PART B

Completing item 17 *2002 tax return for individuals*

SIGN POST

READ 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.

Is your entity a company, trust or fund?

Read part C of this guide. 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 2001–02.

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 and a CGT event has happened to you in 2001–02 or you received a distribution from a trust (including a managed fund) that included a net capital gain.

If you have only sold a few shares or units, or have a managed fund distribution, you may find it easier to use the *Personal investors guide to capital gains tax*, available from the sources listed at the back of this guide.

The steps below explain how to calculate your net capital gain or capital loss for 2001–02 and complete item **17 Capital gains** on your *2002 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 *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 capital loss worksheet* that you can tear out from the back of this guide. For most individuals, this worksheet is all you will need to work out what needs to be included at item **17** on your tax return.

If you have a large number of these worksheets due to having several CGT events happen to you, you may wish to use the *CGT summary worksheet* (also at the back of this guide) to help you calculate your net capital gain or net capital loss. Go to section 1b in part C of this guide to find out how to complete the *CGT summary worksheet* and then item **17** on your tax return.

STEP 1 *Types of CGT assets and CGT events*

Certain capital gains and capital losses (that is, those from collectables and personal use assets) are treated differently when calculating your net capital gain or net capital loss. See chapter 1 in part A for explanations of these assets. In particular you should note that losses from personal use assets are disregarded and cannot be taken into account when working out your net capital gain. Losses from collectables can only be used to reduce capital gains from collectables.

The records of your CGT events need to be separated into the following 3 categories:

- those relating to collectables (for example, jewellery)
- those relating to personal use assets (for example, a boat you use for recreation)
- other CGT assets or CGT events, including distributions of capital gains from managed funds.

STEP 2 *Calculating your current year capital gain or capital loss for each CGT asset or CGT event*

Calculate whether you have made a capital gain or capital loss as a result of each CGT event that has happened during the year. The sample *Capital gain or capital loss worksheet* at the back of this guide can help you work this out.

In calculating your capital gain, you will use one of the following 3 methods for each asset:

- indexation method
- discount method
- '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 11.45 a.m. on 21 September 1999 to a CGT asset that you acquired at or before that time, you can choose to use either the indexation or the discount method to calculate your capital gain if you have owned the asset for at least 12 months. If you bought and sold your asset within 12 months, you must use the 'other' method to calculate your capital gain.
>
> You also need to work out the amount of any capital gains that you are taken to have made as part of a distribution from a trust. You must use the same method as the trustee used in calculating the amount of the capital gain. For more information, see chapter 4 in part A.

> **NOTE** ***Concessions that may apply***
>
> There are special rules if the trust's net capital gain was reduced by the CGT discount or by applying the small business 50 per cent 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— 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 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 H item **17** on your tax return.

If you received (or are entitled to receive) a distribution from a trust that includes a net capital gain, you also need to include this amount here in your total capital gains. Do not include this amount as a distribution from the trust at item **12 Partnerships and trusts** on your tax return.

If your capital gains from collectables were reduced to zero when you applied your losses from collectables—and you still have capital losses from collectables remaining—make a note of this amount. This loss can be carried forward to future years and will be recorded at V **Net capital losses carried forward to later income years** (see step 9).

STEP 4 *Capital losses*

If you have no current year capital losses or prior year net capital losses, go to step 7. Otherwise, read on.

From your *Capital gain or capital loss worksheets*, add up all your capital losses for 2001–02 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 *Applying current year capital losses*

Work out your total current year capital losses from your *Capital gain or capital loss worksheets*. These capital losses can be applied against any capital gains you made during the year to determine your net capital gain. Remember you cannot apply losses from:

- 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 capital losses for 2001–02:

Capital gain on the sale of 1000 shares for $6 each on 17 December 2001

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 for $8 each on 27 February 2002

Kathleen bought these shares on 10 October 2001 and each has a cost base of $4 (including incidental costs of acquisition and disposal). As the asset was bought and sold within 12 months, Kathleen must use the 'other' method to calculate her capital gain from these shares:

130 × $8 = $1040 – (130 × $4) = $520

Capital loss on the sale of jewellery for $1000 on 1 April 2002

Kathleen bought this jewellery for $1500 and sold it 6 months later for $1000.

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** on her tax return.

Firstly, Kathleen shows her total current year capital gain of $3520 ($3000 + $520) at H. Her total current year capital gain is the amount before deducting any losses or applying the CGT discount. If Kathleen had made a net capital gain on her collectables (jewellery), this would also have been included here.

Next, Kathleen notes her capital loss from collectables on her *Capital gain or capital loss worksheet* or on a separate piece of paper. Although she made a net capital loss from collectables, she cannot reduce her other capital gains by this amount. However, she can carry this amount over so that if she makes a gain from that type of asset in the future, she can deduct this loss from her gain on a later tax return. If Kathleen has no other capital losses from current or prior years, she will now show the amount of $500 at V **Net capital losses carried forward to later income years**.

Kathleen still has to complete A **Net capital gain**.

EXAMPLE

Capital loss on the sale of shares

Using the facts from our earlier example, we will also assume that Kathleen has the following to consider:

Capital loss on the sale of 600 shares for $3 each on 25 June 2002

Kathleen had bought these shares on 10 October 2001 and each has a reduced cost base of $4 (including incidental costs of acquisition and disposal).

