\$)	INCOME YEAR	THRESHOLD (\$)
1985–86	50 000	1993–94	80 756
1986–87	53 950	1994–95	82 290
1987–88	58 859	1995–96	84 347
1988–89	63 450	1996–97	88 227
1989–90	68 018	1997–98	89 992
1990–91	73 459	1998–99	89 992
1991–92	78 160	1999–2000	91 072
1992–93	80 036	2000–01	92 082

EXAMPLE

IMPROVEMENT ON LAND ACQUIRED BEFORE 20 SEPTEMBER 1985

Martin bought a home in 1984. On 1 December 1993 he undertook major capital improvements worth \$85 000. He sold the home under a contract that was settled on 1 December 2000 for \$500 000. At the date of sale, the indexed cost base of the improvements was \$95 370.

Of the \$500 000 he received for the home, \$100 000 could be attributed to the improvements. The improvements were used by Martin to produce income from the time they were finished until the time they were sold with the home.

The *Home first used to produce income* rule (explained on page 52) does not apply to the improvements because they were first used to produce income before 21 August 1996.

Test 1 Is the cost base of the improvements more than 5% of \$500 000 – that is, \$25 000? **Yes**

Test 2 Is the cost base of the improvements more than the 2000–01 threshold of \$92 082? **Yes**

As the answer to both questions is Yes and the improvements were used to produce income, the capital gain on the improvements is taxable. The capital gain is calculated as follows:

	\$
Amount of proceeds attributable to the improvements	100 000
Less cost base of improvements indexed for inflation	95 370
Taxable capital gain	4 630

If the improvements had been used as part of Martin's main residence, this gain would be exempt. However, the home (including the improvements) had been rented out for one-third of the period, so one-third of the capital gain made on the improvements would have been taxable.

As Martin acquired the improvements before 11.45am on 21 September 1999 and sold the home after that time – and had held the improvements for at least 12 months – he could use either the indexation method (as in the calculation above) or the discount method to calculate his capital gain on the improvements.

When you dispose of the dwelling, the capital gain or capital loss on the major improvements is calculated by taking away the cost base of the improvements from the proceeds of the sale that are reasonably attributable to the improvements.

$$\begin{array}{l} \text{Capital gain} \\ \text{on major} \\ \text{improvement} \end{array} = \begin{array}{l} \text{proceeds} \\ \text{of sale} \\ \text{attributable to} \\ \text{improvement} \end{array} - \begin{array}{l} \text{cost base of} \\ \text{improvements} \end{array}$$

You can choose to calculate the capital gain made on the improvements using either the indexation or the discount method if:

- the improvements were made under a contract entered into before 11.45am on 21 September 1999, and
- the dwelling was sold after that time, and
- you owned the improvements for at least 12 months.

If you entered into the contract to make the improvements after 11.45am on 21 September 1999, you calculate your gain using the CGT discount of 50%.

In calculating the amount of capital proceeds to be attributed to the improvements, you must take whatever steps are appropriate to work out their value. If you make an estimate of this amount, it must be reasonable and you must be able to show how you arrived at the estimated amount.

INHERITED MAIN RESIDENCE

If you inherit a deceased person's dwelling, you may be exempt or partially exempt when a CGT event happens in relation to it. The same exemptions apply if a CGT event happens in relation to a deceased's estate of which you are the trustee. For more information, see chapter 9.

FULL EXEMPTION

Deceased died before 20 September 1985

As you acquired the dwelling before 20 September 1985, any capital gain you make is exempt. However, major capital improvements you made to the dwelling on or after 20 September 1985 may be taxable (see *Major capital improvements to a dwelling acquired before 20 September 1985* on page 59).

Deceased died on or after 20 September 1985

(a) The deceased acquired the dwelling before 20 September 1985

You may have an ownership interest in a dwelling that passed to you as a beneficiary in a deceased estate or you may have owned it as trustee of a deceased estate, whether or not the dwelling was the main residence of the deceased person. In either case, any capital gain or capital loss you make from a CGT event that happens in relation to the dwelling is disregarded if either of the following applies:

- 1 you disposed of your ownership interest within two years of the person's death. This applies whether or not you used the dwelling to produce income during the two-year period. The dwelling does not have to be your main residence during the two-year period, or
- 2 from the deceased's death until you disposed of your ownership interest, the dwelling was not used to produce income. For this period, the dwelling must also have been the main residence of one or more of:
 - a person who was the spouse of the deceased immediately before the deceased's death (but not a spouse who was permanently separated from the deceased)
 - an individual who had a right to occupy the home under the deceased's will, or
 - you, as a beneficiary – if you disposed of the dwelling as a beneficiary.

The dwelling can be the main residence of one of the above people (even though they may have ceased living in it) if they chose to treat it as their main residence under the rule *Continuing main residence status after dwelling ceases to be your main residence* (explained on page 54).

(b) The deceased acquired the dwelling on or after 20 September 1985

Any capital gain or capital loss you make when a CGT event happens in relation to a dwelling or ownership interest in a dwelling you inherit will be disregarded if:

- condition 2 in (a) above is met and the dwelling passed to you as beneficiary or trustee on or before 20 August 1996. For this to apply, the deceased must have used the dwelling as their main residence from the date they acquired it until their death, and they must not have used it to produce income, or
- one of the conditions 1 or 2 in (a) above is met and the dwelling passed to you as beneficiary or trustee after 20 August 1996, and just before the date the deceased died it was their main residence and was not being used to produce income.

A dwelling can still be regarded as the deceased's main residence even though they ceased living in it if they or their trustee chose to treat the dwelling as the deceased's main residence. This may happen if, for example, the person moved to a nursing home. You may need to contact the trustee or the deceased's tax adviser to find out whether this choice was made. If it was, the dwelling can still be regarded as the deceased's main residence:

- for an indefinite period – if the dwelling was not used to produce income after the deceased stopped living in it, or
- for a maximum of six years after they ceased living in it – if it was used to produce income after they ceased living in it.

EXAMPLE

FULL EXEMPTION

Rodrigo was the sole occupant of a home he bought in April 1990 – that is, after 20 September 1985. He did not live in, or own, another home. He died in January 1999 and left the house to his son, Petro. Petro rented out the house and then disposed of it 15 months after his father died. Petro is entitled to a full exemption from capital gains tax as he acquired the house after 20 August 1996 and disposed of it within two years of his father's death.

PART EXEMPTION

If you do not qualify for a full exemption from capital gains tax for the home you may be entitled to a part exemption.

You calculate your capital gain or capital loss as follows:

$$\text{Capital gain or loss amount} \times \frac{\text{Non-main residence days}}{\text{Total days}}$$

Non-main residence days

'Non-main residence days' is the days that the dwelling was not the main residence.

- (a) If the deceased acquired the dwelling before 20 September 1985, non-main residence days is the number of days in the period from their death until settlement of your contract for sale of the dwelling when it was not used to produce income and was not the main residence of one of the following:
- a person who was the spouse of the deceased (except a spouse who was permanently separated from the deceased)
 - an individual who had a right to occupy the dwelling under the deceased's will, or
 - you, as a beneficiary – if you disposed of the dwelling as a beneficiary.
- (b) If the deceased acquired the dwelling on or after 20 September 1985, non-main residence days is the number of days calculated under (a) plus the number of days in the deceased's period of ownership when the dwelling was not their main residence.

Total days

- (a) If the deceased acquired their ownership interest before 20 September 1985, 'total days' is the number of days from their death until you disposed of your ownership interest.
- (b) If the deceased acquired the ownership interest on or after 20 September 1985, total days is the number of days in the period from when the deceased acquired the dwelling until you disposed of your ownership interest.

EXAMPLE

PART EXEMPTION

Vicki bought a house under a contract that was settled on 12 February 1994, and she used it solely as a rental property. When she died on 17 November 1997, the house became the main residence of her beneficiary, Lesley. Lesley sold the property under a contract that was settled on 27 November 2000.

As Vicki had never used the property as her main residence, Lesley cannot claim a full exemption from capital gains tax. However, as Lesley used the house as her main residence, she is entitled to a part exemption from capital gains tax.

Vicki owned the house for 1375 days and Lesley then lived in the house for 1106 days, a total of 2481 days. Assuming Lesley made a gain of \$10 000, the taxable portion is:

$$\begin{array}{r} \$10\,000 \times \frac{1375}{2481} = \$5542 \end{array}$$

As Lesley entered into the contract to purchase the property before 11.45am on 21 September 1999 and entered into the contract to sell it after that time – and held the property for at least 12 months – she can use either the indexation or the discount method to calculate her capital gain.

There are some situations in which any non-main residence days and total days before the deceased's death are ignored in calculating the capital gain or capital loss. This happens if:

- you acquired the dwelling before 21 August 1996 and, during the full period the deceased owned it, the dwelling was their main residence and was not used to produce income, or
- you acquired the dwelling after 20 August 1996 and it was the deceased's main residence just before death and was not being used to produce income at that time.

If you disposed of your ownership interest in the dwelling within two years of the person dying, you can ignore the *main residence days* and *total days* in the period from the person's death until you dispose of the dwelling if this lessens your tax liability.

COST TO YOU OF ACQUIRING THE DWELLING

If you acquire a dwelling the deceased had owned, there are special rules for calculating your cost base. These rules apply in calculating any capital gain or capital loss when a CGT event happens in relation to the dwelling.

The first element of the cost base or reduced cost base of a dwelling – its acquisition cost – is its market value at the date of death if either:

- the dwelling was acquired by the deceased before 20 September 1985, or
- the dwelling passes to you after 20 August 1996 and it was the main residence of the deceased immediately before their death and was not being used to produce income at that date.

In any other case, the acquisition cost is the deceased's cost base or reduced cost base on the day they died.

EXAMPLE

CONTINUING MAIN RESIDENCE STATUS

Aldo bought a house in March 1995 and lived in it. He moved into a nursing home in December 1996 and left the house vacant. He chose to treat the house as his main residence after he ceased living in it under the *Continuing main residence status after dwelling ceases to be your main residence* rule (explained on page 54).

Aldo died in February 2001 and the house passed to his beneficiary, Con, who uses the house as a rental property.

As the house was Aldo's main residence immediately before his death and was not being used to produce income at that time, Con can obtain a full exemption for the period Aldo owned it.

If Con rented out the house and sold it more than two years after Aldo's death, the capital gain for the period from the date of Aldo's death until Con sold it is taxable.

If Con had sold the house within two years of Aldo's death, he could have ignored the *main residence days* and *total days* between Aldo's death and him selling it – which would have given him exemption for this period.

If Aldo had rented out the house after he ceased living in it and had chosen to treat it as his main residence under the *Continuing main residence status after dwelling ceases to be your main residence* rule (explained on page 54), the house would be considered to be his main residence until his death because he rented it out for less than six years.

However, even if this choice had been made, Con would only obtain a part exemption for the period Aldo owned the house, because it was being used to produce income just before Aldo died. Con would obtain the exemption for the period Aldo did not use the house to produce income.

Note that even though the deceased was not living in the home at the date of death, they or their trustee may have chosen to treat it as their main residence. You may need to contact the trustee or the deceased's tax adviser to find out whether this choice was made. If it was, the dwelling can still be regarded as the deceased's main residence:

- for an indefinite period – if the dwelling was not used to produce income after the deceased stopped living in it, or
- for a maximum of six years after they ceased living in it – if it was used to produce income after they ceased living in it.

If you are a beneficiary, the cost base or reduced cost base also includes amounts that the trustee of the deceased's estate would have been able to include in the cost base or reduced cost base.

DEATH DURING CONSTRUCTION

If an individual entered into a contract to construct, repair or renovate a home on land they already owned, and they die before certain conditions are met, the trustee may choose that the home and land be treated as the deceased's main residence for up to four years before the home became (or was to become) their main residence.

This choice can be made if the deceased dies:

- before the home is finished, or
- before it was practicable for the home to be their main residence, or
- before they had lived in the home for three months.

If the trustee makes this choice, no other dwelling can be treated as the deceased's main residence during that time.

ACQUISITION OF A DWELLING FROM A COMPANY OR TRUST UPON MARRIAGE BREAKDOWN

If a dwelling is transferred to you from a company or trustee of a trust under a court order as a result of your marriage breakdown, you are treated as having owned the dwelling while it was owned by the company or trustee. However, you cannot obtain the main residence exemption during any part of the period that the company or trustee owned it.

Therefore, if a dwelling is transferred to you by a company or trustee as a result of your marriage breakdown, you will be entitled to the exemption only for the period after it was transferred when it was your main residence. This is calculated by dividing the period after the transfer that it was your main residence by the combined period you and the company or trustee owned it.

For more information about CGT assets and marriage breakdown, see chapter 8.

LOSS, DESTRUCTION OR COMPULSORY ACQUISITION OF AN ASSET

This chapter explains your capital gains tax obligation if your CGT asset is lost, destroyed or compulsorily acquired. Generally, there is no capital gains tax obligation for assets acquired before 20 September 1985 (pre-CGT).

NOTE NEW TERMS

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

There may be a situation where you receive money or another CGT asset (or both) as compensation when you dispose of an asset involuntarily (or under an insurance policy against the risk of such an event happening). In this case, you may be able to choose to:

- defer your liability to pay tax on any capital gain arising on the disposal, or
- have any replacement asset treated as a pre-CGT asset if the original asset was acquired before 20 September 1985.

This concession is known as roll-over. It may be available if one of the following events happens:

- all or part of your CGT asset is lost or destroyed
- your CGT asset is compulsorily acquired by an Australian government agency (that is, the Commonwealth, a State, a Territory or one of their authorities)
- you dispose of your CGT asset to an Australian government agency after they serve a notice on you inviting you to negotiate a sale agreement. They must have informed you that, if the negotiations are unsuccessful, the asset will be compulsorily acquired, or
- a lease (that had been granted to you by an Australian government agency under a Commonwealth, State or Territory law) expires and is not renewed.

This roll-over is not available for plant disposed of after 11.45am on 21 September 1999. Instead, where the asset is lost or destroyed or an Australian government agency acquires it compulsorily or by forced negotiation, the depreciation provisions allow for a balancing charge offset.

This means that rather than including an amount in your assessable income by way of a balancing adjustment, you can offset that amount against the cost of a replacement asset (or assets).

If you choose to take roll-over, you do not need to lodge a written election stating your choice – it will be clear from the way you prepare your tax return.

You cannot defer a capital loss but you can use it to reduce any capital gain made in the current income year or a later year.

TIME OF THE CGT EVENT

You need to know the time of a CGT event to work out in which income year a capital gain or capital loss affects your income tax.

If an asset is lost or destroyed and you receive compensation, the time of the CGT event is when you first receive the compensation.

If you do not receive any compensation, the time of the CGT event is when the loss is discovered or the destruction occurred.

If an Australian government agency compulsorily acquires your asset, the time of the CGT event is when:

- you first received compensation from the agency, or
- the agency enters the asset (for example, land) or takes possession of it.

If an Australian government agency acquires your asset following negotiation (rather than compulsorily acquiring it), the time of the CGT event is:

- the date the contract to acquire it is made, or
- the date of the change of ownership if there is no contract.

If a lease that had been granted to you by an Australian government agency expires and is not renewed, the time of the CGT event is when the lease expires.

IF YOU RECEIVE MONEY

If you receive money because a CGT event happens, you can choose roll-over only if:

- you incur expenditure in acquiring another CGT asset, or
- part of the original asset is lost or destroyed and you incur expenditure of a capital nature in repairing or restoring it.

You must incur at least some of the expenditure:

- no earlier than one year before the event happens, or
- within one year after the end of the income year in which the event happens.

This period may be extended in special circumstances.

EXAMPLE

ROLL-OVER APPLIES

Trish paid for the repair of an asset for which she was compensated after part of it was destroyed on 1 September 1999. Trish's expenditure qualifies for the roll-over concession if it was incurred any time during the period 1 September 1998 to 30 June 2001.

The replacement asset need not be identical to the one it is replacing. However, for roll-over to apply, you must use it in the same business or for the same (or a similar) purpose as the one for which you used the original asset. You cannot hold as trading stock any replacement asset you acquire.

EXAMPLE

ROLL-OVER DOES NOT APPLY

Denise receives money when her manufacturing business premises are destroyed. She buys a rental property with this money.

Denise cannot access the roll-over concession because she does not use the rental property for the same or similar purpose as her old business premises.

CONSEQUENCES OF RECEIVING MONEY

If you receive money and choose to obtain a roll-over, these are the consequences.

Original asset acquired before 20 September 1985

If you acquired the original asset before 20 September 1985, you are taken to have acquired the repaired or replacement asset before that day if:

- you repair or restore it, or
- you replace it:
 - at a cost of no more than 120% of its market value at the time of the event, or
 - at any cost, provided it (or part of it) was lost or destroyed by a natural disaster and the replacement asset is substantially the same.

This means you disregard any capital gain or loss you make when a later CGT event happens to the repaired or replacement asset.

Original asset acquired on or after 20 September 1985

If you acquired the original asset on or after 20 September 1985, the way roll-over applies will depend on whether the money you received is more or less than the cost of repairing or replacing the asset. If it is more, it also depends on whether the capital gain you make when the event happens is:

- more than that excess, or
- less than or equal to that excess.

Money received is more than the cost of repair or replacement

If you do not use all of the money you received to repair or replace the original asset, this affects your capital gains tax obligation. The amount of capital gain you include in your tax return depends on whether the capital gain is more than the difference between the amount you received and the cost of the repair or replacement, or less.

If the capital gain is more than that difference, your capital gain is reduced to the amount of the excess. Include this amount in your tax return in the year the event happens. This gain may be eligible for the CGT discount (see chapter 2 for more information).

When a later CGT event happens, the expenditure to include in the cost base of the asset is reduced by the difference between the gain before it is reduced and the excess. This enables you to defer part of your capital gains tax liability until a later CGT event happens.

If the capital gain is less than or equal to the excess (the compensation amount less the cost of the repair or replacement), the capital gain and the expenditure on the repair or replacement are not reduced.

Money received does not exceed the cost of repair or replacement

If the amount of money you received is less than or equal to the expenditure you incurred to repair or replace the original asset, any capital gain is disregarded. The expenditure you include in the cost base of the asset when a later CGT event happens is reduced by the amount of the gain. Again, the capital gain is deferred.

EXAMPLE

MONEY RECEIVED IS LESS THAN EXPENDITURE INCURRED

Gerard's business premises were destroyed by fire on 15 March 2001. He received \$46 000 in compensation from his insurance company.

It cost him \$57 000 to reconstruct the premises, \$11 000 more than the amount of compensation he received.

Gerard made a capital gain of \$2000 because his cost base for the building was \$44 000 at the time of the fire.

	\$
Money received	46 000
Cost base	44 000
Capital gain	2 000
Money received	46 000
Replacement expenditure	57 000
Shortfall	11 000

As the compensation money does not exceed the repair expenditure, the capital gain is disregarded. However, the amount of expenditure that Gerard can include in the cost base of the repaired building is reduced by the amount of the capital gain (\$2000) to \$55 000.

EXAMPLE

MONEY RECEIVED IS MORE THAN THE EXPENDITURE INCURRED

On 28 December 2000, Patrick received \$120 000 from his insurance company in compensation for the loss of his yacht, which sank on 22 October 2000 after hitting a reef and could not be salvaged. He spent \$110 000 to purchase a replacement yacht.

Patrick made a capital gain (non-indexed) of \$15 000 on the original yacht. This was the difference between the cost base of \$105 000 and the amount he received from the insurance company.

	\$
Money received	120 000
Cost base	105 000
Capital gain	15 000
Money received	120 000
Replacement expenditure	110 000
Excess	10 000

The compensation money (\$120 000) is \$10 000 more than the replacement expenditure (\$110 000). The capital gain (\$15 000) is \$5000 more than the excess of \$10 000. The capital gain is reduced to the excess amount of \$10 000 and Patrick must include this amount as a capital gain in his assessable income in his 2000–01 tax return.

If Patrick is eligible for the CGT discount of 50%, the \$10 000 excess is Patrick's nominal capital gain. Therefore, Patrick must include \$5000 (\$10 000 × 50%) in the calculation of his net capital gain/loss for the 2000–01 income year.

As well, the expenditure he incurred on the replacement asset is reduced by the balance of the capital gain (\$5000) to \$105 000. This means \$5000 of the capital gain is deferred.

IF YOU RECEIVE AN ASSET

If you receive a replacement asset when the event happens, you can choose a roll-over only if:

- the replacement asset is not held as trading stock when you acquire it, and
- the market value of the replacement asset is more than the cost base of the original asset just before the event happened.

CONSEQUENCES OF RECEIVING AN ASSET

If you choose to obtain a roll-over when you receive a replacement asset, any capital gain you make from the original asset is disregarded. The other consequences are outlined below.

Original asset acquired before 20 September 1985

If you acquired the *original* asset before 20 September 1985, you are taken to have acquired the *new* asset before that day.

Original asset acquired on or after 20 September 1985

If you acquired the original asset on or after 20 September 1985, the first element of the cost base or reduced cost base of the replacement asset is taken to be the cost base or reduced cost base of the original asset at the time of the event.

EXAMPLE

ASSET RECEIVED

Jon acquired land after 19 September 1985 that the State Government compulsorily acquired on 14 July 2000. The cost base of the land at the time it was compulsorily acquired was \$180 000. As compensation, Jon received another piece of land with a market value of \$200 000.

Because the market value of the replacement land was greater than the cost base of the original land just before it was compulsorily acquired, the capital gain Jon made on the disposal of the original land is disregarded. Jon is taken to have paid \$180 000 to acquire the replacement land (that is, the cost base of the original land at the time it was compulsorily acquired).

IF YOU RECEIVE BOTH MONEY AND AN ASSET

If you receive both money and an asset and choose to take a roll-over, the requirements and consequences are different for each part of the compensation.

