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2024 Tax Time toolkit for investors

We're here to help you with this year's Tax Time toolkit.

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Contents

Welcome to the Investors toolkit for 2024

Our investors toolkit is a resource for anyone earning money from their investments, whether you invest in property, shares or crypto assets.

Investors directory for tax time

We have a range of information, tools and services available to help Australians prepare and lodge their tax return every year:

- **Investments and assets** – find out what you need to declare and what you can claim for your investments, including rental properties, shares and crypto assets.
- **Capital gains tax (CGT)** – how to calculate capital gains and losses on assets affected by CGT and the CGT discount.
- **Rental properties guide** – a guide on how to treat rental property income and expenses.
- **Capital gains tax personal investors guide** – use this guide for personal investments like shares, units or managed funds.
- **Capital gains tax guide** – how CGT works and help to calculate net capital gains or losses.
- **Depreciating assets guide** – a guide on depreciating assets and second-hand depreciating assets.
- **Rental property video series** – short videos to help understand your tax obligations when owning a rental property.

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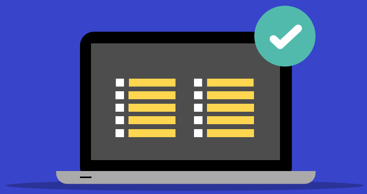
Top 10 tips

to help rental property owners avoid common tax mistakes



Whether you use a tax agent or choose to lodge your tax return yourself, avoiding these common mistakes will save you time and money.

1. Getting initial repairs and capital improvements right

You can't claim an immediate deduction for:

- Initial repairs on damage existing when you bought the property, even if you don't fix the issues immediately. For example, replacing broken cupboard doors or repairing damaged floorboards. You may be able to claim the deduction over several years as capital works. You can use any unclaimed part of these costs to work out your capital gain or capital loss when you sell the property.
- Improvements you make to the property. For example, replacing the entire roof with a better material when only part is damaged or remodelling a bathroom. These are capital improvements you can claim as a capital works deduction at a rate of 2.5% each year for 40 years from the date of completion.
- Replacement of damaged depreciating assets that cost more than $300. For example, replacing the hot water system. These costs you claim as a decline in value deduction over the effective life of the asset.

For more information, see ato.gov.au/rentalrepairsfactsheet.

2. Claiming interest on your loan

You can claim the interest you pay on the principal amount borrowed as a deduction when you have a loan for your rental property.

You can only claim the portion of the interest that relates to the rental property.

You can't claim the interest on any portion of the loan you use to buy personal items, such as paying school fees or going on a holiday. You must separate the interest for the rental property from interest relating to private use. It's important to take this into consideration when using your investment loan for private.purposes.

For more information, see ato.gov.au/Rentalinterestexpenses.

3. Claiming borrowing expenses

If your borrowing expenses are over $100, the deduction is spread over 5 years or the term of the loan, whichever is shorter. If they are $100 or less, you can claim the full amount in the income year you incur the expense.

Borrowing expenses:

- include loan establishment fees, title search fees and costs of preparing, stamp duty on the mortgage and filing mortgage documents.

Claiming borrowing expenses (continued)

- don't include stamp duty charged by your state or territory government on the property title (this stamp duty is included in the property's cost for CGT purposes).

Remember to apportion your borrowing expenses in the first year based on the number of days you own the property.

For more information and examples, see ato.gov.au/Rentalborrowingexpenses.

4. Claiming purchase costs

You can't claim deductions for the costs of buying your property. These include conveyancing fees and stamp duty (for properties outside the ACT). If you sell your property, these costs are added to the cost base and are used when working out if you need to pay capital gains tax.

For more information, see ato.gov.au/Rentalborrowingexpenses.

5. Getting construction costs right

You can claim certain building costs, including extensions, alterations and structural improvements as **capital works** deductions. Generally, you can claim a capital works deduction at 2.5% of the construction cost for 40 years from the date construction was completed.

You use any unclaimed capital works expenses when working out your capital gain or loss when you sell or dispose of the property.

For more information, see ato.gov.au/Rentalrepairsfactsheet.

6. Claiming body corporate fees and charges

Payments you make to your body corporate **administration fund** for your rental property are deductible in full in the year you incur them.