600 × $3	=	$1 800
600 × $4	=	$2 400
		–$600

Kathleen now has a $600 loss she can use to deduct from her capital gains. From the earlier example, we know Kathleen has a $3000 capital gain calculated using the discount method.

She has another capital gain of $520 that she calculated using the 'other' method. Kathleen chooses to deduct the first $520 against the capital gain calculated using the 'other' method and to deduct the remaining $80 from the capital gain calculated using the discount method as this will give her the best result:

'Other' method capital gain	$520
Capital loss of	$600
	–$80
Discount method capital gain	$3 000
Capital loss of	–$80
	$2 920

Kathleen makes a note that she has capital gains of $2920 calculated using the discount method.

When applying your current year capital losses, you can choose the method that gives you the best result to reduce your current year capital gains. While you will need to consider your own situation, for most people the order that usually gives the greatest benefit and the smallest net capital gain is to apply the capital losses against:

1 capital gains calculated using the 'other' method

2 capital gains calculated using the indexation method

3 capital gains calculated using the discount method.

Deduct your current year capital losses from your current year capital gains and make a note of any capital gains remaining. If you have current year capital losses that can be deducted they must be deducted here. You cannot choose to defer to a later year any amount that can be deducted this year.

If you have an amount of unapplied capital losses, you will need to keep a record of any current year capital losses that were not applied to reduce your capital gains. These amounts can be carried over and used to reduce your future capital gains. If you have reduced your capital gains to zero, print '**0**' at **A** **Net capital gain**.

STEP 6 *Applying prior year net capital losses*

If you do not have any prior year net capital losses, go to step 7. Otherwise, read on.

You can further reduce your current year capital gains by applying any prior year net capital losses.

Prior year net capital losses must be applied in the order you made them (for example, use a net capital loss from 1998–99 before you use any net capital loss from 1999–2000). You can then apply these losses against your capital gains in the manner that gives you the best result. Again, for most people the order that usually gives the greatest benefit and the smallest net capital gain is to apply the capital losses against:

1 capital gains calculated using the 'other' method

2 capital gains calculated using the indexation method

3 capital gains calculated using the discount method.

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 prior year capital losses that can be deducted they must be deducted here. You cannot choose to defer to a later year any amount that can be deducted this year.

You will need to keep a record of any unapplied net capital losses from prior years. These amounts can continue to be carried forward and used to reduce your future capital gains. These will be recorded at **V** **Net capital losses carried forward to later income years** (see step 9). If you have reduced your capital gains to zero, print '**0**' at **A** **Net capital gain**.

EXAMPLE

Prior year net capital losses

Following on from our earlier example, let us also now assume that Kathleen has the following to consider.

Kathleen has a prior year capital loss of $400 that is not a capital loss from collectables or personal use assets.

In our example so far, Kathleen applied her current year capital loss and had $2920 of capital gains calculated using the discount method remaining. Taking this example further, Kathleen would now also deduct the prior year net capital loss of $400 from her capital gain of $2920 calculated using the discount method:

$2920 – $400 = $2520

This leaves $2520 of capital gains calculated using the discount method.

Kathleen must use all current year capital losses and prior year net capital losses before applying the CGT discount of 50 per cent. In this example, the amount at **V** is still $500 because this is what she will carry forward as losses from collectables to future income years.

STEP 7 *Applying the CGT discount*

You can now reduce any remaining current year capital gains calculated using the discount method by the discount percentage (50 per cent for individuals). You cannot apply the discount to capital gains calculated using the indexation method or the 'other' method.

Example

Total capital gains calculated using the discount method

From our earlier example, we know Kathleen had capital gains of $2520 calculated using the discount method after applying relevant capital losses. She works out her total capital gains calculated using the discount method by multiplying her capital gain by the CGT discount of 50 per cent:

$2520 × 50% = $1260

NOTE ***Small business concessions***

If you are a small business owner, you may qualify for one or more of the CGT small business concessions. These include the 50 per cent 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 amount at **A**. You may apply the concessions to both capital gains calculated using the discount method and the 'other' method.

If both the CGT discount and the small business 50 per cent active asset reduction apply, the capital gain (after being reduced by any capital losses to be applied) is effectively reduced by 75 per cent in total.

For more information, get 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— **A** item 17*

The amount of your remaining capital gains becomes your net capital gain, which you show at **A**. It represents the amount you have shown at **H** reduced in accordance with:

- step 5—current year capital losses
- step 6—prior year net capital losses and/or
- step 7—discount amount.

If you have capital losses that have reduced your capital gains to zero, print '**0**' at **A**. If you have any capital losses remaining after reducing your capital gains, you can carry these forward to future income years (see step 9). Again do not include losses from:

- assets you acquired before 20 September 1985
- personal use assets
- collectables or
- other losses that are disregarded.

EXAMPLE

Net capital gain—A 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 capital gain is not eligible for the CGT discount because she owned the shares for less than 12 months) and the remainder from her other $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 capital gains calculated using the discount method 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 per cent:

$2520 × 50% = $1260

Kathleen shows $1260 at A **Net capital gain**.

STEP 9 *Capital losses carried forward to later income years—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
- any losses from collectables to be applied in future income years from step 3. You will need to keep a separate record of unapplied net capital losses from collectables because these can only be used to reduce capital gains from collectables in later income years.

Show this amount (if any) at V and remember to deduct these losses from any capital gains in future income years.

EXAMPLE

Net capital losses to be carried forward—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 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.