EXAMPLE

MONEY AND AN ASSET RECEIVED AS COMPENSATION

The State Government compulsorily acquires land Kris bought in 2000. Its cost base at the time is \$150 000 but Kris receives compensation worth \$160 000.

Half of the total compensation is money (\$80 000) and half is replacement land (market value \$80 000). Therefore, the cost base of the original land attributable to each part of the compensation is \$75 000 (50% x \$150 000). Kris buys additional replacement land for \$82 000.

The total capital gain is \$10 000, which is capital proceeds of cash and property totalling \$160 000 less the cost base of \$150 000. Half of this capital gain can be attributed to the money and half to the asset (the replacement land).

The money Kris received as compensation is less than the amount he paid to buy the additional land. He can therefore disregard the \$5000 of the capital gain that is attributable to the money compensation. The expenditure on the additional land is reduced by \$5000, so the first element of its cost base is only \$77 000.

As the market value of the replacement land is more than that part of the cost base of the original land, Kris can choose to take roll-over relief and disregard the capital gain of \$5000 relating to the land.

As a result, the value of the replacement land (\$75 000) forms the first element of its cost base, not its market value (\$80 000) when it was acquired.

CONSEQUENCES OF RECEIVING BOTH MONEY AND AN ASSET

You need to separately determine what happens in relation to the replacement asset and the money, having regard to the proportion of the original asset attributable to each type of compensation.

The rules described above are then applied separately to the money and to the asset.

INDEXATION

If a CGT event happens to the replacement asset (for example, a later disposal), you may be able to use the indexation method or the discount method to calculate your capital gain. This applies only if the periods of ownership of the original asset and the replacement asset add up to at least 12 months. For indexation to apply, you must have acquired the asset before 21 September 1999.

MARRIAGE BREAKDOWN

Read this chapter if your legal or de facto marriage ended on or after 20 September 1985 and:

- you transfer an asset to, or receive an asset from, your spouse, or
- a company or trustee of a trust transfers an asset to you or your spouse.

NOTE NEW TERMS

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

When we talk about 'your spouse', this includes your de facto spouse, while 'transfer of an asset' includes disposing of an asset to the transferee spouse or 'creating' an asset in their favour.

The term 'transferee spouse' refers to the spouse to whom an asset is transferred, while the 'transferor' is the person (or a company or the trustee of a trust) who transfers an asset to the transferee spouse.

As a general rule, capital gains tax applies to all changes of ownership of assets on or after 20 September 1985. However, if you transfer an asset to your spouse as a result of a marriage breakdown, there is automatic roll-over in certain cases (you cannot choose whether or not it applies).

This roll-over allows you to disregard a capital gain or capital loss that would otherwise arise. In effect, the one who receives the asset (the transferee spouse) will make the capital gain or loss when they dispose of the asset. If you are the transferee spouse, certain attributes of the asset are transferred to you as a result.

You must keep all relevant records, as explained in chapter 3.

CONDITIONS FOR MARRIAGE BREAKDOWN ROLL-OVER

For the roll-over conditions to be met, a CGT event must happen because of:

- an order of a court or court order made by consent under the *Family Law Act 1975* or a similar law of a foreign country, or
- a maintenance agreement approved by a court under section 87 of that Act or a similar agreement under a foreign law, or
- a court order under a State, Territory or foreign law relating to de facto marriage breakdowns.

Please note that maintenance agreements registered under section 86 of the *Family Law Act 1975* are excluded.

RELEVANT CGT EVENTS

For roll-over to apply, one of the following events must happen.

In the case of 'disposing' of an asset, the transferor:

- disposes of an asset to the transferee spouse (CGT event A1), or
- enters into an agreement with the transferee spouse under which:
 - the right to use and enjoy a CGT asset passes to them, and
 - title in the asset will, or may, pass to them at the end of the agreement (CGT event B1). There is no roll-over if title in the CGT asset does not pass to them when the agreement ends.

In the case of 'creating' an asset, the transferor:

- creates a contractual or other right in favour of the transferee spouse (CGT event D1)
- grants an option to the transferee spouse or renews or extends an option granted to them (CGT event D2)
- owns a prospecting or mining entitlement, or an interest in one, and grants the transferee spouse a right to receive income from operations carried on by the entitlement (CGT event D3), or
- is a lessor and grants, renews or extends a lease to the transferee spouse (CGT event F1).

There is no roll-over for the transfer of trading stock.

CONSEQUENCES OF ROLL-OVER

WHERE YOU TRANSFER THE ASSET

Where you transfer the asset the consequences of roll-over are:

- *for assets acquired before 20 September 1985:* any capital gain or capital loss is disregarded, and
- *for assets acquired on or after 20 September 1985:* marriage breakdown roll-over enables you to disregard any capital gain or capital loss you make from the CGT event that involves you and the transferee spouse.

WHERE THE ASSET IS TRANSFERRED TO YOU

Disposal cases

Assets acquired before 20 September 1985

Capital gains tax does not apply to assets acquired before 20 September 1985. This means that if a CGT asset, including a share of a jointly owned asset, was transferred to you because of the breakdown of your marriage and it was acquired by the transferor before this date, you are also taken to have acquired the asset before that date and any capital gain or loss is disregarded.

However, if you make a major capital improvement to that asset after 20 September 1985, you may be subject to capital gains tax when a CGT event happens to that asset (see *Capital improvements to pre-CGT assets* on page 9).

Assets acquired on or after 20 September 1985

The rules are different if the asset was acquired by the transferor on or after 20 September 1985. In this case, if you receive the CGT asset (or a share of a jointly owned asset) and there is a marriage breakdown roll-over, you are taken to have acquired the asset at the time you received it from your spouse (or the company or trustee).

To calculate your capital gain or capital loss when a later CGT event happens, you will start with the same cost base or reduced cost base as your spouse (or the company or trustee) at the time of the transfer.

Transfer costs incurred by your spouse (or the company or trustee), for example conveyancing fees and stamp duty, are included in the cost base.

If you acquired the asset before 11.45am on 21 September 1999, you may be able to use the indexation method when calculating your capital gain.

If you acquired the asset after 11.45am on 21 September 1999, you cannot use the indexation method when calculating your capital gain but you may be able to use the discount method.

If you receive your spouse's share of property that you jointly owned, you are taken to have acquired that share of the property at the time it was transferred.

Collectables or personal use assets remain collectables or personal use assets when they are transferred from your spouse (or the company or trustee) in the case of a marriage breakdown roll-over. For information about collectables and personal use assets, see *What is a CGT asset?* on page 4.

Creation cases

As explained earlier, there are several instances where your spouse (or a company or trustee) may create an asset in your favour. The table below explains how to calculate the first element of your cost base or reduced cost base in each case.

CGT event	Cost base or reduced cost base
Creating contractual or other rights (D1)	Incidental costs incurred by the transferor that relate to the event
Granting an option (D2)	Expenditure incurred by the transferor to grant the option
Granting a right to income from mining (D3)	Expenditure incurred by the transferor to grant the right
Granting a lease (F1)	Expenditure incurred by the transferor on the grant renewal or extensions of the lease

You are taken to have acquired the asset at the time specified by the CGT event. For example, for CGT event D1, you acquire the asset at the time you enter into the contract or, if there is no contract, the time the right is created. For more information, see the summary of CGT events at appendix 3.

CGT ASSETS TRANSFERRED BY A COMPANY OR TRUST

If a CGT asset is transferred to a transferee spouse by a company or a trustee of a trust, adjustments are required to the relevant cost base or reduced cost base of interests in the company or trust. These may be shares (or indirect interests in shares) in the company, units in a unit trust and other interests in the trust. They are reduced in value by an amount that reasonably reflects the fall in their market value as a result of the transfer of the CGT asset.

EXAMPLE

TRANSFER OF ASSETS FROM A LEGAL OR A DE FACTO MARRIAGE

Danny and Claudia jointly owned the following assets immediately before their marriage breakdown:

Asset	When purchased	Cost
The family home	January 1985	\$75 000
Holiday house	December 1988	\$65 000
Shares in a company	March 1999	\$35 000

On their divorce in October 2000, the Family Court approved the couple's voluntary asset agreement and made an appropriate court order by consent.

Claudia received the family home. Because it was acquired by the couple before 20 September 1985, she is taken to have acquired both her original interest in the home and Danny's share before that date. Claudia would not have to pay tax on capital gains when she sells the home.

Danny has no capital gains tax obligation in relation to the transfer to Claudia of his share in the family home.

Danny received the shares and the holiday house, which did not become his home.

Although the couple acquired these assets after 20 September 1985, as a result of the court order Claudia does not have to pay any tax on the capital gain on the transfer of her share of these assets to Danny.

Danny is taken to have acquired Claudia's share of these assets, at the time of transfer, for her relevant cost base. If he were to sell the holiday home or the shares, he would calculate his capital gain or capital loss in respect of his original interest and the interest he acquired from Claudia.

Danny can choose to apply the indexation method or the discount method to work out the amount of any capital gain from his original interest because it was acquired before 21 September 1999.

Because he acquired Claudia's interest after that date he can only choose the discount method to work out any gain in relation to it. However, in applying the 12-month ownership test for the purposes of the CGT discount, he can take into account the period that Claudia owned the interest.

Special rules apply to marriage breakdown roll-overs involving a controlled foreign corporation or certain non-resident trusts.

For more information, refer to the sources listed at the back of this guide.

MAIN RESIDENCE

If the CGT asset transferred in a marriage breakdown roll-over is your home, you may be entitled to an exemption from capital gains tax for the period the home was your main residence (see chapter 6 for more information).

WHERE THERE IS NO COURT APPROVAL

If you and your spouse divide your property by some means other than because of a court order or an agreement approved by the court, normal capital gains tax rules apply – not the rules above. You must include in your tax return for that year any capital gain or capital loss you make on the transfer of a CGT asset. The spouse to whom the asset is transferred is taken to have acquired the asset at the time of transfer.

Special rules may apply if the amount paid by one spouse for property owned by the other is greater or less than the market value of the property and they are not dealing at arm's length. In these cases, for capital gains tax purposes, they are taken to have paid or received respectively the market value of the property.

ASSETS OF A DECEASED ESTATE

If you are a deceased person's legal personal representative or a beneficiary of a deceased estate, you should read this chapter to find out about the special capital gains tax rules that apply.

NOTE NEW TERMS

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

When a person dies, the assets that make up their estate can:

- pass directly to a beneficiary (or beneficiaries), or
- pass directly to their legal personal representative (for example their executor), who may dispose of the assets or pass them to the beneficiary (or beneficiaries).

A beneficiary is a person entitled to assets of a deceased estate. They can be named as a beneficiary in a will or they can be entitled to the assets as a result of the laws of intestacy (when the person does not make a will).

A legal personal representative can be either:

- the executor of a deceased estate (that is, a person appointed to wind up the estate in accordance with the will), or
- an administrator appointed to wind up the estate if the person does not leave a will.

A SPECIAL RULE

There is a general rule that capital gains tax applies to any change of ownership of a CGT asset, unless the asset was acquired before 20 September 1985 (pre-CGT).

There is a special rule that allows any capital gain or capital loss made on a post-CGT asset to be disregarded if, when a person dies, an asset they owned passes:

- to their legal personal representative or to a beneficiary, or
- from their legal personal representative to a beneficiary.

Any capital gain or capital loss can also be disregarded if the person makes a testamentary gift of property (that is not land or a building) to a public library, a museum or an art gallery in Australia. This also applies to a testamentary gift to the Australian Fund (under the Cultural Bequests Program), as long as the Minister for Communications and the Arts certifies that the gift meets the specific requirements of the program.

EXCEPTIONS TO THIS SPECIAL RULE

A capital gain or capital loss is not disregarded if a post-CGT asset owned at the time of death:

- passes from the deceased to a tax-advantaged entity or to a non-resident, or
- is transferred from their legal personal representative to an entity that is not a beneficiary.

TAX-ADVANTAGED ENTITY

A tax-advantaged entity is:

- a tax-exempt entity (for example, a church or charity), or
- the trustee of:
 - a complying superannuation fund
 - a complying approved deposit fund, or
 - a pooled superannuation trust.

If an asset that is part of a deceased estate passes to a tax-advantaged entity, a CGT event is taken to have happened in relation to the asset just before the person died. If this happens, the CGT event will result in:

- a *capital gain* if the market value of the asset on the day the person died is more than the cost base of the asset, or
- a *capital loss* if the market value is less than the asset's reduced cost base.

A 'date of death return' should be lodged (for the period from the start of the income year to the date of the person's death) showing any capital gain or capital loss. It is the trustee of the deceased estate, not the tax-advantaged beneficiary, who pays tax on any net capital gain.

NON-RESIDENT BENEFICIARY

If a non-resident is a beneficiary of a deceased's post-CGT asset, any capital gain or capital loss is not disregarded if:

- the deceased was an Australian resident when they died, and
- the asset does not have the necessary connection with Australia.

Examples of assets that have the necessary connection with Australia include:

- real estate located in Australia, and
- shares in an Australian resident private company.

In this case, a CGT event happens in relation to the asset owned at the time of a person's death. If the market value of the asset on the date of death is:

- more than the asset's cost base, a capital gain is made, or
- less than the asset's reduced cost base, a capital loss is made.

Any capital gain or capital loss is included in the date of death return. Again, it is the trustee of the deceased estate, not the non-resident beneficiary, who pays tax on any net capital gain.

ASSETS WHICH PASS TO THE BENEFICIARY OR LEGAL PERSONAL REPRESENTATIVE

MAIN RESIDENCE

Special rules apply if the asset was the person's main residence (see *Inherited main residence* on page 60).

OTHER ASSETS

The only capital gain or capital loss that is disregarded relates to an asset the person held when they died and which passes under a will or on intestacy to a legal personal representative or beneficiary.

The special rule that disregards a capital gain or capital loss in certain circumstances depends on whether death occurred before, on or after 20 September 1985 (see above).

In administering and winding up a deceased estate, a legal personal representative may need to dispose of some or all of the assets of the estate. Assets disposed of in this way are subject to the normal rules, and any capital gain the legal personal representative makes on the disposal is subject to capital gains tax.

Similarly, it may be necessary for the legal personal representative to acquire an asset (for example, to satisfy a specific legacy made). Any capital gain or capital loss they make on disposal of that asset is subject to the normal capital gains tax rules.

If a beneficiary sells an asset they have inherited, the normal capital gains tax rules also apply.

Death before 20 September 1985

If a person died before 20 September 1985, their beneficiary (or the legal personal representative) is taken to have acquired the asset on the date of their death.

Death on or after 20 September 1985

If a person died on or after 20 September 1985, a beneficiary (or the legal personal representative) needs to know the following information before they can calculate any capital gain or capital loss when a later CGT event happens (for example, if you sell the asset as a beneficiary of an estate).

Assets acquired before 20 September 1985

If a person acquired their asset before 20 September 1985 and you become their beneficiary (or the legal personal representative), you are taken to have acquired the asset on the day the person died.

The first element of the cost base or reduced cost base (that is, the amount taken to have been paid for the asset) is the market value of the asset on the day the person died.

If, before they died, a person made a major improvement to a pre-CGT asset on or after 20 September 1985, the improvement is not treated as a separate asset.

The beneficiary or legal personal representative is taken to have acquired the improved asset when the person died. Although the deceased used to treat the asset and the improvement as separate assets, the beneficiary or legal personal representative now treats them as one asset.

Assets acquired on or after 20 September 1985

If a person acquired their asset on or after 20 September 1985 and you become a beneficiary (or the legal personal representative) of their deceased estate, you are taken to have acquired the asset on the day the person died.

The first element of your cost base or reduced cost base is taken to be the cost base (indexed where relevant) or reduced cost base of the asset on the day the person died.

Expenditure incurred by a legal personal representative

As a beneficiary, you can include in your cost base (or reduced cost base) any expenditure the legal personal representative (for example the executor) would have been able to include in their cost base if they had sold the asset instead of distributing it to you. You can include the expenditure on the date they incurred it.

CHOOSING THE INDEXATION OR DISCOUNT METHODS

If you become the beneficiary (or legal personal representative) of a deceased estate on or before 11.45am on 21 September 1999, there are two ways of calculating your capital gain. You can use either the indexation method or the discount method, whichever gives you the best result.

As a general rule, elements of the estate's cost base of an asset can be indexed if you own the asset for at least 12 months before disposing of it. If you receive an asset from an estate, the 12-month period is measured from the time the deceased acquired the asset, not from the date of their death.

If you acquired the asset on or before 11.45am on 21 September 1999 but dispose of the asset after that time, you may choose to either index the cost base or claim the CGT discount.

However, the CGT discount is only available if you are an individual, a trust or a complying superannuation entity.

For the CGT discount to apply, you must have acquired the asset at least 12 months before disposing of it. For the purposes of this 12-month ownership test, you are taken to have acquired the asset at one of the following times:

- for pre-CGT assets, the date the deceased died, and
- for post-CGT assets, the date the deceased acquired it.

EXAMPLE

TRANSFER OF AN ASSET FROM THE EXECUTOR TO A BENEFICIARY

Maria died on 13 October 1999 leaving two assets: a parcel of 2000 shares in ABC Ltd and a vacant block of land. Giovanni was appointed executor of the estate (the legal personal representative).

When the assets are transferred to Giovanni, any capital gain or capital loss is disregarded. Giovanni disposes of (sells) the shares to pay Maria's outstanding debts. As the shares are not transferred to a beneficiary, any capital gain or capital loss on this disposal must be included in the tax return for Maria's deceased estate.

When all debts and tax have been paid, Giovanni transfers the land to Maria's beneficiary, Antonio, and pays the conveyancing fee of \$5000. As the land is transferred to a beneficiary, any capital gain or capital loss is disregarded. The first element of Antonio's cost base is taken as Maria's cost base on the date of her death. Antonio is also entitled to include in his cost base the \$5000 Giovanni spent on the conveyancing.

EXAMPLE

INDEXATION AND CGT DISCOUNT

Leonard acquired a property on 14 November 1998 for \$26 000. He died on 6 August 1999 and left the property to Gladys. She sold the property on 6 July 2000 for \$40 000. The property was not the main residence of either Leonard or Gladys.

Although Gladys acquired the property on 6 August 1999, for the purpose of determining whether she had owned the property for at least 12 months, she was taken to have acquired it on 14 November 1998 (the day Leonard acquired it).

At the time of disposal, Gladys is taken to have owned the property for more than 12 months. As she acquired it before 11.45am on 21 September 1999 and disposed of it after that date, Gladys could choose to index the cost base. However, if the discount method gave her a better result, she may have chosen to claim the CGT discount.

COLLECTABLES AND PERSONAL USE ASSETS

A post-CGT collectable or personal use asset is still treated as such when you receive it as a beneficiary in, or the legal personal representative of, the estate.

JOINT TENANTS

If two or more people acquire a property asset together, it can be either as joint tenants or as tenants in common.

If one of the joint tenants dies, their interest in the property passes to the surviving joint tenant(s). It is not an asset of the deceased estate.

If a tenant in common dies, their interest in the property is an asset of their deceased estate. This means it can be transferred only to a beneficiary of the estate or be sold (or otherwise dealt with) by the legal personal representative of the estate.

For capital gains tax purposes, if you are a joint tenant, you are treated as if you are a tenant in common owning equal shares in the asset.

However, if one of the other joint tenants dies, on that date their interest in the asset is taken to pass in equal shares to you and any other surviving joint tenants, as if their interest is an asset of their deceased estate and you are beneficiaries.

The cost base rules relating to other assets of the deceased estate apply to their interest in the asset or the equal share of it which passes to you and any other surviving joint tenants.

For the indexation and discount methods to apply, you must have owned the asset (or your share of it) for at least 12 months. As a surviving joint tenant, for the purposes of this 12-month test, you are taken to have acquired the deceased's interest in the asset (or your share of it) at the time the deceased person acquired it.

EXAMPLE

CAPITAL GAINS TAX AND JOINT TENANTS

Trevor and Kylie acquired land as joint tenants before 20 September 1985. Trevor died in October 2000. For capital gains tax purposes, Kylie is taken to have acquired Trevor's interest in the land at its market value at the date of his death.

Kylie holds her original 50% interest as a pre-CGT asset, and the inherited 50% interest as a post-CGT asset which she is taken to have acquired at its market value at the date of Trevor's death.

If Kylie sold the land within 12 months of Trevor's death, she would qualify for the CGT discount on any capital gains she makes on her post-CGT interest. She qualifies because, for the purposes of the 12-month ownership test for CGT discount to apply, she is taken to have acquired Trevor's interest before 20 September 1985, when he acquired it.

PRIOR YEAR NET CAPITAL LOSSES

If the deceased had any unapplied net capital losses when they died, these cannot be passed on to you as the beneficiary or legal personal representative for you to offset against any net capital gains.

COMPLETING ITEM 17 – INDIVIDUALS

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Step 1	Types of CGT assets and CGT events
Step 2	Calculate your current year capital gain or capital loss for each CGT asset or CGT event
Step 3	Total current year capital gains – label H item 17
Step 4	Capital losses
Step 5	Current year capital losses applied
Step 6	Prior year capital losses
Step 7	Applying the CGT discount
Step 8	Working out your net capital gain – label A item 17
Step 9	Capital losses carried forward to later income years – label V item 17

SIGN POST

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

Are you an individual?	Read part B of this guide, and only read part C if you need help completing the sample worksheets.
Are you a company, trust or fund?	Read part C of this guide first. The steps outlined will show you whether you need to read section 1 or section 2 or both.
Do you expect your entity's total capital gains or total capital losses for the current year to be \$10 000 or less?	Work through section 1 of part C. You only need to refer to section 2 of part C if your entity's total capital gains or total capital losses are greater than \$10 000 in 2000–01.
Do you expect your entity's total capital gains or total capital losses for the current year to be greater than \$10 000?	Work through section 2 of part C. You will be referred back to section 1 of part C if you need help with the worksheets.