You can't claim an immediate deduction when your body corporate raises funds applied to a **special purposes fund** to pay for major capital improvements or repairs of a capital nature.

Once the work is complete, you may be able to claim a capital works deduction for your share of the expense. The cost must be charged to either the special purpose fund or the general purpose sinking fund, if a special contribution has been levied.

For more information, see ato.gov.au/rentalbodycorporate.

7. Apportioning expenses and income for co-owned properties

If you own a rental property with someone else, you must declare rental income and claim expenses according to your legal ownership of the property.

As joint tenants your legal interest will be an equal split.

As tenants in common you may have different ownership interests.

8. Apportioning expenses for private use of your property

Any deductions you claim must directly relate to earning assessable rental income. You must apportion your expenses to reflect the area and days it was rented, if you:

- use part of your property to earn rent
- rent it out for part of the year.

Private use of the property includes if you rent to family or friends below market rates or keep it vacant.

9. Keeping the right records

You must have evidence of your rental property income and expenses to claim a deduction.

You need to consider capital gains tax (CGT) when you sell your rental property, so keep all records for the entire period you own it, and for 5 years from the date you sell it.

10. Getting your capital gains right when selling

When you sell your rental property, you may make a capital gain or a capital loss. Generally, this is the difference between:

- what it cost you to buy and improve the property
- what you receive when you sell it.

Don't include amounts already claimed as a deduction against rental income earned from the property, including decline in value (depreciation) and capital works.

Include your capital gain or loss in your tax return in the year you sign the sale contract. Capital losses can be carried forward to reduce capital gains in later years.

For more information, see ato.gov.au/CGTpropertysale.

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Tax-smart tips

for your investment property

Being tax-smart when investing in property means more than making the right property choices. If you use your property to earn income at any time, you need to:

- keep records right from the start
- work out what expenses you can claim as deductions
- work out if you need to pay tax instalments throughout the year
- declare all rental-related income in your tax return
- consider capital gains tax (CGT) when you sell.

Record keeping makes tax time easier

You need to keep records for the period you own the property to make sure you don't pay more tax than you need to, in case you later sell or rent out all or part of the property.

If you sell a property you use to earn income, you need the following records to work out if you are subject to capital gains tax.

Buying

Records to keep when you buy include:

- contract of purchase
- settlement statement
- conveyancing documents
- loan documents
- costs to buy the property
- borrowing expenses.

Owning

Records to keep during ownership include:

- proof of earned rental income
- all your expenses
- periods of private use by you or your friends
- periods the property is used as your main residence
- loan documents if you refinance your property
- efforts to rent the property out
- capital improvements
- depreciating assets.

Selling

Records you need when you sell include:

- contract of sale
- conveyancing documents
- sale of property fees
- how you calculated your capital gain or loss.

Record keeping tips

Set up an easy-to-use record-keeping system as a priority. For example, use a spreadsheet or professional software.

Keep records of every transaction while you own the property. This includes contracts of purchase and sale, as well as conveyancing and loan documents.

Scan copies of your receipts to make it easier to store and access them.

Remember, keeping proof of all your income, expenses and effort to rent out your property means you can claim everything you are entitled to.

Preparing your return

Rental property owners should remember these 3 simple steps when preparing their return.

1. Include all the income when you receive it

Report rental income in the income year the tenants pay it.

If tenants pay the rent to a real estate agent or property manager who takes their fees out before forwarding on to you – report the gross amount (the amount before fees or expenses) in your tax return.

Rental income includes:

- short-term rental arrangements (for example, a holiday home)
- sharing part of your main residence (home)
- insurance payouts
- rental bond money you keep.

2. Get your expenses right

- **Eligibility** – only claim expenses for the periods you can directly connect to earning assessable income.
- **Timing** – some expenses must be claimed over several years.
- **Apportionment** – apportion your claim where:
  - your property was not used as a rental for part of the year
  - only part of your property was rented out
  - you used the property or kept it vacant for yourself
  - you rented it at below market rates.

Report your income and expenses in line with your share of the investment.

3. Keep records to prove it all

You should keep records of all income and expenses relating to your rental property, as well as purchase and sale records.

Selling your property

When you sell or dispose of an investment property or your main residence that you rented out, remember:

- You may have to pay capital gains tax (CGT), even if you transfer the property into someone else's name rather than sell it.
- If you sell, transfer or gift property for less than market value, CGT is based on the market value of the property and you need to get a market valuation.

'Capital proceeds' is the amount you receive, or are deemed to receive, for example market value, when you sell the property.

If your purchase and ownership costs are greater than your capital proceeds, include your capital loss in your tax return in the income year it occurs. Reporting capital losses, means the losses are available to reduce any capital gains you make in the future.

- You need to work out the cost base for a capital gain, you can't include in this amount any deductions you claim for improvements, capital works or decline in value in any income year.
- If you live in the property before renting it out, you need to consider your entitlement to a full or partial main residence exemption, or if the 'Home first used to produce income rule' may apply.
- If you own the property for more than 12 months and you're an Australian resident, you may be entitled to a 50% discount of the capital gains tax.

A capital gain is the difference between your cost base (cost of ownership) and your capital proceeds (what you receive when you sell the property or the market value when you transfer the property).

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Rental properties

Interest expenses

You can claim interest paid on the amount you borrow, or a portion of the interest, where the interest relates to earning assessable income. You can't claim any payments for paying off the principal of your loan.

What you can claim

You can claim interest expenses you incur on the loan that you use to:

- buy a rental property
- buy a depreciating asset for the rental property (for example, a new air conditioner)
- make repairs to the rental property (for example, roof repairs due to storm damage)
- finance renovations to the rental property
- pre-paid expenses for the rental property up to 12 months in advance.

What you can't claim

You can't claim interest:

- for periods you use the property for private purposes, even if it's for a short time
- on any part of the loan
  - used for private purposes on the initial loan or if you refinance
  - that you redraw for private purposes, even if you're ahead in your repayments
- used to buy a new home if you don't use it to produce income, even if you use your rental property as security for the loan
- on funds used to buy vacant land, until the time construction of your rental property is complete and available for rent.

If your loan was used to buy a rental property and something else, such as a car, you can't just repay the part relating to your personal purchase, even when you refinance. All loan repayments are apportioned across both purposes until all the loan has been repaid and you are no longer claiming interest expenses for that property.

Example: claiming all interest incurred

Kosta and Jenny take out an investment loan for $350,000 to buy an apartment they hold as joint tenants.

They rent out the property for the whole year from 1 July. They incur interest of $30,000 for the year.

Kosta and Jenny can each make an interest claim of $15,000 on their respective tax returns for the first year of the property.

Example: claiming part of the interest incurred

Yoko takes out a loan of $400,000, with $380,000 to be used to buy a rental property and $20,000 to buy a new car.

Yoko's property is rented for the whole year from 1 July. Her total interest expense on the $400,000 loan is $35,000.

To work out how much interest she can claim as a tax deduction, Yoko must do the following calculation:

> **Total interest expenses × (rental property loan ÷ total borrowing) = deductible interest**
> $35,000 × ($380,000 ÷ $400,000) = $33,250

Yoko works out she can claim $33,250 as an allowable deduction.

Example: interest incurred on a mortgage for a new home

Zac and Lucy take out a $400,000 loan secured against their existing property to buy a new home.

Rather than sell their existing home they decide to rent it out.

They have a mortgage of $25,000 remaining on their existing home, which is added to the $400,000 loan under a facility with sub-accounts, this means the 2 loans are managed separately but are secured by the one property.

Zac and Lucy can claim an interest deduction against the $25,000 loan for their original home as it is now rented out.

They can't claim an interest deduction against the $400,000 loan used to buy their new home as it isn't being used to produce income, even though the loan is secured against their rental property.

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Rental properties

Borrowing expenses

What are borrowing expenses?

You incur borrowing expenses when you take out a loan to buy a rental property.

They include:

- loan establishment fees
- lender's mortgage insurance (insurance the lender bills to you)
- stamp duty you pay on the mortgage, (**not** stamp duty to transfer the property into your name – this is used to work out your cost base for capital gains tax purposes)
- title search fees your lender charges
- costs for preparing and filing mortgage documents (including solicitors' fees)
- mortgage broker fees
- fees for a valuation required for a loan approval.