INTRODUCTION

Read part B if you are an individual who has made a capital gain or capital loss in 2000–01 from a distribution from a unit trust (including a managed fund) or the sale of assets for example:

- a rental property
- land
- collectables
- shares, or
- units in a managed fund.

If you have made a capital gain or capital loss from the sale of just a few shares or units, or from distributions from managed funds, you may find it easier to use the *Personal investors guide to capital gains tax*, available from the sources listed at the back of this guide.

The steps below explain how to calculate your net capital gain or loss for 2000–01 and complete item 17 (Capital gains) in the *2001 tax return for individuals (supplementary section)*.

NOTE NEW TERMS

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

Chapter 2 in part A explains how to calculate a capital gain or capital loss for each CGT event or asset using the *Capital gain or loss worksheet* that you can tear out from the back of this guide. For most individuals, this worksheet is all you will need to work out what needs to be included at item 17 in your tax return.

If you have a large number of these worksheets due to having several CGT events, you may wish to use the *CGT summary worksheet* (also at the back of this guide) to help you calculate your net capital gain or net capital loss. Go to section 1b in part C of this guide to find out how to complete the *CGT summary worksheet* and then item 17 in your tax return.

STEP 1 Types of CGT assets and CGT events

Certain capital gains and capital losses (that is, collectables and personal use assets) are treated differently when calculating your net capital gain or net capital loss. See chapter 1 in part A for explanations of these assets and how they are treated under capital gains tax.

The records of your CGT events need to be separated into the following three categories:

- collectables (for example, jewellery)
- personal use assets (for example, a boat you use for recreation)
- other CGT assets or CGT events, including distributions of capital gains from managed funds.

STEP 2 Calculate your current year capital gain or capital loss for each CGT asset or CGT event

Calculate whether you have made a capital gain or capital loss as a result of each CGT event that has happened during the year. The sample *Capital gain or loss worksheet* at the back of this guide can help you work this out.

In calculating your capital gain, you will use one of the following three methods for each asset:

- indexation method
- discount method, or
- 'other' method.

See chapter 2 in part A for a full explanation of these methods and how to use them to calculate your capital gain or capital loss for each CGT event.

NOTE CHOOSING WHICH METHOD TO USE

For a CGT event that happens after 11.45am on 21 September 1999 to a CGT asset that you acquired at or before that time, you can choose to use either the indexation or the discount method to calculate your capital gain if you have owned the asset for at least 12 months. If you bought and sold your asset within 12 months, you must use the 'other' method to calculate your capital gain.

For most assets, you can use a different method to calculate the capital gain for each CGT event, but with a distribution from a trust you must use the same method as the trust. For more information, see chapter 4 in part A.

If you received (or are entitled to receive) a distribution from a trust that includes a net capital gain, you also need to include this amount here in your total capital gains. Do not include this amount as a distribution from the trust at item 12 – *Partnerships and trusts* in your tax return. For more information about distributions or events involving trusts, see chapter 4 in part A.

NOTE CONCESSIONS THAT MAY APPLY

There are special rules if the trust's net capital gain was reduced by the CGT discount or by applying the small business 50% active asset reduction (or both). The trust should advise you if it has claimed either (or both) of these concessions as you will need to adjust the amount of the net capital gain to be included in your total capital gains (see chapter 4 in part A for more information).

STEP 3 Total current year capital gains – label H item 17

If you do not have any capital gains from collectables, add up all your capital gains from step 2 and show this amount at label H – Total current year capital gains.

If you have a capital gain from collectables, deduct any losses from collectables (including prior year losses from collectables). Do not deduct any other capital losses from other capital gains at this stage. Any capital gain remaining is added to all personal use asset capital gains and other capital gains from step 2. Show the total amount at label H item 17.

If your capital gains from collectables were reduced to zero when you applied your losses from collectables – and you still have capital losses from collectables remaining – make a note of this amount. This loss can be carried forward to future years and will be recorded at label V – Net capital losses carried forward to later income years (see step 9).

STEP 4 Capital losses

If you have no current year capital losses or prior year net capital losses, go to step 7. Otherwise, read on.

From your *Capital gain or loss worksheets*, add up all your capital losses for 2000–01 and make a note of this amount. Remember that you do not include:

- capital losses from personal use assets
- capital losses from collectables, or
- capital losses that are disregarded.

If you have a current year capital loss, go to step 5.

If you have only prior year net capital losses and no capital gains, go to step 6.

STEP 5 Current year capital losses

Work out your total current year capital losses from your *Capital gain or loss worksheets*. These capital losses can reduce any capital gains you made during the year to determine your net capital gain if the losses do not include:

- assets you acquired before 20 September 1985
- personal use assets
- collectables, or
- other losses that are disregarded.

EXAMPLE

SALE OF SHARES AND COLLECTABLES

Kathleen sold some assets during the year and has the following capital gains and losses for 2000–01:

Capital gain on the sale of 1000 shares sold on 17 December 2000 for \$6 each.

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

Capital gain = \$6000 – \$3000 = \$3000

Kathleen chooses to calculate her capital gain using the discount method.

Capital gain on the sale of 130 shares sold on 27 February 2001 for \$8 each.

Kathleen bought these shares on 10 October 2000 and each has a cost base of \$4 (including incidental costs of acquisition and disposal).

As the asset was bought and sold within 12 months, Kathleen must use the 'other' method to calculate her capital gain on these shares:

$$130 \times \$8 = \$1040 - (130 \times \$4) = \$520$$

Capital loss on the sale of jewellery sold on 1 April 2001 for \$1000.

Kathleen bought this jewellery for \$1500 and sold it for \$1000 six months later.

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

$$\$1000 - \$1500 = -\$500$$

Kathleen takes the following steps to complete item 17.

Firstly, Kathleen shows her total current year capital gain of \$3520 (\$3000 + \$520) at label H. Her total current year capital gain is the amount before deducting any losses or applying the CGT discount. If Kathleen had made a net capital gain on her collectables (jewellery), this would also have been included here.

Next, Kathleen notes her collectables capital loss in her *Capital gain or loss worksheet* or on a separate piece of paper. Although she made a net capital loss from collectables, she cannot reduce her other capital gains by this amount. However, she can carry this amount over so that if she makes a gain from that type of asset in the future, she can deduct this loss from her gain in a later tax return. If Kathleen has no other capital losses from current or prior years, she will now show the amount of \$500 at label V – Net capital losses carried forward to later income years.

Kathleen still has to complete label A – Net capital gain.

EXAMPLE

CAPITAL LOSS ON THE SALE OF SHARES

Using the facts from our earlier example, we will also assume that Kathleen has the following to consider:

Capital loss on the sale of 600 shares sold on 25 June 2001 for \$3 each.

Kathleen had bought these shares on 10 October 2000 and each has a reduced cost base of \$4 (including incidental costs of acquisition and disposal).

$$\begin{array}{rcl} & \$ & \\ 600 \times \$3 & = & 1800 \\ 600 \times \$4 & = & 2400 \\ & - & 600 \end{array}$$

Kathleen now has a \$600 loss she can use to deduct from her capital gains. From the earlier example, we know Kathleen has a \$3000 capital gain using the discount method.

She has another gain of \$520 that she calculated using the 'other' method. Kathleen chooses to deduct the first \$520 against the 'other' method capital gain and to deduct the remaining \$80 from the discount method capital gain as this will give her the best result:

	\$
'Other' method capital gain	520
Capital loss of	<u>- 600</u>
	- 80
Discount method capital gain	3000
Capital loss of	<u>- 80</u>
	2920

Kathleen makes a note that she has discount method capital gains of \$2920.

When applying your current year capital losses, you can choose the method that gives you the best result to reduce your current year capital gains. While you will need to consider your own situation, for most people the order that usually provides the greatest benefit and the smallest net capital gain is:

1. other method
2. indexation method
3. discount method.

Deduct your current year capital losses from your current year capital gains and make a note of any capital gains remaining.

If you have an amount of unapplied capital losses, you will need to keep a record of any excess current year capital losses from collectables and other CGT assets that were not applied to reduce your capital gains. These amounts can be carried over and used to reduce your future capital gains. If you have reduced your capital gains to zero, print '0' at label A – Net capital gain.

STEP 6 Prior year net capital losses

If you do not have any prior year net capital losses, go to step 7. Otherwise, read on.

You can further reduce your current year capital gains by applying any prior year net capital losses.

Prior year net capital losses must be applied in the order you made them (for example, use a net capital loss from 1997–98 before you use any net capital loss made in 1998–99. You can then choose which method to use to calculate your capital gains according to which one gives you the best result. Again, for most people the order that usually provides the greatest benefit and the smallest net capital gain is:

1. other method
2. indexation method
3. discount method.

Deduct your prior year capital losses from your remaining current year capital gains and make a note of any capital gains remaining.

If you have an amount of unapplied capital losses, you will need to keep a record of any excess capital losses from collectables and other CGT assets that were not applied to reduce your capital gains. These amounts can be carried over and used to reduce your future capital gains. If you have reduced your capital gains to zero, print '0' at label A.

EXAMPLE

PRIOR YEAR NET CAPITAL LOSSES

Following on from our earlier example, let us also now assume that Kathleen has the following to consider:

Kathleen has a prior year capital loss of \$400 that is not a capital loss from collectables or personal use assets.

In our example so far, Kathleen applied her current year capital loss and had \$2920 of discount capital gains remaining. Taking this example further, Kathleen would now also deduct the prior year net capital loss of \$400 from her discount method capital gain of \$2920:

$$\$2920 - \$400 = \$2520$$

This leaves \$2520 of discount method capital gains.

Kathleen *must* use all current year capital losses and prior year net capital losses *before* applying the CGT discount of 50%. In this example, the amount at label V is still \$500 because this is what she will carry forward as losses from collectables in future income years.

STEP 7 Applying the CGT discount

The discount percentage of 50% for individuals can only be applied to those capital gains calculated using the discount method. If you have used the indexation method or the 'other' method, you *cannot* apply the discount to those capital gains.

If you had any capital losses, these should have been taken off your capital gains in step 5 or step 6. If there is any remaining current year capital gain for which you used the discount method, you can now reduce this by 50% to arrive at your total discount method capital gains.

EXAMPLE

TOTAL DISCOUNT METHOD CAPITAL GAINS

From our earlier example, we know Kathleen had discount method capital gains of \$2520 after applying relevant capital losses. She works out her total discount method capital gains by multiplying her gain by the CGT discount of 50%:

$$\$2520 \times 50\% = \$1260$$

NOTE SMALL BUSINESS CONCESSIONS

If you are a small business, you may qualify for one or more of the CGT small business concessions. These include the 50% active asset reduction, small business roll-over relief and the small business retirement exemption. You can apply these concessions now to the amount after step 7 to arrive at your label A amount. You may apply the concessions to both discount method capital gains and 'other' method capital gains.

If both the CGT discount and the small business 50% active asset reduction apply, the capital gain (after being reduced by any capital losses to be applied) is effectively reduced by 75% in total.

For more information, obtain a copy of the publication *Capital gains tax concessions for small business* from the sources listed at the back of this guide.

STEP 8 Working out your net capital gain – label A item 17

From the amount you have shown at label H, deduct any of the following amounts that you have worked out:

- step 5 – current year capital losses
- step 6 – prior year net capital losses, and/or
- step 7 – discount amount.

The amount remaining is your net capital gain, which you show at label A.

If you have capital losses that have reduced your capital gains to zero, print '0' at label A. If you have any capital losses remaining after reducing your capital gains, you can carry these forward to future years (see step 9). This does not apply to the current year capital losses listed in step 5.

EXAMPLE

NET CAPITAL GAIN – LABEL A ITEM 17

Kathleen has deducted her current year capital losses from her capital gains in the order that gives her the best result. She deducted her \$600 capital loss from her \$520 capital gain (as this gain is not eligible for the CGT discount because she owned the shares for less than 12 months) and the remainder from her other \$3000 capital gain:

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

$$\$3000 - \$80 = \$2920$$

Kathleen has deducted her prior year capital losses in the order that gives her the best result. As she only had discount capital gains left, the \$400 prior year capital loss was deducted from the remaining \$2920:

$$\$2920 - \$400 = \$2520$$

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

$$\$2520 \times 50\% = \$1260$$

Kathleen shows \$1260 at label A – Net capital gain.

STEP 9 Capital losses carried forward to later income years – label V item 17

Your net capital losses to be carried forward is the total of:

- any unapplied current year net capital losses from step 5
- any unapplied prior year net capital losses from step 6, and
- any losses from collectables to be applied in future years. You will need to keep a separate record of unapplied net capital losses from collectables because these can only be used to reduce capital gains from collectables in later income years.

Show this amount (if any) at label V and remember to deduct these losses from any capital gains in future years.

EXAMPLE

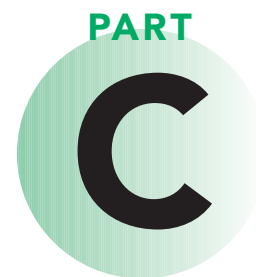
NET CAPITAL LOSSES TO BE CARRIED FORWARD – LABEL V ITEM 17

Kathleen has deducted all her current year capital losses (except those from collectables) and her prior year capital losses from her capital gains in the order that gave her the best result. This means she will only have capital losses from collectables to carry forward to a later income year.

Kathleen shows \$500 at label V.

Kathleen must make a note of this capital loss for next year, in the same way as she did with the prior year losses she used this year. She must also note that her capital losses this year are capital losses from collectables, as she will only be able to deduct them against capital gains from collectables in a future year.

INSTRUCTIONS FOR COMPANIES, TRUSTS AND FUNDS (ENTITIES)



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Are you a company, trust or fund?	Read part C of this guide first. The steps outlined will show you whether you need to read section 1 or section 2 or both.
Do you expect your entity's total capital gains or total capital losses for the current year to be \$10 000 or less?	Work through section 1 of part C. You only need to refer to section 2 of part C if your entity's total capital gains or total capital losses are greater than \$10 000 in 2000–01.
Do you expect your entity's total capital gains or total capital losses for the current year to be greater than \$10 000?	Work through section 2 of part C. You will be referred back to section 1 of part C if you need help with the worksheets.

INTRODUCTION

These instructions are designed to help companies, trusts and funds (your entity) to calculate a capital gain or capital loss and to complete the capital gains items in the relevant tax return. This will be the:

- *Company tax return 2001* (item 6)
- *Trust tax return 2001* (item 17), or
- *Fund income tax and regulatory return 2001* (item 9).

Funds include superannuation funds, approved deposit funds and pooled superannuation trusts.

The labels to complete in these items are:

- **label G – Did you have a CGT event during the year?**
- **label A – Net capital gain**, and
- (if you are an individual) **label H – Total current year capital gains**.

You will also need to show your net capital losses carried forward to later income years at **label V** in the relevant item number for your entity's tax return. These are:

- *Company tax return 2001* – item 8 (losses information)
- *Trust tax return 2001* – item 23 (losses information), or
- *Fund income tax and regulatory return 2001* – item 10 (losses information).

NOTE NEW TERMS

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

NOTE ENTITIES

The term 'entities' is used to describe companies, trusts and funds in this part of the guide.

WORKSHEETS

The steps in section 1 of part C explain how to calculate the net capital gain or net capital loss made by your entity for the 2000–01 income year.

The sample worksheets provided at the back of this guide are the *Capital gain or loss worksheet* (to calculate the capital gain or capital loss from each CGT event) and the *CGT summary worksheet* (to calculate the net capital gain or net capital loss). You can tear out the worksheets and complete them as you work through this part.

The *Capital gain or loss worksheet* calculates a capital gain or capital loss made by the entity for each CGT event. The *CGT summary worksheet* calculates the net capital gain or net capital loss made by the entity and explains how to complete the CGT labels in the 2000–01 tax return.

The worksheets in section 1 are optional and your entity may prefer to use a different worksheet or a computer-based alternative. We have used these sample worksheets throughout this part of the guide as examples to help you complete the capital gains item in your entity's tax return – and a *Capital gains tax (CGT) schedule 2001* (CGT schedule) if this is required. Your entity must complete this schedule for the 2000–01 income year if:

- the total current year capital gains are greater than \$10 000, or
- the total current year capital losses are greater than \$10 000.

SIGN POST

If these thresholds do not apply to your entity, go to section 1 in this part of the guide for instructions on how to complete the capital gains item in your entity's tax return using the two worksheets. If you are not sure whether these thresholds apply to your entity, section 1 should give you the information you need.

NOTE INDIVIDUALS

If you are an individual taxpayer, you may also use the worksheets at the back of this guide and the related instructions in section 1 to calculate your net capital gain or net capital loss. As an individual, you are not required to complete a CGT schedule when lodging a paper return, regardless of the amount of your capital gains or capital losses.

CGT SCHEDULE

If the \$10 000 threshold applies to your entity, you need to complete a *Capital gains tax (CGT) schedule 2001* (CGT schedule). The CGT schedule replaces several return form labels used in past tax returns.

If your entity is required to complete a CGT schedule, you attach it to your entity's 2000–01 tax return.

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Go to section 2 in this part of the guide for instructions on how to complete the capital gains item in your entity's tax return using the two worksheets and the CGT schedule.

STEPS YOU NEED TO TAKE

The *Capital gain or loss worksheet* and the *CGT summary worksheet* show the steps you need to take to calculate a net capital gain or net capital loss for the 2000–01 income year and to complete the CGT labels on the 2000–01 tax return.

The instructions below form a three-step process (for entities under the threshold of \$10 000 capital gains or capital losses) or a four-step process (for entities over these thresholds):

- Step 1:** calculate a capital gain or capital loss for each CGT event that happens during the 2000–01 income year using the *Capital gain or loss worksheet*
- Step 2:** calculate the net capital gain or net capital loss for the 2000–01 income year using the *CGT summary worksheet*
- Step 3:** (if required) complete a CGT schedule, and
- Step 4:** complete the capital gains item in your entity's tax return.

STEP 1 COMPLETE A CAPITAL GAIN OR LOSS WORKSHEET FOR EACH CGT EVENT

The *Capital gain or loss worksheet* calculates a capital gain or capital loss for each, separate CGT event. Do not attach completed worksheets to your entity's 2000–01 tax return – these are your working papers and should be kept with your entity's tax records.

Remember that when you are using the *Capital gain or loss worksheet*:

- you show the type of CGT asset or CGT event that resulted in the capital gain or capital loss. Organise each of these under one of the following four categories:
 - shares and units in unit trusts
 - real estate
 - other CGT assets (including personal use assets) and any other CGT events, or
 - collectables
- a capital gain or capital loss from plant is disregarded (see note 4 to the worksheet), and
- if a capital gain was made, you calculate it using:
 - the indexation method (see note 2 to the worksheet) for capital gains made on CGT assets acquired before a certain time (11.45am by legal time in the ACT on 21 September 1999) and owned for at least 12 months, or
 - the discount method (see note 3 to the worksheet) for assets owned for at least 12 months and for which you are not using the indexation method, or
 - the 'other' method (if neither the indexation method nor the discount method apply).

These three methods of calculating a capital gain are explained in full in chapter 2 in part A and are also listed in the *Explanation of terms* at the back of this guide.

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When you have calculated your capital gain or capital loss for each CGT event using a *Capital gain or loss worksheet* or a different tool, transfer any capital gains or capital losses to the *CGT summary worksheet*.

STEP 2 COMPLETE THE CGT SUMMARY WORKSHEET

The *CGT summary worksheet* calculates the net capital gain or net capital loss for the 2000–01 income year. It also provides the information you need to complete the capital gains item in your entity's tax return and, if required, the CGT schedule.

You should include in this worksheet any capital gain your entity has received as a distribution from a trust.

The *CGT summary worksheet* is designed for entities that make a capital gain or capital loss during the income year. However, you may also find it useful if you are an individual (including a partner in a partnership) who has more complex capital gains tax affairs.

SIGN POST

Transfer the capital gain or capital loss calculated on each *Capital gain or loss worksheet* to the *CGT summary worksheet*. Transfer a capital gain according to the method you used to calculate it and the type of asset that gave rise to it.

The *CGT summary worksheet* differentiates between capital gains from active assets and non-active assets. Generally, an active asset is a business asset the entity owns, for example, goodwill of a business. A share and an interest in a trust can also be an active asset if certain conditions are met.

There are four CGT small business concessions that may apply to capital gains from active assets, as follows:

- **the small business 15 year exemption:** this exemption, subject to certain conditions being satisfied, means a capital gain is totally disregarded if your small business entity has continuously owned the CGT asset for at least 15 years, and:
 - you are 55 or over and retiring, or
 - you are permanently incapacitated

- **the small business 50% active asset reduction:** this concession provides a 50% reduction of a capital gain for an active asset
- **the small business retirement exemption:** this allows capital gains for active assets (up to a lifetime limit of \$500 000) to be disregarded if the conditions are satisfied. If you are under 55 and are eligible for this exemption, the amount must be paid into a superannuation (or similar) fund, and
- **the small business roll-over:** this enables you to defer a capital gain if a replacement asset is acquired and other conditions are satisfied.

To find out if your business is eligible for the CGT small business concessions, obtain a copy of the publication *Capital gains tax concessions for small business* from the sources listed at the back of this guide.

NOTE ACTIVE ASSETS

Remember that under 'active assets' in the *CGT summary worksheet* (and the CGT schedule), you should only include a capital gain from an active asset that qualifies for one or more of the following CGT small business concessions:

- small business 50% active asset reduction, and/or
- small business retirement exemption, and/or
- small business roll-over.