Amounts that are not borrowing expenses

Borrowing expenses for a rental property **don't** include:

- the principal amount you borrow and any repayments
- interest expenses (claim these at **interest on loans**)
- annual loan package fees (claim these at **Sundry expenses**)
- insurance policy premiums that provide for your loan to be paid out if you die, become disabled or unemployed (this is a private expense and can't be claimed).

The following expenses are **not** borrowing expenses, however you can include them in the cost base for capital gains tax (CGT) purposes when you sell or dispose of your rental property:

- stamp duty
  - your state or territory government charges on the transfer (purchase) of the property title
  - you incur to acquire a leasehold interest in a property, such as an Australian Capital Territory 99-year crown lease (if you rent the property, you may be able to claim this as a lease document expense at **Sundry expenses**)
- legal expenses, including solicitor and conveyancer fees you incur to buy the property.

Claiming borrowing expenses

If your total borrowing expenses are:

- more than $100, spread the deduction over 5 income years or the term of the loan, whichever is shorter
- $100 or less, claim a full deduction in the income year you incur the expenses.

If you got the loan part way through the income year, apportion the deduction for the first year according to the number of days in that year.

If you repay the loan in less than 5 years, you can claim a deduction for the balance of the borrowing expenses in the final year of repayment.

Work out borrowing expenses

To work out your borrowing expenses, you must apportion any deductions for parts of the loan used for private purposes. For example, private purposes may include to buy a car, pay for school fees, or remodel the kitchen in your home. You can't claim private expenses.

To help work out your claim, use our Deductible borrowing expenses calculator (xlsx,154KB).

Example: apportionment of borrowing expenses

The Hitchman's (as joint tenants each with 50% interest) secure a 20-year loan of $209,000 to buy a rental property for $170,000 and a car for $39,000.

They pay for establishment fees, valuation fees and stamp duty on the mortgage. Their borrowing expenses on the loan total $1,670.

As their borrowing expenses are more than $100, they must apportion their deduction over 5 years because it's less than the period of the loan (20 years).

As they use part of the loan ($39,000) for a private purpose, they can't claim a deduction for borrowing expenses on this portion of the loan.

They secure the loan on 17 July 2023, so they work out the borrowing expense deduction for the first year as follows:

> **Borrowing expenses × (number of relevant days in income year ÷ number of days in the 5-year period) × (amount of rental property loan ÷ total amount borrowed) = deduction for the year.**

As joint tenants, they need to report their share (50%) in each of their tax returns.

They work out their borrowing expenses deduction as shown in the table below.

Borrowing expense calculation

Year	Calculation	Available deduction for the year
1 (leap year)	$1,670.00 × (350 ÷ 1,827) = $319.90 $319.90 × ($170,000 ÷ $209,000)	$260.20
2	$1,350.10 × (365 ÷ 1,477) = $333.64 $333.64 × ($170,000 ÷ $209,000)	$271.38
3	$1,016.46 × (365 ÷ 1,112) = $333.64 $333.64 × ($170,000 ÷ $209,000)	$271.38
4	$682.82 × (365 ÷ 747) = $333.64 $333.64 × ($170,000 ÷ $209,000)	$271.38
5 (leap year)	$349.18 × (366 ÷ 382) = $334.55 $334.55 × ($170,000 ÷ $209,000)	$272.12
6	$14.63 × (16 ÷ 16) = $14.63 $14.63 × ($170,000 ÷ $209,000)	$11.90

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Rental properties

Repairs, maintenance and capital expenditure

Quick reference guide

Scenario	Likely treatment	Example	How to claim
Replacing part of something that is worn out, damaged or broken because of renting out the property.	This is likely to be a **repair**.	Replacing part of a fence damaged in a storm or getting in a plumber to fix a leaking tap.	Claim repairs at **Repairs and maintenance** in the income year the expense is incurred.
Work to prevent deterioration or fix existing deterioration to keep the property in a tenantable condition.	This is likely to be **maintenance**.	Getting faded interior walls repainted or having a deck re-oiled.	Claim maintenance at **Repairs and maintenance** in the income year the expense is incurred.
Repairing damage that existed when the property was bought (whether it was known about at the time of purchase or not).	This is likely to be an **initial repair**.	Fixing floorboards or repairing deteriorated window frames.	Initial repairs are **capital expenses** and aren't deductible. In some circumstances, the expense may be claimed as capital works deduction (generally 2.5% of the expense over 40 years). Claim these types of initial repairs at **Capital works**.
Renovating, replacing an entire structure that's partly damaged, or adding a new structure to improve the property.	This is likely to be **capital works**.	Replacing all the fencing, not just the damaged portion, or adding a carport.	Claim at **Capital works**. Unclaimed costs can be used to work out your capital gain or capital loss when you sell the property.
Installing a new appliance or window covering.	This is likely to be a **depreciating asset**.	Buying a new dishwasher or installing new carpet.	This should be claimed at **Capital allowances**. The cost must be claimed over the asset's effective life.

Detailed guide

Find out more about repairs, maintenance, improvements and capital expenditure.

Repairs and maintenance

The cost of repairs and maintenance may be deductible in full in the year you incur them if:

- the expense directly relates to wear and tear or other damage that occurred while renting out the property
- the property either
  - continues to be rented on an ongoing basis
  - remains available for rent, but there's a short time when the property is unoccupied (for example, where unseasonable weather causes cancellations of bookings or all reasonable efforts to attract tenants were unsuccessful).

Repairs

To claim a deduction for the cost of repairs they must either:

- occur after your property was rented or made available for rent, and have been caused by the rental activity of the person making the claim (not from a previous owner), or
- caused by special circumstances beyond your control, such as a natural disaster or deliberate damage by tenants.

Generally, repairs can be claimed in full in the same year you incurred the expense.

Examples of repairs include:

- replacing broken windows
- repairing electrical appliances or machinery
- replacing part of the guttering damaged in a storm
- replacing part of a fence damaged by a falling tree branch.

Maintenance

Maintenance generally involves keeping your property in a tenantable condition. It includes work to prevent deterioration or to fix existing deterioration.

Examples of maintenance include:

- repainting faded or damaged interior walls
- oiling, brushing or cleaning something that is otherwise in good working condition (for example, oiling a deck or cleaning a swimming pool)
- maintaining plumbing.

Capital expenses to claim over several years

Find out about capital expenses you can claim over several years.

Depreciating assets (capital allowances)

Depreciating assets are items that can be described as plant, which don't form part of the premises. These items are usually:

- separately identifiable
- not likely to be permanent and expected to be replaced within a relatively short period
- not part of the structure.

When claiming a deduction for decline in value for each asset, you can choose to use either:

- the effective life the Commissioner has determined for these types of assets
- your own reasonable estimate of its effective life.

Where you estimate an asset's effective life, you must keep records to show how you worked it out.

Examples of assets that deductions for decline in value can be applied to include:

- floating timber flooring
- carpets
- curtains
- appliances like a washing machine or fridge
- furniture.

Second-hand depreciating assets

Second-hand depreciating assets are depreciating assets that were already installed ready for use or used:

- by another entity (except as trading stock)
- in your private residence
- for a non-taxable purpose, unless that use was occasional (for example, staying at the property for one evening while carrying out maintenance activities would be occasional use).

You can't claim a deduction for the decline in value of a second-hand depreciating asset used in a residential rental property, unless:

- you purchased the asset before 7:30 pm on 9 May 2017
- you installed it into your rental property before 1 July 2017.

Capital works

Capital works describe certain kinds of construction expense used to produce income.

The rate of deduction for these expenses is generally 2.5% per year for 40 years following construction.

When you sell the property, any unclaimed costs can be used to work out your capital gain or capital loss. Capital works include:

- building construction costs
- the cost of altering a building
- major renovations to a room
- adding a fence
- building extensions such as garages or patios
- adding structural improvements like a driveway or retaining wall.

In some circumstances, initial repairs will also be treated as capital works.

Improvements

An improvement can be anything that makes the property better, more valuable or more desirable, or changes the character of the item that works are being carried out on.