If the asset does not qualify for one or more of these concessions, include the capital gain under 'non-active assets'.

NOTE LIMIT ON VALUE OF ASSETS

When you apply the CGT small business concessions, there is a limit of \$5 million on the net value of assets that your business and related entities own just before the CGT event.

NOTE LIFE INSURANCE COMPANIES

Life insurance companies, including friendly societies that conduct life insurance business, need to complete two *CGT summary worksheets* – one for each class of income they derived (superannuation class and ordinary class income). Capital losses from one class of income can only be applied against capital gains from that class of income.

STEP 3 (IF REQUIRED) COMPLETE A CGT SCHEDULE

Your entity must complete a CGT schedule for the 2000–01 income year if:

- the total current year capital gains are greater than \$10 000, or
- the total current year capital losses are greater than \$10 000.

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If the \$10 000 thresholds do not apply to your entity, go to section 1 in this part of the guide for instructions on how to complete the capital gains item in your entity's tax return using the two worksheets. If you are not sure whether these thresholds apply to your entity, section 1 should give you the information you need.

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If the \$10 000 thresholds apply to your entity, go to section 2 in this part of the guide for instructions on how to complete the capital gains item in your entity's tax return using the two worksheets and the CGT schedule. This section will also explain how to complete this schedule.

STEP 4 COMPLETE THE CAPITAL GAINS ITEM IN YOUR ENTITY'S TAX RETURN

In the earlier steps, you calculated your capital gain or capital loss for each CGT event, then worked out your net capital gain or net capital loss. If required, you then complete a CGT schedule.

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Transfer the net capital gain to label A in the capital gains item in your entity's tax return.

SECTION 1 USING THE TWO WORKSHEETS

This section explains how to complete the capital gains item in your entity's tax return using the *Capital gain or loss worksheet* and the *CGT summary worksheet*. If your entity also needs to complete a CGT schedule, work through this section first, then go to section 2 for instructions on how to complete a CGT schedule.

SECTION 1A HOW TO COMPLETE THE CAPITAL GAIN OR LOSS WORKSHEET

The *Capital gain or loss worksheet* calculates a capital gain or capital loss for each, separate CGT event. As explained on page 89, remember that:

- you show the type of CGT asset or CGT event that resulted in the capital gain or capital loss
- a capital gain or capital loss from plant is disregarded (see note 4 to the worksheet), and
- if a capital gain was made, you calculate it using:
 - the indexation method (see note 2 to the worksheet), or
 - the discount method (see note 3 to the worksheet), or
 - the 'other' method (if neither the indexation method nor the discount method apply).

When choosing between the indexation and discount methods, the amounts at (a) and (b) at the bottom of the worksheet do not yet reflect any capital losses or CGT discount you may be able to apply. This affects your choice of the amount to transfer to the *CGT summary worksheet* which you can use to calculate your net capital gain or net capital loss.

SECTION 1B HOW TO COMPLETE THE CGT SUMMARY WORKSHEET

The parts in this section relate to the parts of the *CGT summary worksheet*. Work through each relevant part to complete your worksheet.

PART A: Total current year capital gains

In Part A you show your entity's total current year capital gains.

Part A1: Current year capital gains (other than capital gains from collectables)

NOTE WHAT TO INCLUDE AND EXCLUDE

Do not include any capital gain to which an exemption or exception applies, including the small business 15-year exemption.

In the active assets columns, only include capital gains for which your entity is entitled to one or more of the relevant CGT small business concessions. These are:

- small business 50% active asset reduction
- small business retirement exemption, and
- small business roll-over.

If the capital gain does not qualify for one or more of the concessions, include the capital gain at the non-active assets columns.

At **A** to **I** and **M** to **U** on the worksheet, show the current year capital gains (other than from collectables) transferred from the *Capital gain or loss worksheets*.

If your entity has received a distribution from a trust of a net capital gain from a CGT event other than a collectable, write this at **G** to **I** and **S** to **U** on your worksheet. If applicable, you show a grossed-up amount at **H**, **T**, **S** and **U**, as explained below.

If your entity is a beneficiary of a trust, you must use the same method as the method used by the trustee to calculate your entity's capital gain. For example, if the trustee used the discount method to calculate a capital gain, you must use the same method and show the result in the column headed *Capital gains – discount method* on your worksheet at **H** (for non-active assets) or **T** (for active assets).

If the trustee used the discount method to calculate a capital gain, the distribution amount would have been multiplied by the CGT discount of 50%. This means you need to gross it up by multiplying the distribution amount by two. You show the result at **H**. Grossing up ensures that any capital losses your entity has made are deducted from your grossed-up capital gain before the CGT discount is applied.

If the trust's capital gain was reduced only by the small business 50% active asset reduction, multiply the distribution amount by two and show the result at **S** or **U**.

If the trust's capital gain was reduced by the CGT discount *and* by the small business 50% active asset reduction, multiply the distribution amount by four and show the result at **T**.

Capital gains from personal use assets are shown at *Other CGT assets and any other CGT events* in **Part A1**. Show the full amount of all capital gains in Part A1, not the amount remaining after applying the CGT discount or the CGT small business concessions.

All capital losses must be applied before the CGT discount and before the CGT small business concessions. Capital losses are applied on page 4 of the worksheet at **Part D**.

The CGT discount is applied on page 6 of the worksheet at **Part F**, while the CGT small business concessions are applied on page 7 at **Part G**.

Once you have completed **Part A1**, transfer the amounts at **A1** to **A6** to the corresponding **A1** to **A6** in **Part A3** of the *CGT summary worksheet*.

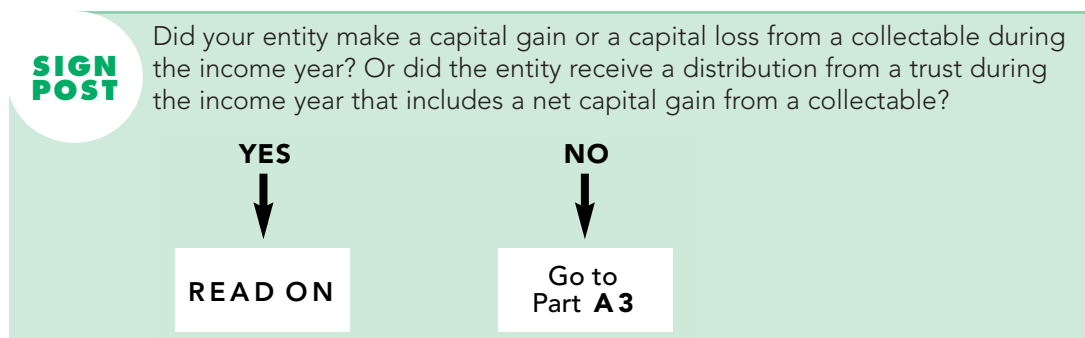
Part A2: Capital gains and capital losses from collectables

Transfer any capital gains and capital losses from collectables from the *Capital gain and loss worksheets* to **C1**, **C2**, **C3** or **C4** in your summary worksheet.

If you have received a distribution of a net capital gain from a trust resulting from a collectable, show this amount at **C5** to **C7**. If applicable, show a grossed-up amount at **C6**.

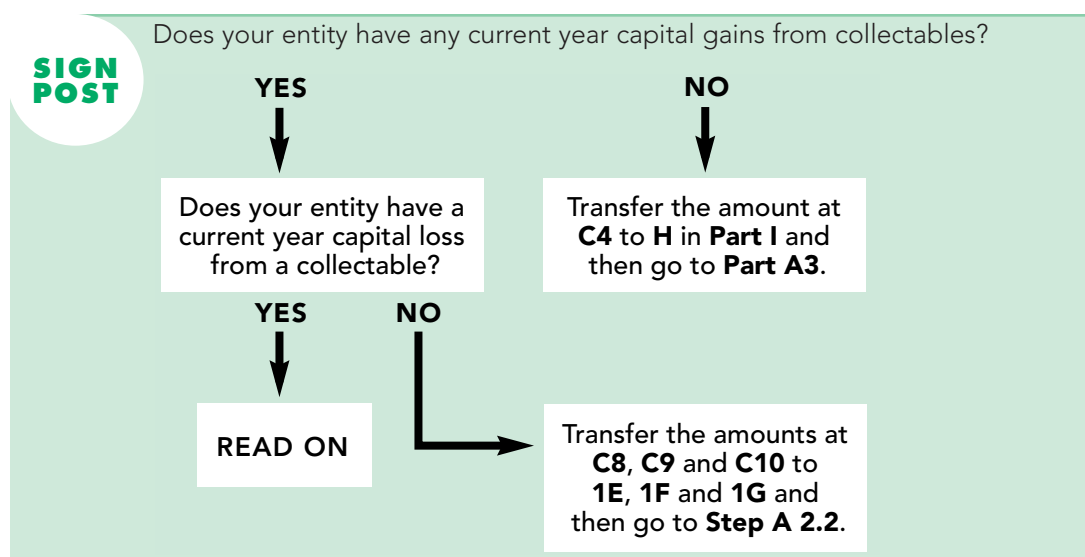
If your entity is a beneficiary of a trust, you must use the same method as the trustee to calculate a capital gain. For example, if the trustee used the discount method to calculate a capital gain, you need to do the same and show that amount at **C6**.

If the trustee used the discount method to calculate a capital gain, the distribution amount would have been multiplied by the CGT discount of 50%. This means you need to gross it up by multiplying the distribution amount by two. Grossing up ensures that any capital losses your entity has made are subtracted from your grossed-up capital gain before the CGT discount is applied.



Step A2.1: Deduct any current year capital losses (CYCL) from collectables from current year capital gains (CYCG) from collectables

If your entity has any current year capital losses from collectables, deduct these from any current year capital gains. This reduces your capital gains tax obligation.



Deduct any current year capital losses from collectables (shown at **C4**) from your current year capital gains from collectables (shown at **C8** to **C10**). You can do this in the order that gives you the best result, which would usually be:

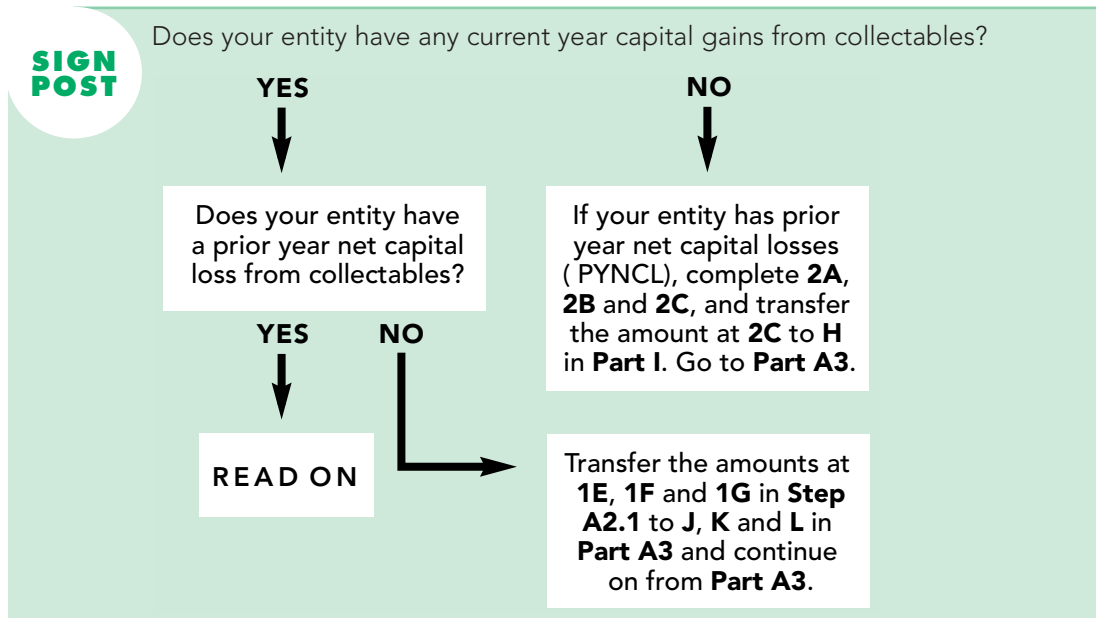
1. the 'other' method, then
2. the indexation method, then
3. the discount method.

Show these amounts at **1A** to **1C**, depending on the method you have used to calculate the capital gain. Next, calculate the capital gains from collectables after applying the current year capital losses from collectables. Show the results at **1E** to **1G** (according to the method used).

If your entity has any unapplied current year capital loss from collectables (**C4** minus **1D**), you can carry this forward to reduce the capital gains from collectables in later income years.

When you have completed **Step A2.1**, transfer the amount of unapplied current year capital losses from collectables (**C4** minus **1D**) to *UNCL from collectables* at **H** in **Part I**. The amount at **H** also includes any unapplied prior year net capital losses (PYNCL) at **Step A2.2**.

Step A2.2: Apply any prior year net capital losses (PYNCL) from collectables



At **2C**, show the available prior year net capital losses from collectables after you have made any necessary adjustments for commercial debts forgiven. For more information on commercial debts forgiven, see page 8 and refer to your entity's tax return instructions.

At **2G**, show the amount of capital losses that have been deducted from the current year capital gains from collectables.

While you can choose the order in which to reduce the capital gains, the order that usually provides the greatest benefit is:

1. the 'other' method, then
2. the indexation method, then
3. the discount method.

Deduct prior year net capital losses in the order in which they were made – for example, a 1995–96 year capital loss before a 1998–99 year capital loss.

At **2D** to **2F**, show the amounts of prior year net capital losses (PYNCL) from collectables in the order you have chosen.

At **J**, **K** and **L** in **Step 2.2**, show the capital gains from collectables after you have applied the current year capital losses and prior year net capital losses from collectables.

You can carry forward any unapplied net capital losses from collectables (**2C** minus **2G**) but in later income years you can only use them to reduce any capital gains from collectables (not from other CGT events).

When you have completed **Step A2.2**, transfer:

- the amounts at **J, K** and **L** to the corresponding labels in **Part A3**, and
- the amount of unapplied prior year net capital loss from collectables (referred to above) to UNCL from collectables at **H** in **Part I**, together with any unapplied current year capital losses from collectables at **Step A2.1**.

PART A3: Total current year capital gains (CYCG)

At **A3**, show the total of your entity's capital gains, including any net capital gain from collectables.

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Your entity may not have any of the following losses:

- current year capital losses
- prior year net capital losses, or
- capital losses transferred in.

In this case, transfer the amounts at **A7** to **A12** in **Part A3** to **A** to **F** in **Part E** and continue on from **Part F**.

If your entity has one or more of these losses, read on.

PART B: Current year capital losses (CYCL) – other than from collectables

In **Part B** you show any current year capital losses your entity has made from:

- shares and units in unit trusts
- real estate
- other CGT assets and any other CGT events.

You can transfer these from your *Capital gain or loss worksheets*.

If your entity does not have any current year capital losses (other than from collectables), go to **Part D**.

Do not include at **C** (*Other CGT assets and any other CGT events*) any capital loss made from personal use assets. Capital losses from personal use assets are disregarded and cannot be applied to reduce capital gains.

Capital losses made from collectables are not shown in **Part B**, they are shown in **Part A2**.

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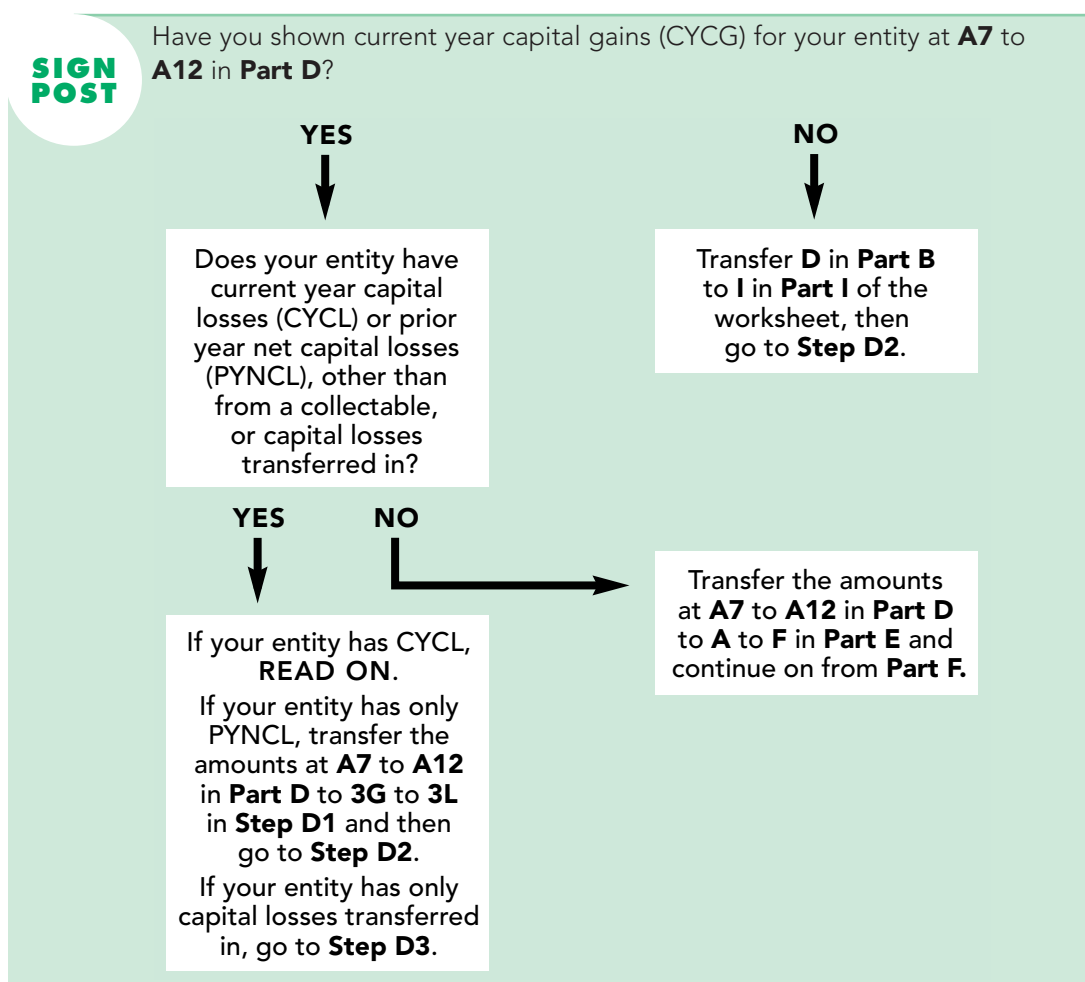
Now go straight to **Part D** – there is no **Part C** in this worksheet.

PART D: Applying capital losses against current year capital gains

In **Part D** you show your entity's current year capital gains reduced by:

- current year capital losses (CYCL), other than from collectables (**Step D1**)
- prior year net capital losses (PYNCL), other than from collectables (**Step D2**), and
- capital losses transferred in (for companies only – **Step D3**).

Step D1: Apply current year capital losses (CYCL), other than capital losses from collectables



You can choose the order in which you deduct your entity's current year capital losses (at **D** in **Part B**) from the current year capital gains (at **A7** to **A12**).

If there are both non-active and active assets, you can choose which group of assets from which to deduct the losses. Generally, if your entity is entitled to the CGT small business concessions, it is better to reduce the non-active asset capital gains first. The order that usually provides the greatest benefit is to reduce the capital gains by:

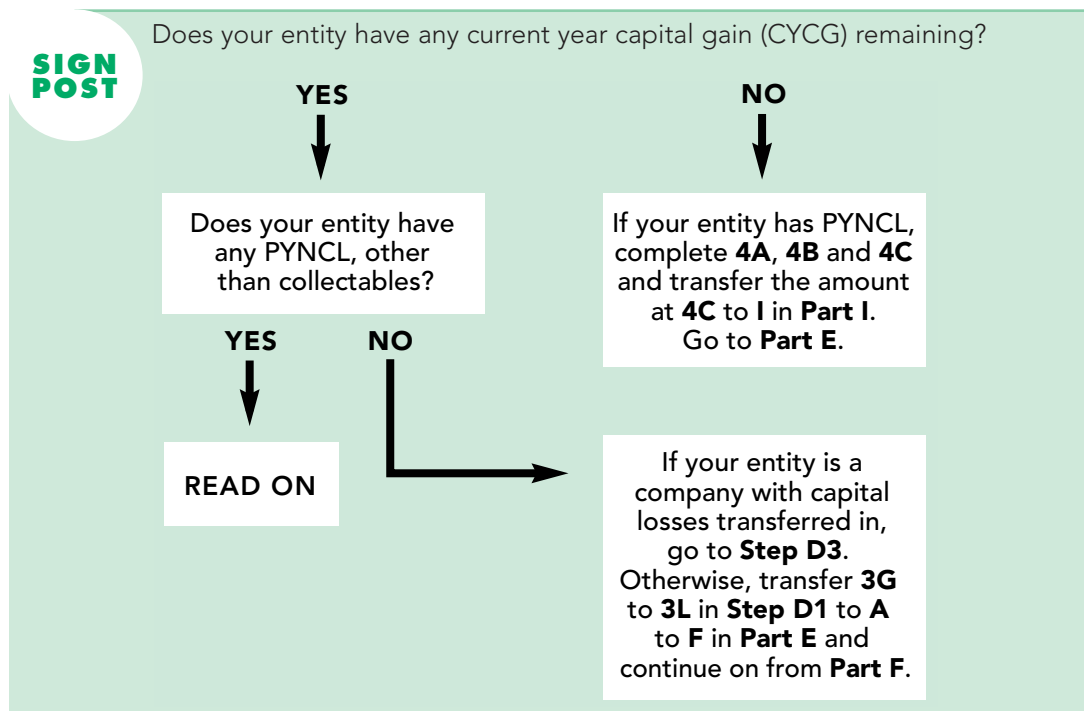
1. the 'other' method, then
2. the indexation method, then
3. the discount method.