Improvements can be either:

- capital works – a structural improvement (for example, remodelling a bathroom or adding a pergola)
- capital allowances – the item is a depreciating asset (for example, carpet or a dishwasher).

Improvements include work that:

- provides something new – for example, adding a gazebo or carport
- improves the income-producing ability or expected life of the property
- goes beyond restoring the efficient functioning of the property.

It's important to correctly categorise each expense incurred to ensure it's treated correctly for tax purposes.

Initial repairs

Initial repairs are costs you incur to remedy defects, damage or deterioration that existed at the time you acquired the property to make it suitable to rent out. They are not immediately deductible. It doesn't matter if you were unaware of the need to make repairs to the property at the time you purchased it.

Similarly, initial repairs to a depreciating asset when you purchased the property that aren't from your tenant's use of the property, aren't deductible.

Where an initial repair relates to capital items associated with the building structure, like kitchen cabinets, you can claim the cost as a capital works deduction. Generally, this deduction will be at 2.5% per year for 40 years.

Initial repairs (continued)

Before renting the property out, if you replace an old depreciating asset with a new one, such as a new dishwasher, you can claim a decline in value deduction for this asset over its effective life.

The cost of remedying initial repairs that existed at the time of purchase form part of the CGT cost base when you sell the property. You must reduce the CGT cost base by amounts claimed (or that you were entitled to claim) as capital works for the initial repairs.

Example: initial repairs not deductible (existing damage)

Lisa buys a property with the intention of renting it out. At the time of purchase Lisa knew that she would need to repair the roof (replace all roof tiles) and part of the ceiling as they were in a poor condition.

When carrying out the works, Lisa discovered there was extra structural damage that required her immediate attention. The repair to the ceiling costs her $2,000, the replacement of roof tiles cost her $9,000 and the structural work cost her a total of $15,000.

The 'initial' repair of the ceiling of $2,000 isn't deductible as a repair but as with the replacement of the entire roof and the structural work, they can be claimed as capital works expenses. When the property is sold, Lisa can include the $26,000 for the work to rectify the existing damage in her CGT cost base. Lisa will also need to reduce that amount by the capital works deduction she has already claimed.

Example: repair cost (special circumstances beyond your control)

Dimitri buys a property with the intention to rent. Unexpectedly, 10 weeks after the property was rented, a heavy storm damaged sections of the roof and minor parts of the ceiling.

As the property was rented before the storm, the repairs were done to restore the property to its original condition. Dimitri can claim the cost of repairs to the roof and ceiling as an immediate deduction in the income year he incurred the expense.

Example: replacement asset isn't an initial repair

Rebecca buys a unit as an investment with the intention to rent it out. On inspection, she notices the dishwasher is broken. After settlement occurs, Rebecca replaces the broken dishwasher with a new one, which cost $999, before the new tenants move in.

Rebecca can't claim an immediate deduction for the replacement of the dishwasher because she is replacing a depreciating asset, not repairing it.

Rebecca can claim a decline in value deduction for the new dishwasher over its effective life.

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Rental properties

Damaged or destroyed property

Types of income

Rental income can be payments you receive in cash or in the form of goods and services. You need to work out the monetary value of any payments you receive in the form of goods and services.

Insurance payouts

Insurance payouts for loss of rental income and repairs need to be included in your income.

Disaster assistance payments

Most one-off assistance payments you receive from the government, charities or community groups are tax-free. You need to check the types of payments and how they affect your tax.

Replacing depreciable assets

If the insurance payout you receive for your depreciating asset is more than its written down value, you need to include the balance as income. If the payout is less, you can claim a deduction for the difference.

Expenses

If you use an assistance payment or money from a relief fund to buy items for your rental property, the normal conditions for deductibility apply. This means you can claim a deduction if you satisfy the deductibility rules.

Capital works

If you replace an entire structure that was fully or partially damaged or destroyed, it's likely to be classed as **capital works**. For example, replacing **all** the fence, not just the damaged portion. This may result in a capital gain or loss, see Involuntary disposal of a CGT asset. New capital works are generally deductible at 2.5% over 40 years.

Repairs

If you fix something that's damaged or broken, it's a **repair**. For example, fixing a leaking tap, or **part** of the fence damaged in the storm. Amounts for **repairs and maintenance** are claimed fully in the year the expense is paid.

Depreciating asset

If you install a brand new appliance or floor or window coverings, these are **depreciating assets**. For example, buying a new dishwasher or installing new carpet. You claim a deduction over the effective life of the replacement asset (decline in value).

If you claimed a **capital allowance** for the original asset, claim a deduction for the remaining balance less any compensation received for the total loss of the asset.

For more information, see ato.gov.au/Rentalrepairsfactsheet.

Rental property can't be lived in

If your property is unable to be lived in and no longer earning rental income, you can claim a deduction for costs incurred while doing repairs or renovations. For example, council rates or interest charged on your mortgage. **You can't claim a deduction for your own labour**.

To be entitled to claim expenses while making repairs or renovations, the work needs to be completed in a reasonable timeframe and the property must have been rented or made available for rent immediately before it was damaged or destroyed.

If the property is demolished and you're holding vacant land because of the damage, you can claim a deduction for holding costs (for example, land taxes and council rates) if the exceptional circumstances exemption applies.

There is a limit of 3 years from the date of the exceptional circumstances to continue to claim deductions using this exemption.

Capital gains tax (CGT) implications for damaged or destroyed assets

If you receive an insurance payout, it needs to be considered when calculating your capital gain or loss. A capital gain arises if the insurance payout is more than the asset's cost base. If the insurance payout is less than the reduced cost base you have a capital loss.

The cost base of a CGT asset is generally the cost of acquiring, holding and disposing of the asset. The reduced cost base is similar, but doesn't include the costs of holding the asset.

You choose to rebuild or replace your rental property

You may be entitled to roll over any capital gain you make and delay paying the gain until later. To defer the gain, you must incur expenditure within one year after the end of the income year the property was destroyed. For more information, see Involuntary disposal of a CGT asset.

You choose not to rebuild your rental property

You need to calculate your capital gain or loss.

Any insurance payout you receive must be counted as capital proceeds when calculating your gain or loss.

If you don't receive an insurance payout there are no capital gains tax consequences until the property is sold.

Main residence exemption

If the damaged or destroyed property was previously your main residence, you can treat it as your main residence for up to 6 years after you move out. Your main residence is exempt from CGT.

Generally, you only have one main residence at a time and can't treat any other property as your main residence for the same period.

Important things to remember

Important things to remember for damaged or destroyed rental property.

Timing of a CGT event

If your CGT asset is lost or destroyed, a CGT event happens on the date you receive compensation for the loss or destruction.

If you don't receive any compensation, the CGT event happens when the loss is discovered or the destruction occurred.

Get record keeping right

Keep records of every transaction including insurance payout documents, receipts for any new purchases or repairs. If you borrow, keep all loan documents and statements.

Before and after photos of destroyed assets may be helpful but they aren't sufficient records on their own.

Example: deduction for repairs while property was unoccupied

Ben's rental property was tenanted when it was severely damaged by a cyclone. Due to the damage, the tenants had to move out. Ben carried out repairs in a reasonable time and then advertised the property for rent.

Even though the property wasn't available for rent while being repaired, he is able to claim for the repairs because it was rented immediately before the damage occurred.

Example: deduction for replacement of depreciable items

Josh's rental property was covered in smoke and ash from bushfires. He had the home thoroughly cleaned and had to replace all carpets and curtains. Josh can claim a deduction for the:

- cleaning
- remaining value of the pre-existing carpet and curtains
- decline in value of the new carpet and curtains.

If Josh decided to repair the damaged carpet and curtains instead of replacing them, he would claim the immediate deduction as a repair.

Example: no capital works deduction

Zahli owns a rental property that was damaged in a severe hailstorm. Because of this, her insurance company replaced the entire roof.

Zahli can't claim a capital works deduction for the new roof that was replaced by the insurer.

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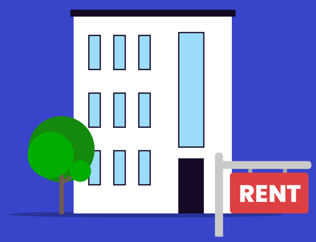
Australian Government
Australian Taxation Office

Rental properties

Body corporate fees and charges



Strata title body corporates are constituted under the strata title legislation of the various states and territories.