At **3A** to **3F**, show the amounts of current year capital losses in the order you have chosen. At **3G** to **3L**, show the capital gains after applying (deducting) the current year capital losses.

You can carry forward any unapplied current year capital loss other than from collectables (**D** in **Part B** minus **H**) to reduce capital gains that are not from collectables in later income years.

When you have completed **Step D1**, transfer the amount of unapplied current year capital losses (**D** minus **H**) to *UNCL from other CGT assets* at **I** in **Part I**. The amount at **I** also includes any unapplied prior year net capital loss at **Step D2**.

Step D2: Apply any prior year net capital losses (PYNCL), other than PYNCL from collectables



Reduce the prior year net capital losses by any adjustment for commercial debts forgiven. For more information on commercial debts forgiven, see page 8 and refer to your entity's tax return instructions.

You can choose the order in which to reduce your entity's capital gains. If there are both non-active and active assets, you can choose which group of assets from which to deduct the losses. Generally, if your entity is entitled to the CGT small business concessions, it is better to reduce the non-active asset capital gains first. The order that usually provides the greatest benefit is to reduce the capital gains by:

1. the 'other' method, then
2. the indexation method, then
3. the discount method.

However, you must deduct prior year net capital losses in the order in which they were made, for example, a 1995–96 year capital loss before a 1998–99 year capital loss.

At **4D** to **4I**, show the amounts of prior year net capital losses (PYNCL) in the order you have chosen. At **4J** to **4O**, show the capital gains after you have applied the current year capital losses and PYNCL.

You can carry forward any unapplied prior year net capital losses (**4C** minus **L**) to reduce the capital gains (other than from collectables) in later income years.

When you have completed **Step D2**, transfer the amount of unapplied prior year net capital losses (**4C** minus **L**) to UNCL from other CGT assets at **I** in **Part I**, together with any unapplied current year capital losses at **Step D1**.

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If your entity is a company with capital losses transferred in, go to **Step D3**. Otherwise, transfer the amounts at **4J** to **4O** to **A** to **F** in **Part E**.

Step D3: Apply any capital losses transferred in

Only follow this step if your entity is a company with capital losses transferred in.

If your company has two or more net capital losses that can be transferred, transfer them only in the order in which they were made. The capital losses transferred in to the gain company need to be applied in the order they were received. The gain company must have enough capital gains to absorb the capital losses transferred in.

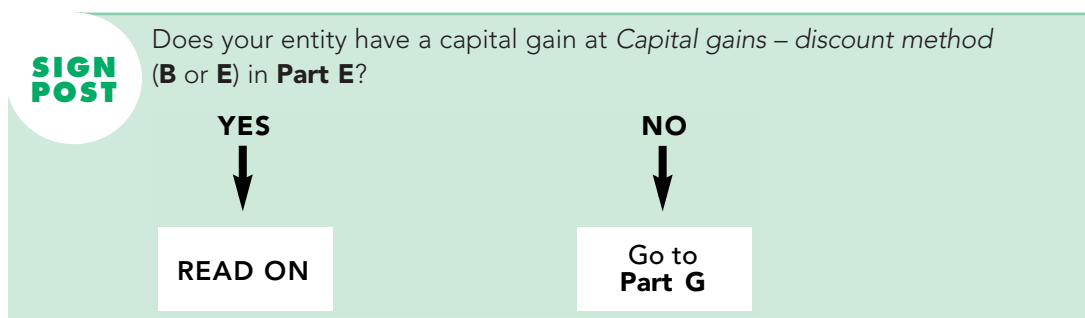
When you have completed **Step D3**, transfer the amount of CYCG remaining after applying CYCL, PYNCL (**4J** to **4O** in **Step D2**) and capital losses transferred in to **A** to **F** in **Part E**.

PART E: Current year capital gains (CYCG) after applying capital losses

In **Part E** you show your entity's current year capital gains reduced by current year capital losses, prior year net capital losses and capital losses transferred in.

PART F: CGT discount on capital gains

In **Part F** you show the amount of the CGT discount.



NOTE CGT DISCOUNT

Companies are not eligible for the CGT discount unless they are life insurance companies or friendly societies that carry on life insurance business. These companies may be entitled to the CGT discount in relation to their complying superannuation business.

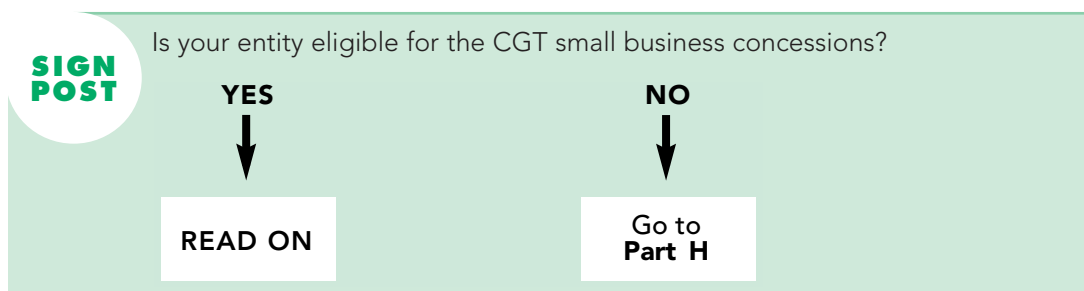
Next, calculate the CGT discount that applies to the capital gains at **B** and **E** in **Part E**. The CGT discount is:

- 33⅓% for complying superannuation entities, or
- 50% for individuals and trusts.

PART G: CGT small business concessions (other than the small business 15-year exemption)

In **Part G** you show any CGT small business concessions you are claiming. These may be:

- the small business 50% active asset reduction (SBAAR)
- the small business retirement exemption (SBRE)
- the small business roll-over (SBRO), or
- any combination of these concessions to which you are entitled.



For more information about the CGT small business concessions, obtain a copy of the publication *Capital gains tax concessions for small business* from the sources listed at the back of this guide.

The small business 15-year exemption is only shown at **Part J** of the CGT schedule (if a schedule is required).

PART H: Net capital gain calculation

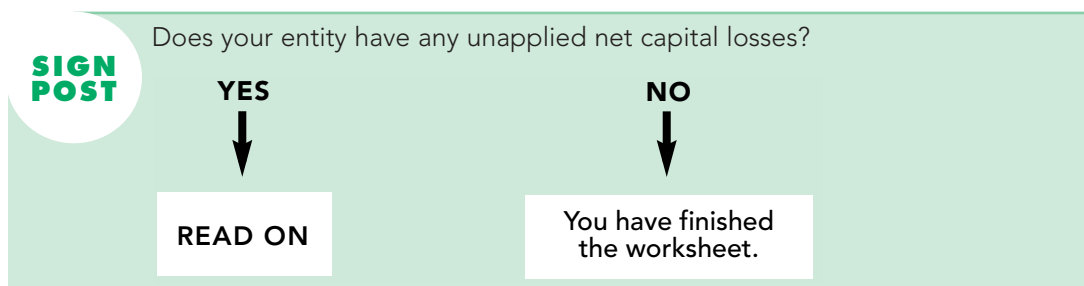
In **Part H** you show the amount of your entity's net capital gain.

Your entity's net capital gain is the amount remaining after applying any current year capital losses, net capital losses from prior years, capital losses transferred in, the CGT discount and any applicable CGT small business concessions.

A net capital gain is included as assessable income in your entity's income tax return in the relevant item.

PART I: Unapplied net capital losses carried forward to later income years

In **Part I** you show any unapplied net capital losses that your entity is carrying forward. These losses will be available to reduce any capital gains in later income years.



At **H** and **I**, show details of any capital losses that are unapplied (that is, that have not been used).

At **H**, show the unapplied capital losses from collectables only. This is the sum of:

- any current year capital losses from collectables that have not been used to reduce capital gains from collectables this income year (that is, deduct **1D** in **Step A2.1** from **C4** in **Part A2**), and
- any prior year net capital losses from collectables that have not been used to reduce capital gains from collectables this income year (that is, deduct **2G** in **Step A2.2** from **2C** in **Step A2.2**).

At **I**, show all of the other capital losses, that is, the sum of:

- the current year capital losses that have not been used to reduce capital gains (that is, deduct **H** in **Step D1** from **D** in **Part B**), and
- the prior year net capital losses that have not been used to reduce capital gains (that is, deduct **L** in **Step D2** from **4C** in **Step D2**).

At **V**, show the total of the amounts at **H** and **I**.

The amounts at **H** and **I** are the unapplied net capital losses available to be carried forward and used to reduce your capital gains in later income years. Unapplied net capital losses from collectables can only be used to reduce capital gains from collectables in later income years.

SECTION 1C: HOW TO COMPLETE THE CAPITAL GAINS ITEM IN YOUR ENTITY'S TAX RETURN

If your entity is required to complete a CGT schedule, you do not need to read this section: go to section 2 instead. If you are not sure whether you are required to complete a CGT schedule, check on page v at the beginning of this guide.

If your company, trust or fund is not required to complete a CGT schedule:

- transfer the amount at **G** in **Part H** of your entity's *CGT summary worksheet* to label **A – Net capital gain** in your entity's tax return, and
- add amounts at **H** and **I** in **Part I** of your entity's *CGT summary worksheet* and show the total amount at **Losses information**, label **V – Net capital losses carried forward to later income years** in your entity's tax return.

If you are an individual completing your *2001 tax return for individuals (supplementary section)* or a tax agent completing a tax return on behalf of an individual:

- transfer the amount at **Total CYCG, Part A3** of your *CGT summary worksheet* to label **H – Total current year capital gains** item **17 (Capital gains)** in your tax return

- transfer the amount at label **G, Part H** of your *CGT summary worksheet* to label **A – Net capital gain** item **17 (Capital gains)** in your tax return, and
- add amounts at labels **H** and **I** in **Part I** of your *CGT summary worksheet* and show the total at label **V – Net capital losses carried forward to later income years** item **17 (Capital gains)** in your tax return.

SECTION 2: USING THE TWO WORKSHEETS AND THE CGT SCHEDULE

You should read this section if your entity needs to complete a *Capital gains tax (CGT) schedule 2001* (CGT schedule) as well as your tax return labels. Your entity is required to complete a CGT schedule if:

- the total current year capital gains are greater than \$10 000, or
- the total current year capital losses are greater than \$10 000.

If you are required to complete a CGT schedule, you may need some help from a professional tax adviser or from the ATO. Sources of further information are listed at the back of this guide.

SECTION 2A: HOW TO COMPLETE THE WORKSHEETS

In order to complete your entity's CGT schedule, you may still find it useful to first complete a *Capital gain or loss worksheet* for each CGT event and *CGT summary worksheet* to work out your capital gain or capital loss.

Refer to sections 1a and 1b starting on page 91 to find out how to complete these worksheets, then go to section 2b over the page to find out how to complete your entity's CGT schedule.

SECTION 2B: HOW TO COMPLETE THE CGT SCHEDULE

You need to follow these instructions carefully to make sure you complete your entity's CGT schedule correctly.

Print your entity's tax file number, name and Australian Business Number in the boxes provided. The CGT schedule must be signed in the same way that the 2000–01 tax return is signed.

Take the following steps to transfer the relevant information from your *CGT summary worksheet*:

PART A

1. Transfer the amounts from **A** to **I** and from **M** to **U** of your *CGT summary worksheet* to the corresponding labels in **Part A** of the CGT schedule.
2. Transfer the amounts at **J**, **K** and **L** of your *CGT summary worksheet* to the corresponding labels in **Part A** of the CGT schedule.

PART B

Transfer the amounts at **A**, **B**, **C** and **D** of your *CGT summary worksheet* to the corresponding labels in **Part B** of the CGT schedule.

PART C

There is no Part C to the CGT schedule.

PART D

Step D1 on page 4 of the *CGT summary worksheet*:

1. Add the amounts at columns **3A** and **3D** and transfer the total to label **E** in **Part D** of the CGT schedule.
2. Add the amounts at columns **3B** and **3E** and transfer the total to label **F** in **Part D** of the CGT schedule.
3. Add the amounts at columns **3C** and **3F** and transfer the total to label **G** in **Part D** of the CGT schedule.
4. Transfer the **Total CYCL applied** amount at **H** to label **H** in **Part D** of the CGT schedule.

Step D2 on page 5 of the *CGT summary worksheet*:

1. Add the amounts at columns **4D** and **4G** and transfer the total to label **I** in **Part D** of the CGT schedule.
2. Add the amounts at columns **4E** and **4H** and transfer the total to label **J** in **Part D** of the CGT schedule.
3. Add the amounts at columns **4F** and **4I** and transfer the total to label **K** in **Part D** of the CGT schedule.
4. Transfer the **Total PYNCL applied** amount at **L** to label **L** in **Part D** of the CGT schedule.

Step D3 on page 5 of the *CGT summary worksheet*:

1. Add the amounts at columns **5A** and **5D** and transfer the total to label **M** in **Part D** of the CGT schedule.
2. Add the amounts at columns **5B** and **5E** and transfer the total to label **N** in **Part D** of the CGT schedule.
3. Add the amounts at columns **5C** and **5F** and transfer the total to label **O** in **Part D** of the CGT schedule.
4. Transfer the **Total capital losses transferred** in amount at **P** to label **P** in **Part D** of the CGT schedule.

PART E

Transfer the amounts at **A**, **B**, **C**, **D**, **E** and **F** of the *CGT summary worksheet* to the corresponding labels in **Part E** of the CGT schedule.

PART F

Transfer the amounts at **J** and **K** of the *CGT summary worksheet* to the corresponding labels in **Part F** of the CGT schedule.

PART G

Transfer the amounts at rows **L** to **N**, **O** to **Q** and **R** to **T** of the *CGT summary worksheet* to the corresponding labels in **Part G** of the CGT schedule.

PART H

Transfer the amount at **G** of the *CGT summary worksheet* to label **G** in **Part H** of the CGT schedule.

PART I

Transfer the amounts at **H** and **I** of the *CGT summary worksheet* to the corresponding labels in **Part I** of the CGT schedule.

PART J

Print the total amount of any capital gains disregarded by this exemption, ignoring indexation and the CGT discount.

Print in the box at label **K** the code from the list below that best describes the CGT asset or CGT event from which your entity made the capital gain. If your entity made capital gains from more than one CGT asset or CGT event, select the code which best describes the type of CGT asset or CGT event that produced the largest amount of capital gain.

CGT asset or CGT event code

S shares

U units in unit trusts

R real estate

G goodwill

O other CGT assets or CGT events not listed above

PART K

During the income year, did your entity choose scrip for scrip roll-over when an arrangement was made to exchange original interests for replacement interests? Original interests are shares or units or other interests (or an option, right or similar interest in a company or trust), while replacement interests are similar interests in another company or trust.

Print **Y** for **yes** or **N** for **no** at label **A**.

If **yes**:

Print at label **B** the amount of the cost base for all of the original interests exchanged (regardless of whether or not full roll-over was available).

Print at label **C** the total of the market value of the replacement interests acquired.

Print at label **D** the total of the amount of cash and other consideration received – do not include any amount already included at label **C**.

PART L (for companies and trusts only)

Was the company or trust an 'acquiring entity' during the income year under an arrangement for which original interest holders qualified for scrip for scrip roll-over? Print **Y** for **yes** or **N** for **no** at label **E**.

If yes, provide the information requested below in relation to the arrangement. If interests were acquired in more than one original entity, print at label **F** the number of original entities subject to such arrangements and provide the information requested below in respect of the arrangement involving the greatest cost base for the interests acquired.

Show at label **G** the tax file number (TFN) for the original entity.

Show at label **H** the number of shares, units or other interests issued in exchange for the shares or units or other interests acquired in the original entity.

Show at label **I** the number of options, rights or similar interests issued in exchange for the options, rights or similar interests acquired in the other entity.

Show at label **J** the amount of other consideration (including cash) given to acquire the shares, units or other interests, options, rights or similar interests in the original entity.

Show at label **K** the total of the first element of the cost bases of the shares, units or other interests, options, rights or similar interests acquired in the original entity as a result of the arrangement.

Did the company that issued replacement interests or the trustee of the trust, jointly with a significant or common stakeholder, choose to obtain a roll-over?

Print **Y** for **yes** or **N** for **no** at label **L**.

If the answer at label **L** is **Y** for **yes**, show at label **M** the total of the first element of the cost bases of the shares, or units or other interests, or options, rights or similar interests in the original entity (original interests) acquired directly from significant and common stakeholders for the arrangement, or issued by the original entity to the company or trust and attributable to original interests of significant and common stakeholders that were cancelled under the arrangement.

M

PART M (for companies only)

Did the company have an employee share scheme in place at any time during the year?

Print **Y** for **yes** or **N** for **no** at label **N**.

N

PART N (for companies only)

At the end of the income year, did the company still have any assets that were acquired before 20 September 1985 and that were not treated as post-CGT assets under Division 149? Print **Y** for **yes** or **N** for **no** at label **O**.

O

PART O (for companies only)

During the income year, did the company have a share in, or a loan to, an associated company which either:

- forgave a debt owed by another company under common ownership, or
- suffered a substantial and permanent reduction in the value of the debt owed to it by the other company under common ownership?

Print **Y** for **yes** or **N** for **no** at label **P**.

P

If the answer at label **P** is **Y** for **yes**, show at label **Q** the total amount by which the company reduced the cost bases of all its shares and loans to the associated company.

Q

During the income year, did a CGT event happen to a share held by the company in an associated company, where the associated company had previously owed a debt to a company under common ownership and that company under common ownership either forgave the debt or suffered a permanent and substantial reduction in the value of the debt? Print **Y** for **yes** or **N** for **no** at label **R**.

R

If the answer at label **R** is **Y** for **yes**, show at label **S** the total amount by which the company adjusted the cost bases of all its shares in the associated company to which a CGT event happened.

S

PART P (for companies only)

During the income year, did a CGT event happen to a share in, or loan to, another company in the same wholly owned group, where that other company (or a company in which it had a direct or indirect interest) had previously transferred a tax loss or a net capital loss to any company in the group?

Print **Y** for **yes** or **N** for **no** at label **T**.

T

If the answer at label **T** is **Y** for **yes**, show at label **U** the total amount by which the company reduced the cost bases of such assets.

U

During the income year, did a CGT event happen to an asset of the company that was a share in, or a loan to, another company in the same wholly owned group, where a company in the group had previously transferred a tax loss or a net capital loss to that company (or a company in which it had a direct or indirect interest)?

V

Print **Y** for **yes** or **N** for **no** at label **V**.

If the answer at label **V** is **Y** for **yes**, show at label **W** the amount by which the company adjusted the cost bases of such assets.

W

After following all of these steps, you should have completed your entity's CGT schedule. Now you need to:

- follow the directions in section 2c below to complete your 2000–01 tax return, and
- lodge both the tax return and the CGT schedule together.

You should not lodge your worksheets – keep these with your own records.

SECTION 2C: HOW TO COMPLETE THE CAPITAL GAINS ITEM IN YOUR ENTITY'S TAX RETURN

Once you have completed the CGT schedule, you need to complete your entity's 2000–01 tax return by following these steps:

- transfer the amount at **G** in **Part H** of your entity's CGT schedule to label **A – Net capital gain** in your entity's tax return, and
- add amounts at labels **H** and **I** in **Part I** of your entity's CGT schedule and print the total amount at **Losses information**, label **V – Net capital losses carried forward to later income years** in your entity's tax return.

Remember to lodge your tax return and your CGT schedule together.

APPENDICES

APPENDIX 1: CONSUMER PRICE INDEX (CPI) FIGURES

All groups – weighted average of eight capital cities				
	Quarter ending			
Year	31 March	30 June	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

APPENDIX 2: RECENT SHARE TRANSACTIONS

Company	Details of transaction
Amtcor Ltd	<p>Non-assessable payment</p> <p>On 14 April 2000 Amtcor shareholders received a return of capital of \$1.22 for each Amtcor share they held. It was applied to acquire PaperlinX shares. The return of capital is a non-assessable payment, so shareholders who received PaperlinX shares should reduce the cost base and reduced cost base of their Amtcor shares by \$1.22 per share.</p>
AMP Ltd	<p>Demutualisation</p> <p>Acquisition cost for AMP Ltd shares is \$10.43 per share and acquisition date is 20 November 1997.</p> <p><i>Note: Distribution from AMP Foundation Trust</i></p> <p>In addition to their final dividend in April 2001, AMP shareholders received a distribution from the AMP Foundation Trust. The trust used the discount method to calculate its capital gain and this will be shown on shareholders' distribution notices as the full capital gain (the grossed-up amount). Shareholders do not need to gross up the capital gain amount themselves.</p>
BHP Ltd	<p>Non-assessable payment</p> <p>On 31 October 2000 BHP shareholders received a return of capital of 66 cents for each BHP share held. It was applied to acquire OneSteel shares.</p> <p>The return of capital is a non-assessable payment, so shareholders who received OneSteel shares should reduce the cost base and reduced cost base of their BHP shares by \$0.66 per share.</p>
Boral Ltd	<p>Demerger</p> <p>Origin Energy Ltd (formerly called Boral Ltd) shareholders received one new Boral Ltd share for every two old Boral Ltd shares held.</p> <p>Acquisition cost of the new Boral Ltd shares is \$3.16 per share and the acquisition date is 1 March 2000.</p>
Coca-Cola Amatil Ltd	<p>Non-assessable payment</p> <p>On 23 June 1998 Coca-Cola Amatil shareholders received a return of capital of \$3.86 for each Coca-Cola Amatil share they held. It was applied to acquire Coca-Cola Beverages shares.</p> <p>The return of capital is a non-assessable payment, so shareholders who received Coca-Cola Beverages shares should reduce the cost base and reduced cost base of their Coca-Cola Amatil shares by \$3.86 per share.</p>
Coca-Cola Beverages Ltd	<p>Demerger</p> <p>Coca-Cola Amatil Ltd shareholders were entitled to one Coca-Cola Beverages share for each Coca-Cola Amatil share held.</p> <p>Acquisition cost of Coca-Cola Beverages shares is \$3.86 per share and the acquisition date is 23 June 1998.</p>

Company	Details of transaction						
Commonwealth Bank of Australia Ltd	<p>Public share offer For the first instalment: Acquisition date and indexation available from 13 July 1996.</p> <p>For the final instalment: Indexation applies from the date of receipt by the trust of the payment due on 14 November 1997 or of the discounted sum paid earlier.</p> <p>Share buy-back The buy-back price of \$27.84 included \$10.00 capital proceeds and a \$17.84 fully franked dividend. The disposal date was 2 April 2001.</p>						
Lend Lease Ltd	<p>Share buy-back The buy-back price of \$19.88 included \$7 capital proceeds and a \$12.88 fully franked dividend. The disposal date was 2 October 2000.</p>						
NRMA Insurance Group Ltd (NIGL)	<p>Demutualisation Acquisition cost of NIGL shares allocated to shareholders is \$1.78 per share. Acquisition date was 19 June 2000.</p> <p>For additional shares purchased through the facility, acquisition cost is \$2.75 and acquisition date was 6 August 2000.</p> <p>Share buy-back If you sold shares that you obtained under the demutualisation, there will be no capital gains tax consequences. This is because the buy-back price was paid in June 2001 and consisted of two components:</p> <ol style="list-style-type: none"> 1. capital proceeds of \$1.78 and 2. a fully franked dividend equal to the balance of the buy-back price in excess of \$1.78. <p>If you sold any of the additional shares you purchased through the facility (up to 181 shares), you will make a capital loss. For example:</p> <table> <tr> <td>Capital proceeds</td><td>\$1.78</td></tr> <tr> <td>Reduced cost base</td><td><u>\$2.75</u></td></tr> <tr> <td>Capital loss (per share)</td><td><u>\$0.97</u></td></tr> </table> <p>If you acquired your shares by purchasing them on the stock exchange, whether you made a capital gain or capital loss will depend on the cost base of your shares.</p>	Capital proceeds	\$1.78	Reduced cost base	<u>\$2.75</u>	Capital loss (per share)	<u>\$0.97</u>
Capital proceeds	\$1.78						
Reduced cost base	<u>\$2.75</u>						
Capital loss (per share)	<u>\$0.97</u>						
OneSteel Ltd	<p>Demerger BHP shareholders received one OneSteel Ltd share for every four BHP shares held.</p> <p>Acquisition cost of OneSteel shares is \$2.64 per share and acquisition date is 31 October 2000.</p>						
Origin Energy Ltd	<p>Non-assessable payment On 1 March 2000 shareholders in Origin Energy Ltd (formerly called Boral Ltd) received a return of capital of \$3.16 for each Origin Energy share (or \$1.58 for each old Boral Ltd share) held. It was applied to acquire the new Boral Ltd shares.</p> <p>The return of capital is a non-assessable payment, so shareholders who received new Boral Ltd shares should reduce the cost base and reduced cost base of their Origin Energy shares by \$3.16 per share.</p>						

Company	Details of transaction
PaperlinX Ltd	<p>Demerger</p> <p>Amcor shareholders were entitled to one PaperlinX share for every three Amcor shares they held. For each Amcor share they held, they received a return of capital of \$1.22, which was applied to acquire PaperlinX shares. Acquisition cost of PaperlinX shares is \$3.66 per share and acquisition date is 14 April 2000.</p>
Suncorp-Metway Ltd	<p>Exchange of Series 1 Exchanging Instalment Notes (EINs)</p> <p>Suncorp-Metway Ltd shares received in exchange for Series 1 EINs were acquired on 1 November 1999. Their acquisition cost is \$8.20 per share.</p>
Telstra	<p>Public Share Offer 1</p> <p>For the first instalment: Acquisition of shares was (and indexation available from) 15 November 1997.</p> <p>For the final instalment: Indexation applies from the date of receipt by the trust of the payment due on 17 November 1998.</p> <p>Public Share Offer 2</p> <p>For the first instalment: Date of acquisition was 22 October 1999 if the instalment receipts were purchased through the offer. No indexation applies because acquisition was after 21 September 1999.</p> <p>For the final instalment: No indexation as above.</p>

APPENDIX 3: SUMMARY OF CGT EVENTS

Disposal

CGT event	Time of event	Capital gain	Capital loss
A1 Disposal of a CGT asset	when the disposal contract is entered into or, if none, when the entity stops being the asset's owner	capital proceeds from disposal <i>less</i> asset's cost base	asset's reduced cost base <i>less</i> capital proceeds

Hire purchase and similar agreements

CGT event	Time of event	Capital gain	Capital loss
B1 Use and enjoyment before title passes	when use of the CGT asset passes	capital proceeds <i>less</i> the asset's cost base	asset's reduced cost base <i>less</i> capital proceeds

End of a CGT asset

CGT event	Time of event	Capital gain	Capital loss
C1 Loss or destruction of a CGT asset	when compensation is first received or, if none, when the loss is discovered or destruction occurred	capital proceeds <i>less</i> the asset's cost base	asset's reduced cost base <i>less</i> capital proceeds
C2 Cancellation, surrender and similar endings	when the contract ending an asset is entered into or, if none, when an asset ends	capital proceeds from the ending <i>less</i> asset's cost base	asset's reduced cost base <i>less</i> capital proceeds
C3 End of an option to acquire shares and so on	when the option ends	capital proceeds from granting the option <i>less</i> expenditure in granting it	expenditure in granting the option <i>less</i> capital proceeds

Bringing a CGT asset into existence

CGT event	Time of event	Capital gain	Capital loss
D1 Creating contractual or other rights	when the contract is entered into or the right is created	capital proceeds from creating the right <i>less</i> incidental costs of creating the right	incidental costs of creating the right <i>less</i> capital proceeds
D2 Granting an option	when the option is granted	capital proceeds from the grant <i>less</i> expenditure to grant it	expenditure to grant the option <i>less</i> capital proceeds
D3 Granting a right to income from mining	when the contract is entered into or, if none, when the right is granted	capital proceeds from the grant of right <i>less</i> the expenditure to grant it	expenditure to grant the right <i>less</i> capital proceeds

Trusts

CGT event	Time of event	Capital gain	Capital loss
E1 Creating a trust over a CGT asset	when the trust is created	capital proceeds from creating the trust <i>less</i> the asset's cost base	asset's reduced cost base <i>less</i> capital proceeds
E2 Transferring a CGT asset to a trust	when the asset is transferred	capital proceeds from the transfer <i>less</i> the asset's cost base	asset's reduced cost base <i>less</i> capital proceeds

Trusts *continued*

CGT event	Time of event	Capital gain	Capital loss
E3 Converting a trust to a unit trust	when the trust is converted	market value of the asset at that time <i>less</i> its cost base	asset's reduced cost base <i>less</i> that market value
E4 Capital payment for trust interest	when the trustee makes the payment	non-assessable part of the payment <i>less</i> the cost base of the trust interest	<i>no capital loss</i>
E5 Beneficiary becoming entitled to a trust asset	when the beneficiary becomes absolutely entitled	for a trustee – market value of the CGT asset at that time <i>less</i> its cost base; for a beneficiary – that market value <i>less</i> the cost base of the beneficiary's capital interest	for a trustee – reduced cost base of the CGT asset at that time <i>less</i> that market value; for a beneficiary – reduced cost base of the beneficiary's capital interest <i>less</i> that market value
E6 Disposal to a beneficiary to end an income right	the time of the disposal	for a trustee – market value of the CGT asset at that time <i>less</i> its cost base; for a beneficiary – that market value <i>less</i> the cost base of the beneficiary's right to income	for a trustee – reduced cost base of the CGT asset at that time <i>less</i> that market value; for a beneficiary – reduced cost base of the beneficiary's right to income <i>less</i> that market value
E7 Disposal to a beneficiary to end capital interest	the time of the disposal	for a trustee – market value of the CGT asset at that time <i>less</i> its cost base; for a beneficiary – that market value <i>less</i> the cost base of the beneficiary's capital interest	for a trustee – reduced cost base of the CGT asset at that time <i>less</i> that market value; for a beneficiary – reduced cost base of the beneficiary's capital interest <i>less</i> that market value
E8 Disposal by a beneficiary of capital interest	when the disposal contract is entered into or, if none, when the beneficiary ceases to own the CGT asset	capital proceeds <i>less</i> the appropriate proportion of the trust's net assets	appropriate proportion of the trust's net assets <i>less</i> the capital proceeds
E9 Creating a trust over future property	when the entity makes an agreement	market value of the property (as if it existed when the agreement was made) <i>less</i> incidental costs in making the agreement	incidental costs in making the agreement <i>less</i> the market value of the property (as if it existed when the agreement was made)

Leases

CGT event	Time of event	Capital gain	Capital loss
F1 Granting a lease	for granting a lease – when the entity enters into the lease contract or, if none, at the start of the lease; for a lease renewal or extension – at the start of the renewal or extension	capital proceeds <i>less</i> the expenditure on grant, renewal or extension	expenditure on grant, renewal or extension <i>less</i> capital proceeds

Leases continued

CGT event	Time of event	Capital gain	Capital loss
F2 Granting a long term lease	for granting a lease – when the lessor grants the lease; for a lease renewal or extension – at the start of the renewal or extension	capital proceeds from the grant, renewal or extension <i>less</i> the cost base of the leased property	reduced cost base of the leased property <i>less</i> the capital proceeds from the grant, renewal or extension
F3 Lessor pays lessee to get lease changed	when the lease term is varied or waived	<i>no capital gain</i>	amount of expenditure to get lessee's agreement
F4 Lessee receives payment for changing a lease	when the lease term is varied or waived	capital proceeds <i>less</i> the cost base of lease	<i>no capital loss</i>
F5 Lessor receives payment for changing a lease	when the lease term is varied or waived	capital proceeds <i>less</i> expenditure in relation to variation or waiver	expenditure in relation to variation or waiver <i>less</i> capital proceeds

Shares

CGT event	Time of event	Capital gain	Capital loss
G1 Capital payment for shares	when the company pays a non-assessable amount	payment <i>less</i> cost base of shares	<i>no capital loss</i>
G2 Shifts in share values	when the shift happens	the decrease in the shares' market value (so far as it has shifted into certain other shares) <i>less</i> the corresponding proportion of the shares' cost base	<i>no capital loss</i>
G3 Liquidator declares shares worthless	when the liquidator makes the declaration	<i>no capital gain</i>	shares' reduced cost base

Special capital receipts

CGT event	Time of event	Capital gain	Capital loss
H1 Forfeiture of a deposit	when the deposit is forfeited	deposit <i>less</i> expenditure in connection with the prospective sale	expenditure in connection with the prospective sale <i>less</i> deposit
H2 Receipt for an event relating to a CGT asset	when the act, transaction or event occurred	capital proceeds <i>less</i> the incidental costs	incidental costs <i>less</i> capital proceeds

Cessation of residency

CGT event	Time of event	Capital gain	Capital loss
I1 Individual or company stops being a resident	when the individual or company stops being an Australian resident	for each CGT asset the person owns, its market value <i>less</i> its cost base	for each CGT asset the person owns, its reduced cost base <i>less</i> its market value
I2 Trust stops being a resident trust	when the trust ceases to be a resident trust for CGT purposes	for each CGT asset the trustee owns, its market value <i>less</i> its cost base	for each CGT asset the trustee owns, its reduced cost base <i>less</i> its market value

Reversal of roll-over

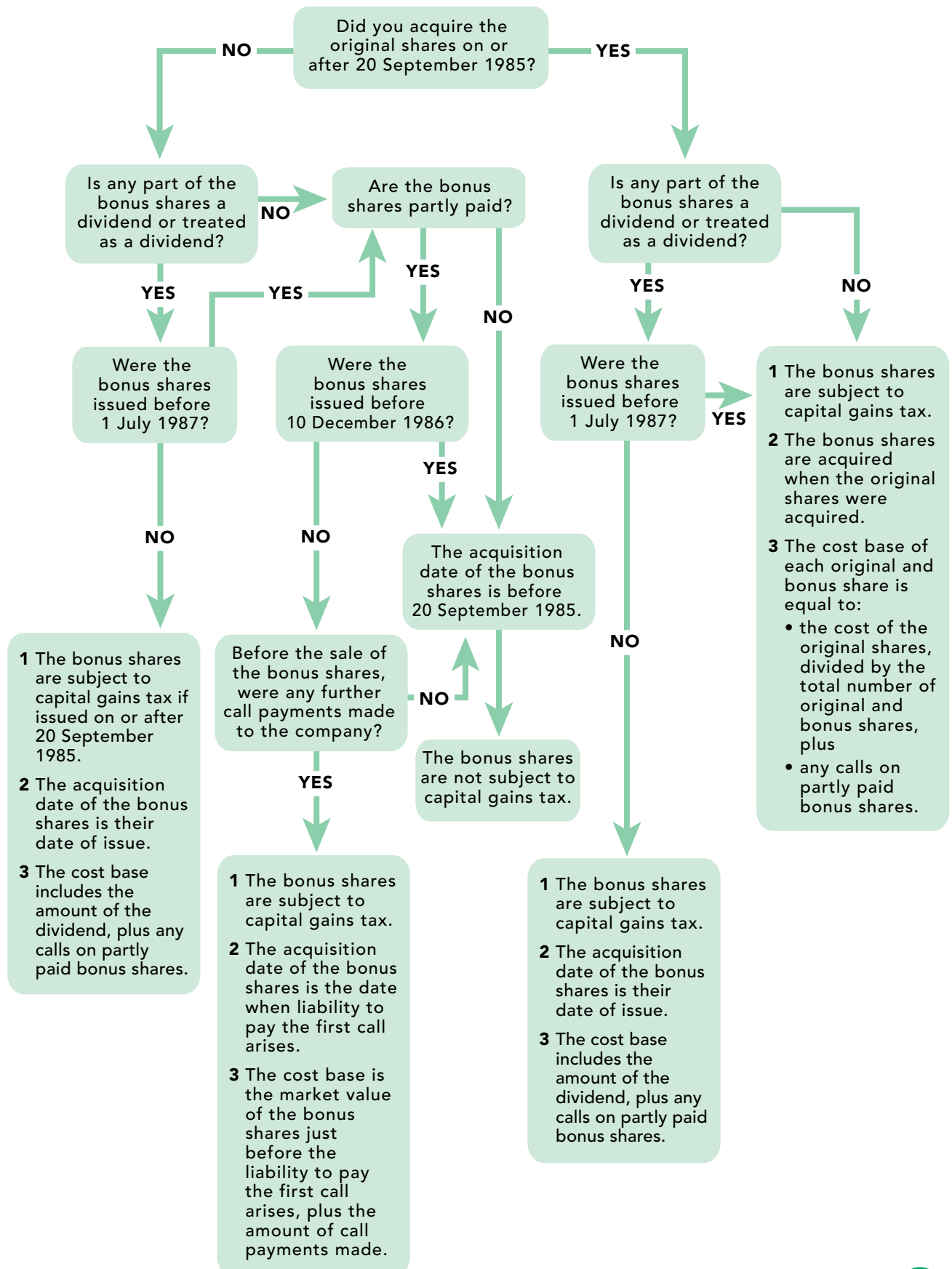
CGT event	Time of event	Capital gain	Capital loss
J1 Company stops being a member of a wholly owned group after a roll-over	when the company stops	market value of the asset at the time of the event <i>less</i> its cost base	reduced cost base of the asset <i>less</i> that market value
J2 Change in status of a CGT asset that was a replacement asset in a roll-over under Subdivision 152-E	when the change in status happens	the amount of the capital gain that you disregarded under Subdivision 152-E	<i>no capital loss</i>
J3 A change happens in circumstances where a share in a company or an interest in a trust was a replacement asset in a roll-over under Subdivision 152-E	when the change in circumstances happens	the amount of the capital gain that you disregarded under Subdivision 152-E	<i>no capital loss</i>

Other CGT events

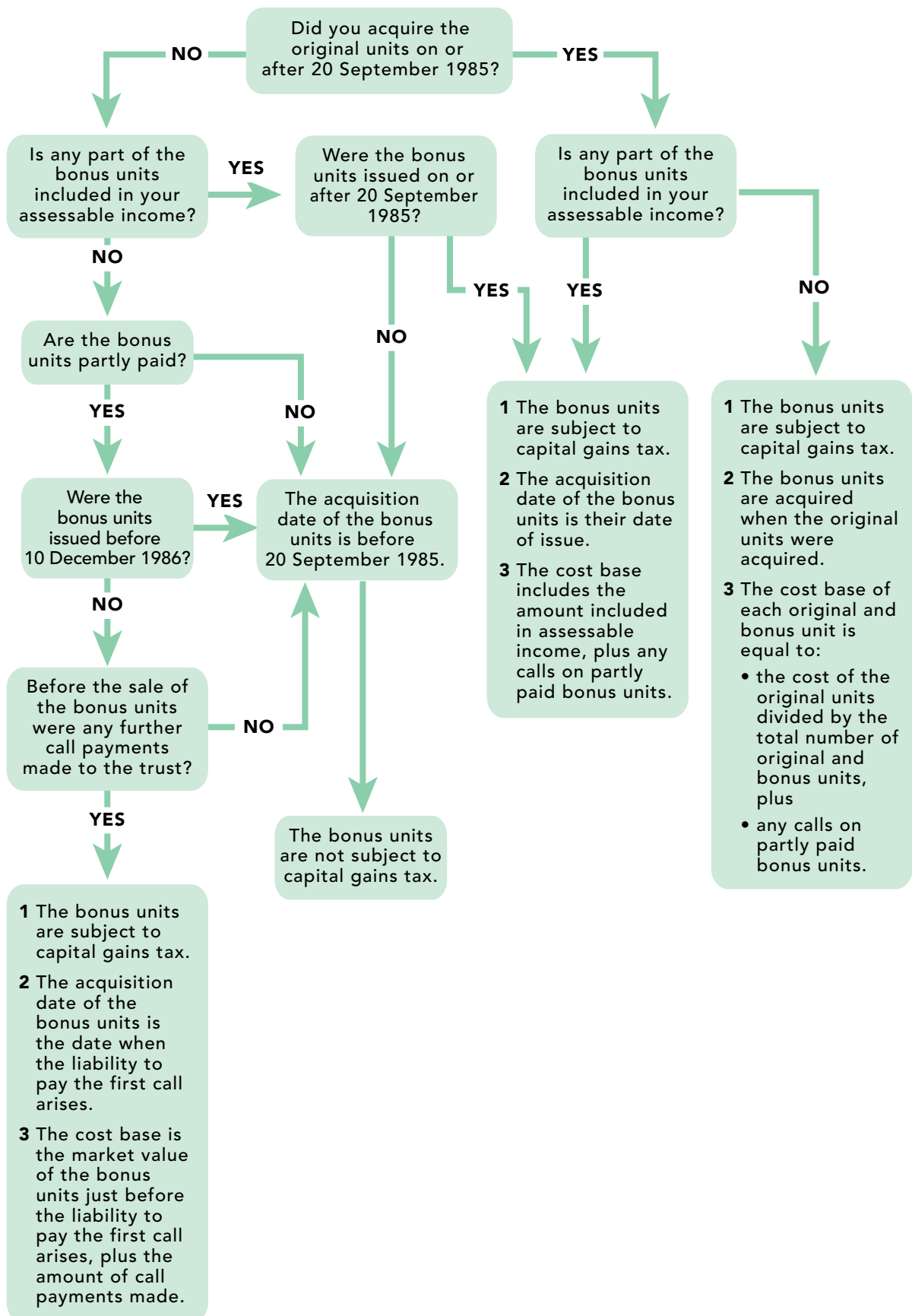
CGT event	Time of event	Capital gain	Capital loss
K1 Partial realisation of an intellectual property right	when a contract is entered into or, if none, when partial realisation happens	capital proceeds from partial realisation <i>less</i> the cost base of the item of intellectual property	<i>no capital loss</i>
K2 Bankrupt pays an amount in relation to debt	when payment is made	<i>no capital gain</i>	that part of the payment that relates to the denied part of a net capital loss
K3 Asset passing to a tax-advantaged entity	when an individual dies	market value of the asset at death <i>less</i> its cost base	reduced cost base of the asset <i>less</i> that market value
K4 CGT asset starts being trading stock	when the asset starts being trading stock	market value of asset <i>less</i> its cost base	reduced cost base of asset <i>less</i> its market value
K5 Special capital loss from a collectable that has fallen in market value	when CGT event A1, C2 or E8 happens to shares in the company, or an interest in the trust, that owns the collectable	<i>no capital gain</i>	market value of the shares or interest (as if the collectable had not fallen in market value) <i>less</i> the capital proceeds from CGT event A1, C2 or E8
K6 Pre-CGT shares or trust interest	when another CGT event involving the shares or interest happens	capital proceeds from the shares or trust interest that are attributable to a post-CGT asset owned by the company or trust, <i>less</i> the assets' cost bases	<i>no capital loss</i>

APPENDIX 4: FLOWCHARTS

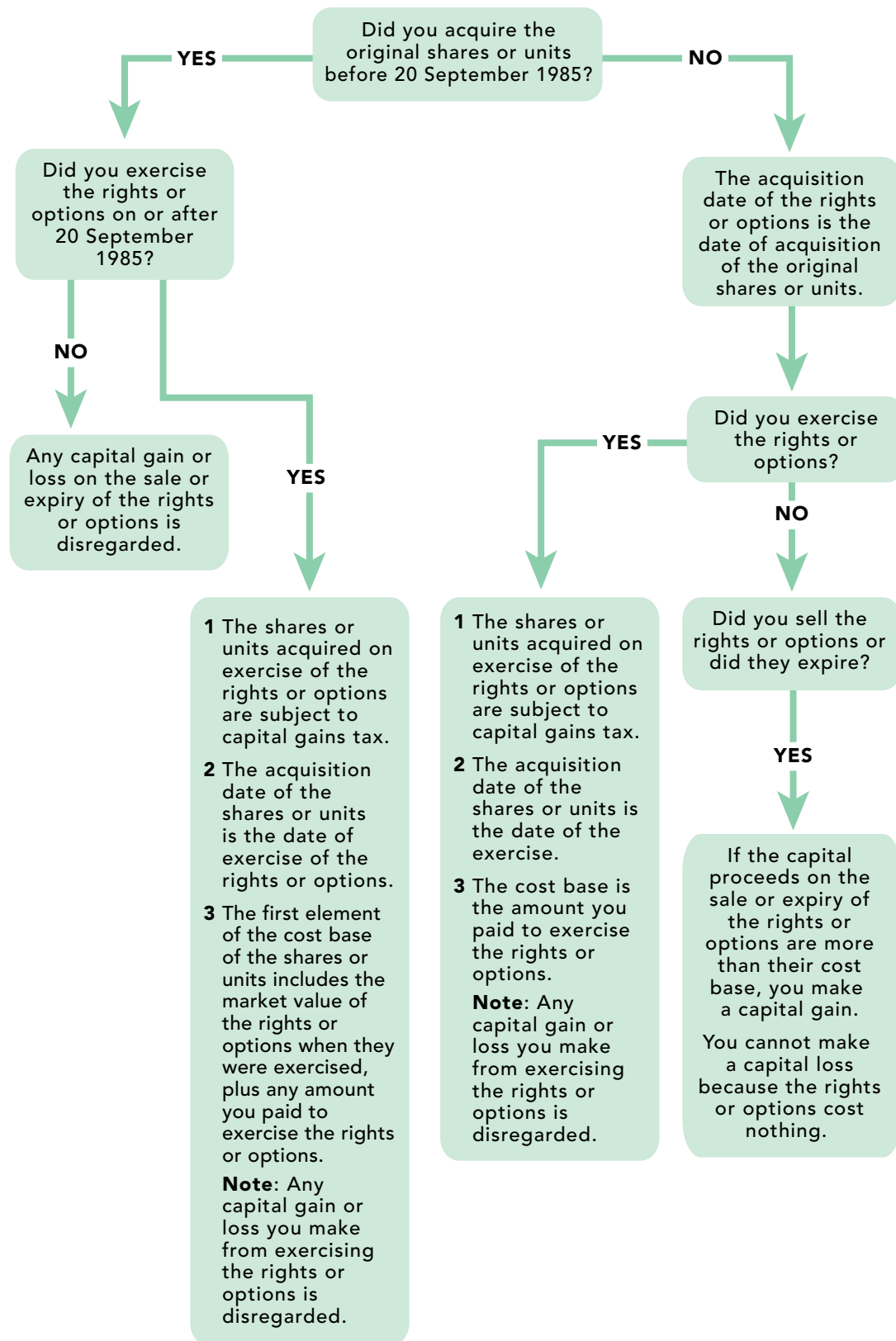
Flowchart 1 Treatment of bonus shares issued on or after 20 September 1985



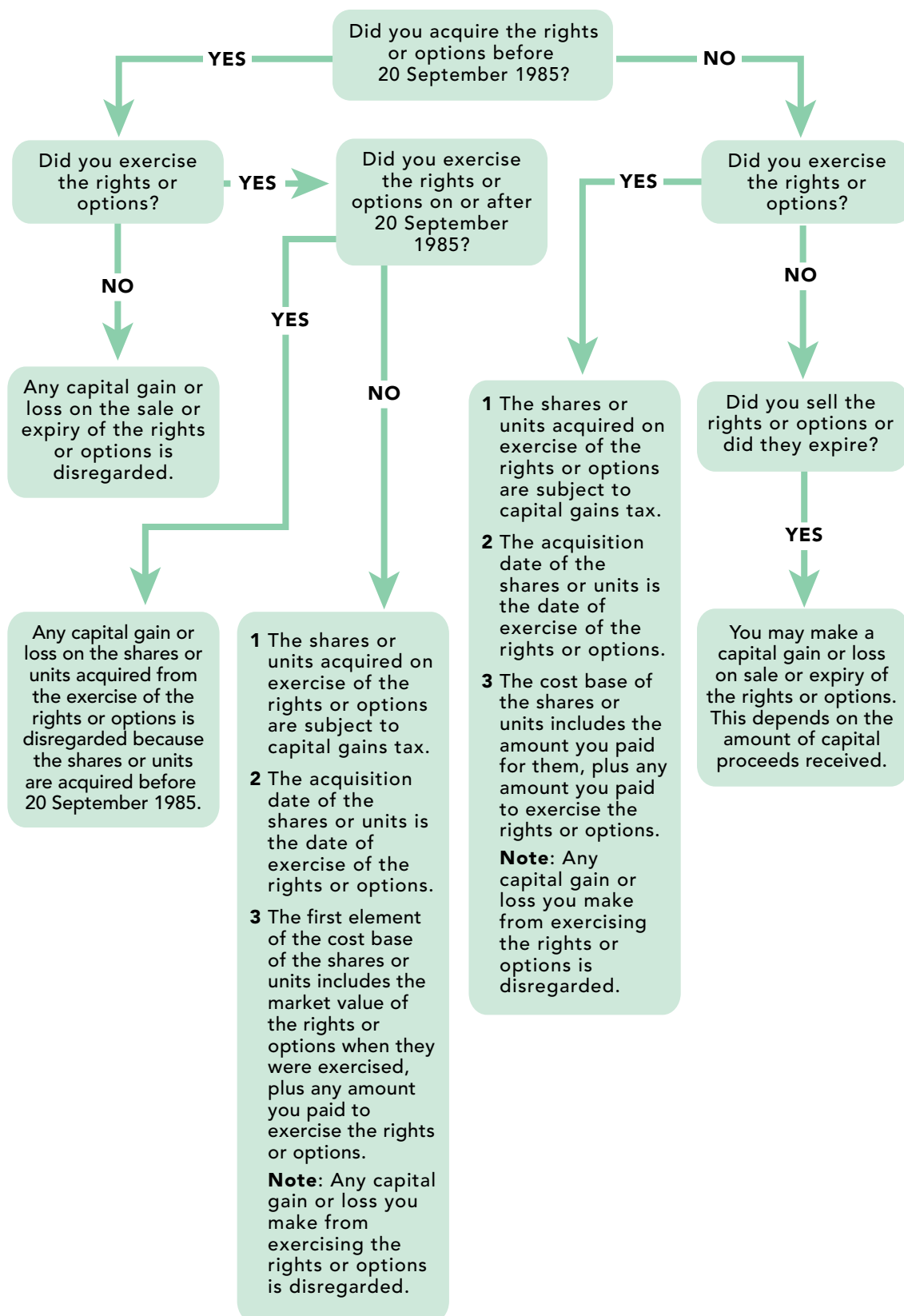
Flowchart 2 Treatment of bonus units issued on or after 20 September 1985



Flowchart 3 Treatment of rights or options to acquire shares or units issued directly to you from a company or trust for no payment



Flowchart 4 Treatment of rights or options to acquire shares or units issued that you paid to acquire from a company or trust or from another person



APPENDIX 5: EXAMPLE OF SALE OF A RENTAL PROPERTY

EXAMPLE

SALE OF RENTAL PROPERTY

In his own right, Brett purchases a run down rental property on 1 July 1997. The price he paid was \$150 000 plus \$20 000 in total for stamp duty and solicitors fees.

He rents out the property after spending \$2500 on initial repairs.

In the next few years, Brett incurred the following expenses on the property:

	\$
Interest on money borrowed	10 000
Rates and land tax	8 000
Repairs	15 000
	<u>33 000</u>

As it was an old property, there was no special building write-off Brett could claim.

When Brett decided to sell the property, a real estate agent advised him that if he spent around \$30 000 on major structural repairs, the property would be valued at around \$500 000. He had the repairs done and put the property on the market. On 1 April 2001 he sold the property for \$500 000.

Brett's real estate agents fees and solicitors fees upon the sale of the property totalled \$12 500.

As this is Brett's only capital gain for this year – and he has no capital losses to offset from this year or previous years – he works out his cost base as follows:

	\$
Purchase price of property	150 000
Stamp duty and solicitors fees on purchase	20 000
Capital expenditure (initial repairs)	2 500
Capital expenditure (major structural repairs)	30 000
Real estate agents fees and solicitors fees	<u>12 500</u>
	215 000

Brett deducts his cost base (expenses) from his capital proceeds (sale price).

	\$
Proceeds from selling the house	500 000
Cost base unindexed	<u>215 000</u>
	285 000

Brett shows \$285 000 at label H – Total current year capital gains in item 17.

He decides the discount method will give him the best result, so uses this method to calculate his capital gain.

$$\$285\,000 \times 50\% = \$142\,500$$

Brett shows \$142 500 at label A item 17.

Shares and units (in unit trusts)

Real estate

Other CGT assets and any other CGT events⁴
Collectables⁵

Brett's property at 30 Jones St, oldtown

01/7/1997

01/4/2001

Acquisition or purchase cost of the CGT asset⁶

Incidental costs that relate to the CGT event⁷

Capital expenditure to increase the asset's value that is reflected in the state or nature of the CGT asset at the time of the CGT event

1	2	3	4	5	6	7
Amount	Amounts to be deducted for cost base ⁹	Cost base (1 – 2)	Amounts to be deducted for reduced cost base ⁹	Reduced cost base ⁹ (1 – 4)	Indexation factor ¹⁰	Cost base indexed (3 x 6)
150 000	0	150 000			123.4/119.7 = 1.031	154 650
20 000	0	20 000			1.031	20 620
12 500	0	12 500			1	12 500
33 000	33 000	0				0
2 500	0	2 500			123.4/119.7 = 1.031	2 577.50
30 000	0	30 000			1	30 000
Cost base unindexed		215 000				
			Reduced cost base			
			Cost base indexed			220 347.50

Capital loss calculation

Indexation method²	Discount method³	'Other' method (CGT asset held less than 12 months)
Capital proceeds ¹¹	\$ 500 000	Capital proceeds ¹¹
Less:		Less:
cost base indexed	\$ 220 348	cost base unindexed
Capital gain (a)	\$ 279 652	Capital gain
<i>Choose capital gain (a) or (b)</i>		
	Capital gain \$ 285 000	

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

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

EXPLANATION OF TERMS

Assessable income

This is all the income you have received that should be included in your income tax return. Generally, assessable income does not include non-assessable payments from a unit trust, including a managed fund.

Bonus shares

Bonus shares are additional shares a shareholder receives as a dividend in whole or in part. You may also pay an amount to obtain them.

Bonus units

Bonus units are additional units a unit holder receives from the trust. The unit holder may also be required to pay an amount to obtain them.

Calls on shares

A company may sometimes issue a share at less than its par or face value and then make calls to pay up part or all of the remaining outstanding balance.

Capital gain

You may make a capital gain (or profit) as a result of a CGT event, for example when you sell an asset for more than you paid for it. You can also make a capital gain if a managed fund or other unit trust distributes a capital gain to you.

Capital gains tax

Capital gains tax (CGT) is the tax you pay on any capital gain you make and include in your annual income tax return. For example, when you buy (or otherwise acquire) or sell (or otherwise dispose of) an asset as part of a CGT event, you are subject to capital gains tax.

Capital improvements

You make a capital improvement to an asset when you incur expenditure to improve it that is then reflected in its value and does not include a repair that is otherwise deductible for income tax purposes.

Capital loss

Generally, you may make a capital loss as a result of a CGT event if you sold an asset for less than you paid for it. Your capital loss is the difference between your reduced cost base and your capital proceeds.

Capital proceeds

Capital proceeds is the term used to describe the amount of money or the value of any property you receive or are entitled to receive as a result of a CGT event. For shares or units, capital proceeds may be:

- the amount you receive from the purchaser
- the amount you receive from a liquidator
- the amount you receive on a merger/takeover, or
- the market value if you give them away.

CGT asset

CGT assets include shares, units in a unit trust, collectables (such as jewellery), assets for personal use (such as furniture or a boat), and other assets (such as an investment property).

CGT-concession amounts

These amounts are the CGT discount component of any actual distribution from a managed fund.

CGT discount

The CGT discount is the amount (or percentage) by which a gain may be reduced under the discount method (see [Discount method](#)).

CGT event

A CGT event happens when a transaction takes place such as the sale or purchase of a CGT asset. The result is usually a capital gain or capital loss.

Convertible note

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

Cost base

The cost base of an asset is generally what it cost you. It is made up of five elements:

- money you paid for the asset
- incidental costs of acquiring or selling it (for example, brokers fees and stamp duty)
- non-capital costs associated with owning it (generally this will not apply to shares or units because you will usually have claimed these costs as tax deductions)
- costs associated with increasing its value (for example, if you paid a call on shares), and
- what it has cost you to preserve or defend your title or rights to it.

The cost base for a share or unit may need to be reduced by the amount of any non-assessable payment you receive from the company or fund. Generally, interest you have paid on money borrowed to buy shares or units will not form part of your cost base.

Debt forgiveness

A debt is forgiven if you are freed from the obligation to pay it. A commercial debt that is forgiven may reduce your capital loss, your cost base or your reduced cost base.

Demutualisation

A company demutualises when it changes its membership interests to shares. If you received shares as part of a demutualisation of an insurance company (for example the NRMA), you may be subject to capital gains tax when 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.

Discount method

The discount method is one of the ways to calculate your capital gain if:

- the CGT event happened after 11.45am 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 may be able to reduce your capital gain by the CGT discount. However, you must first reduce your capital gains by the amount of all your available capital losses (both current year and prior years), before you discount any remaining capital gain.

If you acquired the asset before 11.45am on 21 September 1999, you may be able to choose either the discount method or the indexation method, whichever gives you the best result.

Discounted capital gain

A discounted capital gain is a capital gain that has been reduced by the CGT discount. If the discounted capital gain has been received from a managed fund, the amount will need to be grossed up in your income tax return before you apply any capital losses and then the CGT discount.

Dividend reinvestment plans

Under these plans, shareholders can choose to have their dividend used to acquire additional shares in the company instead of receiving a cash payment. For capital gains tax purposes, you are treated as if you received a cash dividend and then used it to buy additional shares. Each share (or parcel of shares) received in this way is treated as a separate asset when the shares are issued to you.

Dwelling

A dwelling can be any building or part of a building suitable for residential accommodation. Examples include a home, an apartment, a strata title unit or a unit in a retirement village.

Employee share schemes

If you acquired shares at a discount under an employee share scheme, you would have included the amount of the discount in your assessable income in your tax return.

For capital gains tax purposes, the cost base of the shares is the amount paid to the company when you acquired them, plus the amount of the discount included in your assessable income under the ordinary tax provisions.

Gross up

Grossing up applies to unit holders who are entitled to a share of the fund's income that includes a capital gain reduced by the CGT discount. In this case, you 'gross up' your capital gain by multiplying by two your share of any discounted capital gain you have received from the fund.

Income year

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

Indexation factor

The factor is worked out based on the Consumer Price Index (CPI) amounts at appendix 1 of this guide.

The indexation factor is the CPI figure for the September 1999 quarter (123.4), divided by the CPI figure for the quarter in which you incurred costs relating to the asset. The result is rounded to three decimal places. The indexation of the cost base of an asset is frozen as at 30 September 1999.

Indexation method

The indexation method is one of the ways to calculate your capital gain if you bought a CGT asset before 11.45am on 21 September 1999. This method allows you to increase the cost base by applying an indexation factor (based on increases in the Consumer Price Index up to September 1999).

You cannot use the indexation method for:

- CGT assets bought after 11.45am on 21 September 1999, or
- expenditure relating to a CGT asset acquired after that date.

You may prefer to use the discount method for CGT events after 21 September 1999 if that method gives you the best result.

Main residence

Your main residence is your home – that is, the dwelling you regard as your main place of residence and nominate as such for any CGT concessions dealing with the disposal of a main residence.

Main residence exemption

Generally, you can ignore a capital gain or capital loss from a CGT event that happens to a dwelling that is your main residence (also referred to as 'your home').

Managed fund

A managed fund is a type of unit trust. Managed funds include property trusts, share trusts, equity trusts, growth trusts, imputation trusts and balanced funds.

Net capital gain

The 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 to which you are entitled.

Non-assessable payment

A non-assessable payment is a payment received from a company or fund that is not assessed as part of your income in your income tax return. This includes some distributions from unit trusts and managed funds and, less commonly, from companies.

'Other' method

To calculate your capital gain using the 'other' method, you subtract your cost base from your capital proceeds. You must use this method for any shares or units you have bought and sold within 12 months (that is, when the indexation and discount methods do not apply).

Ownership interest

You have an ownership interest if you own a dwelling or land and/or meet the conditions outlined in chapter 6.

Reduced cost base

The reduced cost base is the amount you take into account when you are working out whether you have made a capital loss when a CGT event happens. The reduced cost base may need to have amounts deducted from it such as non-assessable payments. The reduced cost base does not include indexation or interest on monies borrowed.

Roll-over

Roll-over allows a capital gain to be deferred or disregarded until a later CGT event happens.

Scrip for scrip roll-over

This generally applies 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 roll-over conditions have been satisfied. This roll-over allows you to defer your capital gains tax obligation until a later CGT event happens to your shares or units.

You may only be eligible for partial roll-over 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 ATO.

Share buy-backs

If you disposed of shares back to a company under a buy-back arrangement, you may have made a capital gain or capital loss.

Some of the buy-back price may have been treated as a dividend for tax purposes. The time you make the capital gain or capital loss will depend on the conditions of the particular buy-back offer.

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 roll-over.

If the scrip-for-scrip conditions were not satisfied, your capital proceeds for your original shares will be the total of any cash and the market value of the new shares you received.

Tax-advantaged entity

A tax-advantaged entity is a tax-exempt entity, or the trustee of:

- a complying superannuation fund
- a complying approved deposit fund, or
- a pooled superannuation fund.

Tax-deferred amounts

These amounts include indexation allowed to a trust on its capital gains and accounting differences in income.

Tax-exempted amounts

These amounts are generally made up of exempt income of the trust, amounts on which the trust has already paid tax, or income you had to repay to the trust. Tax-exempted amounts do not affect your cost base or your reduced cost base.

Tax-free amounts

These amounts allow the trust to pay greater distributions to its beneficiaries. This is due to certain tax concessions trusts can receive (for example, deductions for the cost of buildings).

Unit trust

A unit trust is a trust or fund that is divided into units representing capital and income entitlements. Units may be traded or redeemed (including the switching and transferring of units). A managed fund is a type of unit trust.

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1 CGT event

A capital gain or capital loss is made if certain events or transactions (called CGT events) happen. Most commonly, CGT events happen to a CGT asset (for example, the disposal of a CGT asset) but some CGT events can happen without involving a CGT asset. For more information about CGT events refer to the *Guide to capital gains tax 2001*.

2 Indexation method*

For CGT assets acquired before 11.45am by legal time in the ACT on 21 September 1999, the indexation of the cost base of an asset is frozen as at 30 September 1999. Individuals, trusts and superannuation entities can choose to use either the cost base indexed, frozen as at 30 September 1999, or the CGT discount.

3 Discount method*

If a CGT event happens in relation to a CGT asset after 11.45am by legal time in the ACT on 21 September 1999 and the asset was acquired at least 12 months before the CGT event, you may be entitled to discount the capital gain after applying capital losses. The discount percentage for an individual or trust is 50% and for a complying superannuation entity is 33⅓%. Companies (other than those life insurance companies and friendly societies which carry on life insurance business that are entitled to the CGT discount in respect of their complying superannuation business) are not eligible for the CGT discount. Current year capital losses and then prior year net capital losses are applied against current year capital gains before applying the CGT discount. If any capital gains qualify for the CGT small business concessions, those concessions are then applied to each capital gain.

*** Note:** For CGT assets acquired before 11.45am by legal time in the ACT on 21 September 1999, you have the option of choosing the CGT discount or calculating the capital gain using indexation frozen as at 30 September 1999. Calculate your capital gain under each option to determine the best result in your particular circumstances.

4 Other CGT assets and any other CGT events

This category is for a capital gain or loss made from a CGT asset or any other CGT event that is not from shares and units (in unit trusts), real estate or a collectable. Capital gains from personal use assets are included here. If a personal use asset was acquired for \$10 000 or less, any capital gain is disregarded. Capital losses from personal use assets are disregarded.

*** Note:** Plant: A capital gain or loss from plant is also disregarded. For CGT events after 11.45am by legal time in the ACT on 21 September 1999, any capital gain or capital loss on the disposal of plant is treated as an additional form of balancing adjustment under the plant depreciation provisions.

5 Collectables

If a collectable, for example jewellery or an antique, was acquired for \$500 or less, any capital gain or loss is disregarded. Capital losses from collectables can only be used to offset capital gains from collectables.

6 Acquisition or purchase cost

This is money you paid or property you gave or you are required to pay or give to acquire a CGT asset. The market value of any property you gave, or are required to give, is worked out at the time of acquisition. Modifications and special rules may apply to this element of the cost base, for example, the market value substitution rule.

7 Incidental costs that relate to a CGT event

This includes the incidental costs of disposal of a CGT asset or, if there is no disposal of a CGT asset, those incidental costs that relate to the CGT event.

8 Non-capital costs of ownership

Non-capital costs of ownership include interest on borrowed money, rates and land tax, and the costs of repairing or maintaining the CGT asset. They are included in the cost base provided the CGT asset was acquired after 20 August 1991. These costs cannot be indexed or used to work out a capital loss.

Non-capital costs of ownership are not included in the cost base of collectables or personal use assets.

9 Cost base and reduced cost base

For the cost base, exclude all expenditure recouped or that has been deducted or can be deducted on assets acquired after 7.30pm by legal time in the ACT on 13 May 1997. For assets acquired before this time, exclude all expenditure recouped, or in respect of incidental costs and non-capital costs, that have been deducted or can be deducted. In some cases, cost base reductions are made before indexing (for example, recouped expenditure) in others, after indexing (for example, special building write-off deduction). For the reduced cost base, exclude any expenditure recouped or that has been deducted or can be deducted or is a non-capital cost of ownership. Indexation does not apply to the reduced cost base.

10 Indexation factor

- Indexation is not relevant to:
- expenditure incurred after 11.45am by legal time in the ACT on 21 September 1999 relating to a CGT asset acquired before that time, or expenditure relating to a CGT asset acquired after that time.

The cost base includes indexation, frozen as at 30 September 1999, only if the CGT asset was acquired at or before 11.45am by legal time in the ACT on 21 September 1999 and has been owned for at least 12 months. There are some exceptions, for example, roll-overs and assets inherited from a deceased estate. Indexation is not available for non-capital costs of ownership and it is not relevant to the reduced cost base. The indexation factor is an amount equal to the Consumer Price Index (CPI) figure for the quarter of the year in which the CGT event happened to the asset, divided by the CPI figure for the quarter of the year in which you incurred the expenditure included in any of the cost base elements (except the third element, which is non-capital costs of ownership). A list of CPI figures is included in Appendix 1 of the *Guide to capital gains tax 2001*.

11 Capital proceeds

This is money and the market value of any property that has been received or is entitled to be received, in respect of the CGT event happening. Modifications and special rules may apply to change the capital proceeds for certain CGT events. If the capital proceeds are greater than the cost base, a capital gain is made. If the capital proceeds are less than the reduced cost base, a capital loss is made. If the capital proceeds are between the cost base, or if applicable the indexed cost base, and the reduced cost base, neither a capital gain nor a capital loss is made.

12 Capital losses

Capital losses from collectables can only be used to offset capital gains from collectables. Capital losses from personal use assets are disregarded. You cannot deduct a net capital loss from your assessable income. If you became a bankrupt during the year, prior year net capital losses are disregarded.

CGT SUMMARY WORKSHEET

FOR 2000-01 TAX RETURNS



This worksheet is for the use of individuals (including individual partners in partnership), companies, trusts and funds.

Complete only the parts or steps of this worksheet indicated for the taxpayer's type. For example, if you are an individual, complete only the parts or steps indicated to be completed by individuals.

PART A TOTAL CURRENT YEAR CAPITAL GAINS

Part A1: Current year capital gains from CGT assets and CGT events or a distribution from a trust that includes a capital gain – other than capital gains from collectables

	Non-active assets		
	Capital gains – indexation method	Capital gains – discount method	'Other' capital gains method
Shares and units (in unit trusts)	A	B	C
Real estate	D	E	F
Other CGT assets and any other CGT events	G	H	I
Sub-total current year capital gains (CYCG)	A1	A2	A3

Active assets		
Capital gains – indexation method	Capital gains – discount method	'Other' capital gains method
M	N	O
P	Q	R
S	T	U
A4	A5	A6

If you need to complete a *Capital gains tax (CGT) schedule 2001 (CGT schedule)*, transfer the amounts at A to I and M to U above to the corresponding labels in Part A of the CGT schedule.

If you made any capital gains or capital losses from collectables, complete **Part A2**. Otherwise, go to **Part A3**.

Part A2: Capital gains and capital losses from collectables

	Capital gains – indexation method	Capital gains – discount method	'Other' capital gains method	Current year capital losses
Current year capital gains (CYCG) and current year capital losses (CYCL) – from collectables	C1	C2	C3	C4
Capital gains from collectables received as a distribution from a trust – grossed up at C6 as required	C5	C6	C7	
Total CYCG from collectables	C8	C9	C10	

Step A2.1 Apply any current year capital losses from collectables

	Capital gains – indexation method	Capital gains – discount method	'Other' capital gains method	Total CYCL from collectables applied
CYCL from collectables applied	1A	1B	1C	1D
CYCG from collectables after applying CYCL from collectables	1E	1F	1G	

In each column, the amount in the row **1A** to **1C** cannot exceed the amount in the row **C8** to **C10**.
The amount at **1D** cannot exceed the amount at **C4**.

Step A2.2 Apply any prior year net capital losses (PYNCL) from collectables

PYNCL from collectables available	2A
Less any adjustment for commercial debts forgiven	2B
Remaining PYNCL from collectables available	2C

	Capital gains – indexation method	Capital gains – discount method	'Other' capital gains method	Total PYNCL from collectables applied
PYNCL from collectables applied	2D	2E	2F	2G
CYCG from collectables after applying CYCL and PYNCL	J	K	L	

In applying the PYNCL from collectables, the amount in each column of row **2D** to **2F** cannot exceed the amount at **Step A2.1** in each column at row **1E** to **1G**. The amount at **2G** cannot exceed the amount at **2C**.

Part A3: Total current year capital gains

			Non-active assets			Active assets		
	Capital gains – indexation method	Capital gains – discount method	‘Other’ capital gains method		Capital gains – indexation method	Capital gains – discount method	‘Other’ capital gains method	
Sub-total current year capital gains (CYCG) – from Part A1	A1	A2	A3		A4	A5	A6	
CYCG from collectables after applying CYCL and PYNCL – from Part A2	J	K	L					Total CYCG
Total current year capital gains (CYCG)	A7	A8	A9		A10	A11	A12	

For individual taxpayers, transfer the amount at 'Total CYCG' to item 17 (Capital gains) label H – Total current year capital gains in the Individual tax return 2001 (supplementary section) or the Individuals tax return 2001 for tax agents.

If you need to complete a CGT schedule, transfer the amounts at J, K and L above to the corresponding labels in Part A of the CGT schedule.

If you made capital losses – other than capital losses from collectables – complete Part B. Otherwise, go to Part D.

PART B CURRENT YEAR CAPITAL LOSSES (CYCL) FROM CGT ASSETS AND CGT EVENTS – OTHER THAN CAPITAL LOSSES FROM COLLECTABLES

Shares and units (in unit trusts) Real estate Other CGT assets and any other CGT events Total current year capital losses (CYCL)	Current year capital losses
	A
	B
	C

If you need to complete a CGT schedule, transfer the amounts at A, B, C and D to the corresponding labels in Part B of the CGT schedule.

There is no Part C to this worksheet.

PART D CURRENT YEAR CAPITAL GAINS (CYCG) FROM PART A

	Non-active assets			Active assets		
	Capital gains – indexation method	Capital gains – discount method	‘Other’ capital gains method	Capital gains – indexation method	Capital gains – discount method	‘Other’ capital gains method
Total current year capital gains (CYCG) from Part A	A7	A8	A9	A10	A11	A12

If you showed current year capital losses at **D** in **Part B**, complete **Step D1**. Otherwise, go to **Step D2**.

Step D1 Apply current year capital losses against total current year capital gains at row A7 to A12 above

	Non-active assets			Active assets			Total CYCL applied
	Capital gains – indexation method	Capital gains – discount method	‘Other’ capital gains method	Capital gains – indexation method	Capital gains – discount method	‘Other’ capital gains method	
Current year capital losses applied	3A	3B	3C	3D	3E	3F	H
CYCG after applying CYCL	3G	3H	3I	3J	3K	3L	

In applying the current year capital losses, the amount in each column in row **3A** to **3F** cannot exceed the amount in row **A7** to **A12**.

The amount at **H** cannot exceed the amount at **D** in **Part B**.

If you need to complete a CGT schedule:

Add the amounts at columns **3A** and **3D** above and transfer the total to label **E** in **Part D** of the CGT schedule.

Add the amounts at columns **3B** and **3E** above and transfer the total to label **F** in **Part D** of the CGT schedule.

Add the amounts at columns **3C** and **3F** above and transfer the total to label **G** in **Part D** of the CGT schedule.

Transfer the ‘Total CYCL applied’ amount at **H** to label **H** in **Part D** of the CGT schedule.

If you have prior year net capital losses (PYNCL) proceed to complete **Step D2**. Otherwise, for individuals, trusts and funds go to **Part E**. For companies, go to **Step D3**.

Step D2 Apply any prior year net capital losses (PYNCL) – other than PYNCL from collectables – against current year capital gains remaining after **Step D1**

PYNCL available	4A
Less any adjustment for commercial debts forgiven	4B
Remaining PYNCL available	4C

	Non-active assets		Active assets		Total PYNCL applied
	Capital gains – indexation method	Capital gains – discount method	Capital gains – indexation method	Capital gains – discount method	
PYNCL applied	4D	4E	4G	4H	L
CYCG after applying CYCL and PYNCL	4J	4K	4M	4N	4O

In applying the PYNCL, the amount in each column of row **4D** to **4I** cannot exceed the amount at **Step D1** in each column in row **3G** to **3L**. The amount at **L** cannot exceed the amount at **4C**.

If you need to complete a CGT schedule:

Add the amounts at columns **4D** and **4G** above and transfer the total to label **I** in **Part D** of the CGT schedule.

Add the amounts at columns **4E** and **4H** above and transfer the total to label **J** in **Part D** of the CGT schedule.

Add the amounts at columns **4F** and **4I** above and transfer the total to label **K** in **Part D** of the CGT schedule.

Transfer the 'Total PYNCL applied' amount at **L** to label **L** in **Part D** of the CGT schedule.

Companies go to **Step D3**. Individuals, trusts and funds go to **Part E**.

Step D3 Apply any capital losses transferred in – to be completed by companies only

If the company had any capital losses transferred in from other group companies, complete **Step D3**. Otherwise, go to **Part E**.

	Non-active assets		Active assets		Total capital losses transferred in
	Capital gains – indexation method	Capital gains – discount method	Capital gains – indexation method	Capital gains – discount method	
Capital losses transferred in applied	5A	5B	5D	5E	P

In applying capital losses transferred in, the amounts at labels in each column of row **5A** to **5F** cannot exceed the amounts in each column at **Step D2**, row **4J** to **4O**.

The amount at **P** cannot exceed remaining CYCG (after deducting CYCL and PYNCL).

If the company needs to complete a CGT schedule:

Add the amounts at columns **5A** and **5D** above and transfer the total to label **M** in **Part D** of the CGT schedule.

Add the amounts at columns **5B** and **5E** above and transfer the total to label **N** in **Part D** of the CGT schedule.

Add the amounts at columns **5C** and **5F** above and transfer the total to label **O** in **Part D** of the CGT schedule.

Transfer the 'Total capital losses transferred in' amount at **P** to label **P** in **Part D** of the CGT schedule.

PART E CURRENT YEAR CAPITAL GAINS (CYCG) AFTER APPLYING CAPITAL LOSSES

CYCG after applying CYCL, PYNCL and capital losses transferred in	Non-active assets			Active assets		
	Capital gains – indexation method	Capital gains – discount method	'Other' capital gains method	Capital gains – indexation method	Capital gains – discount method	'Other' capital gains method
	A	B	C	D	E	F

If you need to complete a CGT schedule, transfer the amounts at A, B, C, D, E and F to the corresponding labels in Part E of the CGT schedule.

PART F CGT DISCOUNT ON CAPITAL GAINS

To be completed by individuals, trusts and funds only. Companies go to Part G.

Calculate the CGT discount applicable to the capital gains at **B** and **E** in **Part E** by applying the discount percentage – 50% for individuals and trusts and 33⅓% for complying superannuation entities (Fund tax return). Show the amount of the discount at **J** and **K** respectively, then deduct the discount amounts at **J** and **K** from the amounts at **B** and **E** respectively in **Part E**.

Non-active assets			Active assets			
	Capital gains – indexation method	Capital gains – discount method	'Other' capital gains method	Capital gains – indexation method	Capital gains – discount method	'Other' capital gains method
Discount amount		J			K	
CYCG after capital losses and discount	6A (A above)	6B (B above – J)	6C (C above)	6D (D above)	6E (E above – K)	6F (F above)

If you need to complete a CGT schedule, transfer the amounts at J and K to the corresponding labels in Part F of the CGT schedule.

PART

G

CGT SMALL BUSINESS CONCESSIONS

This does not include the small business 15 year exemption – this is shown separately at Part K of the CGT schedule (if a schedule is required).
Part G to be completed by individuals, companies, trusts and funds (where appropriate).

Apply one or more of the concessions to which you are entitled – small business 50% active asset reduction (SBAAR), small business retirement exemption (SBRE), small business active asset roll-over (SBRO) or any combination of these concessions to which you are entitled.

	Active assets			Total CGT small business concessions
	Capital gains – indexation method	Capital gains – discount method	'Other' capital gains method	
	L	M	N	
	O	P	Q	
	R	S	T	
Totals of CGT small business concessions	7A	7B	7C	7D

If you need to complete a CGT schedule, transfer the amounts at rows L to N, O to Q and R to T to the corresponding labels in Part G of the CGT schedule.

PART

H

NET CAPITAL GAIN CALCULATION

For individuals, trusts and funds, add up the current year capital gains at **6A, 6B, 6C, 6D, 6E** and **6F** in **Part F** and deduct the total CGT small business concessions at **7D** (where appropriate) in **Part G**.

For companies, add up the current year capital gains at **A, B, C, D, E** and **F** in **Part E** and deduct the total CGT small business concessions at **7D** in **Part G**.
Show the result at **G**.

Net capital gain	G
------------------	---

If you do not need to complete a CGT schedule, transfer the amount at G to label A – Net capital gain in your tax return.

If you need to complete a CGT schedule, transfer the amount at G to label G in Part H of the CGT schedule.

UNAPPLIED NET CAPITAL LOSSES (UNCL) CARRIED FORWARD TO LATER INCOME YEARS

UNCL from collectables	H
UNCL from other CGT assets	I
UNCL carried forward to later income years	V (H + I)

If you do not need to complete a CGT schedule, transfer the amount at H and I to label V – Net capital losses carried forward to later income years in your tax return.

If you need to complete a CGT schedule, transfer the amounts at H and I to the corresponding labels in Part I of the CGT schedule.

Part F Applying the general CGT discount on capital gains

	Capital gains—discount method
From non-active assets	J <input type="text"/> <input type="text"/> <input type="text"/> , <input type="text"/> <input type="text"/> <input type="text"/> , <input type="text"/> <input type="text"/> <input type="text"/> .00
From active assets	K <input type="text"/> <input type="text"/> <input type="text"/> , <input type="text"/> <input type="text"/> <input type="text"/> , <input type="text"/> <input type="text"/> <input type="text"/> .00

Part G Applying the small business concessions

	Capital gains—indexation method	Capital gains—discount method	Other capital gains
Small business active asset reduction	L <input type="text"/> <input type="text"/> <input type="text"/> , <input type="text"/> <input type="text"/> <input type="text"/> , <input type="text"/> <input type="text"/> <input type="text"/> .00	M <input type="text"/> <input type="text"/> <input type="text"/> , <input type="text"/> <input type="text"/> <input type="text"/> , <input type="text"/> <input type="text"/> <input type="text"/> .00	N <input type="text"/> <input type="text"/> <input type="text"/> , <input type="text"/> <input type="text"/> <input type="text"/> , <input type="text"/> <input type="text"/> <input type="text"/> .00
Small business retirement exemption	O <input type="text"/> <input type="text"/> <input type="text"/> , <input type="text"/> <input type="text"/> <input type="text"/> , <input type="text"/> <input type="text"/> <input type="text"/> .00	P <input type="text"/> <input type="text"/> <input type="text"/> , <input type="text"/> <input type="text"/> <input type="text"/> , <input type="text"/> <input type="text"/> <input type="text"/> .00	Q <input type="text"/> <input type="text"/> <input type="text"/> , <input type="text"/> <input type="text"/> <input type="text"/> , <input type="text"/> <input type="text"/> <input type="text"/> .00
Small business roll-over	R <input type="text"/> <input type="text"/> <input type="text"/> , <input type="text"/> <input type="text"/> <input type="text"/> , <input type="text"/> <input type="text"/> <input type="text"/> .00	S <input type="text"/> <input type="text"/> <input type="text"/> , <input type="text"/> <input type="text"/> <input type="text"/> , <input type="text"/> <input type="text"/> <input type="text"/> .00	T <input type="text"/> <input type="text"/> <input type="text"/> , <input type="text"/> <input type="text"/> <input type="text"/> , <input type="text"/> <input type="text"/> <input type="text"/> .00

Part H Calculating net capital gain

	Add amounts at L to R above and write the total at A.	Add amounts at J to S above and write the total at B.	Add amounts at N to T above and write the total at C.	
Totals—General CGT discount and small business concessions	A <input type="text"/> <input type="text"/> <input type="text"/> , <input type="text"/> <input type="text"/> <input type="text"/> , <input type="text"/> <input type="text"/> <input type="text"/> .00	B <input type="text"/> <input type="text"/> <input type="text"/> , <input type="text"/> <input type="text"/> <input type="text"/> , <input type="text"/> <input type="text"/> <input type="text"/> .00	C <input type="text"/> <input type="text"/> <input type="text"/> , <input type="text"/> <input type="text"/> <input type="text"/> , <input type="text"/> <input type="text"/> <input type="text"/> .00	
	Deduct the amount at A above from the amount at G in part E on page 2 and write the result at D.	Deduct the amount at B above from the amount at H in part E on page 2 and write the result at E.	Deduct the amount at C above from the amount at I in part E on page 2 and write the result at F.	
	D <input type="text"/> <input type="text"/> <input type="text"/> , <input type="text"/> <input type="text"/> <input type="text"/> , <input type="text"/> <input type="text"/> <input type="text"/> .00	E <input type="text"/> <input type="text"/> <input type="text"/> , <input type="text"/> <input type="text"/> <input type="text"/> , <input type="text"/> <input type="text"/> <input type="text"/> .00	F <input type="text"/> <input type="text"/> <input type="text"/> , <input type="text"/> <input type="text"/> <input type="text"/> , <input type="text"/> <input type="text"/> <input type="text"/> .00	
				Net capital gain D + E + F
				G <input type="text"/> <input type="text"/> <input type="text"/> , <input type="text"/> <input type="text"/> <input type="text"/> , <input type="text"/> <input type="text"/> <input type="text"/> .00
				Transfer the amount at G to A on your tax return.

Part I Unapplied net capital losses (UNCL) carried forward to later income years

UNCL from collectables	H <input type="text"/> <input type="text"/> <input type="text"/> , <input type="text"/> <input type="text"/> <input type="text"/> , <input type="text"/> <input type="text"/> <input type="text"/> .00
UNCL from all other CGT assets and CGT events	I <input type="text"/> <input type="text"/> <input type="text"/> , <input type="text"/> <input type="text"/> <input type="text"/> , <input type="text"/> <input type="text"/> <input type="text"/> .00
Add amounts at H and I and write the total at V on your tax return.	

Part J Small business 15 year exemption

[illegible]CGT asset or CGT event code **K**

Part K Script for scrip roll-over relief for exchanging taxpayer

[illegible]

Replacement interests
market value

Cash and other considerations

Part L **Script for scrip roll-over relief for acquiring entity—to be completed by companies and trusts only**

Acquiring entity	E	<input type="text"/>	Print Y for yes, or N for no.	<input type="text"/>
Number of original entities	F	<input type="text"/>		<input type="text"/> <input type="text"/> <input type="text"/>

Number of
final entities

Number of shares/
units etc. issued

[illegible][illegible]

First element of cost base of interests acquired

K

joint choice **L** ☐ Print **Y** for yes,
for roll-over or **N** for no.

Cost base—significant common stakeholder interests acquired

Part M Did you have an Employee Share Scheme in place at any time during the year?—to be completed by companies only

N ☐ Print **Y** for yes, or **N** for no.

Part N Change in majority underlying ownership/pre-GGT assets—Division 149 applies?—to be completed by companies only

O ☐ Print **Y** for yes, or **N** for no.

Part 0 Cost base adjustments resulting from debt forgiveness—Division 139—to be completed by companies only

[illegible]

Q cost base reduction $\times 100\%$

Interest in debtor **R** Print **Y** for yes, or **N** for no.

Total cost base adjustment

Part P Cost base adjustments resulting from loss transfers—Division 170-C—to be completed by companies only

[illegible]

cost base
reduction

u

□, □, □, □, □, □, □, □

CGT event ☐ Print **Y** for yes,
for interest ☐ or **N** for no,
in transferee

Total cost base
adjustment W , .~~00~~ F

FURTHER INFORMATION

For more information about capital gains tax, you can:

- access the ATO's *e-tax 2001* software package (via the ATO's website – see below) which has a module that includes a calculator for capital gains and capital losses
- obtain a copy of the shorter, simpler *Personal investors guide to capital gains tax 2001* which covers the sale of shares, units and distributions from managed funds and is designed mainly for individuals
- download fact sheets and other information from our website at **www.ato.gov.au**
- phone the ATO on **13 28 61**
- phone the ATO's business inquiries number on **1300 137 619**, or
- seek advice from a professional tax adviser.

If you do not speak English and need help from the ATO, phone the Translating and Interpreting Service (TIS) on **13 14 50**.

People with a hearing or speech impairment can phone the Telephone Typewriter Service on **1300 130 478**.

GUIDE TO CAPITAL GAINS TAX
2000-01



A U S T R A L I A N T A X A T I O N O F F I C E