The body corporate maintains, manages and controls the common property on behalf of owners. It decides the amounts to be paid by the owners to make sure the body corporate can operate (body corporate fees).

What you can claim

You may be able to claim a deduction for body corporate fees and charges you pay. Not all body corporate fees are deductible in full in the income year you incur them.

Deductions depend on if you incur these fees to cover the cost of day-to-day administration and maintenance or for a special purpose.

If the funds are used for a capital expense the expense must be claimed over several years.

Administrative funds

These are payments you make to your body corporate administration fund.

These funds are used by the body corporate to cover day-to-day expenses to maintain and manage common property of the body corporate. For example, insurance premiums, maintenance of gardens and management of the body corporate itself.

You can claim an immediate deduction in the year you incur these fees.

General purpose sinking fund

The payments you make to a general-purpose sinking or reserve fund generally covers non-routine but anticipated expenses in the year the levy is raised, such as roof repairs or the painting of common property.

You can claim the sinking fund contribution in your tax return. However, you can't also claim a separate deduction for the items the funds were used for, like gardening, deductible repairs or building insurance costs.

What you can't claim

Certain body corporate fees may not be deductible in the income year you incur them, such as payments to a:

- special purpose fund, which is established to cover a specified, generally significant expense that is not covered by ongoing contributions to a general-purpose sinking fund
- special purpose fund to pay for a one-off unexpected major capital expense
- special contribution to pay for major capital expenses out of the general-purpose sinking fund.

These payments cover the cost of capital improvements or repairs of a capital nature and are not immediately deductible.

You may be able to claim a capital works deduction for your share of the expense once the work is **completed** and the cost has been charged to the fund.

Example: Immediate deduction body corporate fees

Charlie owns a strata title interest, which is a unit in an apartment block. Charlie rents out the unit to Karl.

The strata entitlement includes a right to use or have access to strata title body common property. This consists of:

- the garden area
- the lifts, stairwells and passageways
- depreciating assets.

Charlie pays a body corporate fee of $2,500 annually for the general up-keep of the building's common areas.

Charlie is entitled to claim $2,500 for body corporate fees in his tax return.

Example: Non-deductible capital works costs

Joe rents his unit to Meredith and pays a body corporate fee of $2,500 annually for the last 2 years.

Unexpectedly, the council notified the body corporate that the common veranda needed to be completely replaced because it had not been maintained to compliance standards.

As a result, the body corporate issued an enforcement notice to each unit owner to pay the amount of $10,000 into a special purpose fund to cover this emergency cost.

Joe can claim an immediate deduction for the $2,500 body corporate fee.

He can't claim a deduction for the $10,000. This expense is for future capital works and can be claimed at 2.5% for 40 years once the work is completed.

Example: Non-deductible capital works costs

Sophia rents her unit to Steve and has been paying a body corporate fee of $3,000 annually for the last 2 years.

Her body corporate contacted each unit owner and advised of a new charge to pay an additional $1,000 per year to a special purpose fund for future works to upgrade the building lifts.

Sophia can claim an immediate deduction for the $3,000 body corporate fee but can't claim a deduction for the additional $1,000. This levy is for future capital expenses and can be claimed once the work to upgrade the lifts has been completed and charged to the body corporate.

If Sophia pays $1,000 each year over the period of 5 years to upgrade the lifts, she can claim a percentage of the $5,000 each year based on the effective life of the depreciating asset from the date the works were completed.

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Renting out a room or part of your main residence

How to work out the expenses you can claim

If you rent out all or part of your home that you live in as your main residence (home), including through the sharing economy, for tax purposes you need to:

- keep records of all rental income earned and declare it in your tax return
- keep records of expenses you can claim as deductions
- calculate your capital gain or loss when you sell the property.

Income you need to declare

- all income **before** fees and commissions
- insurance payouts – for example, compensation for damage caused by renting
- bonds or security deposits you become entitled to retain
- letting and booking fees you charge, including cancellation fees.

Expenses you may be able to claim include

- council rates
- interest on a loan for the property
- electricity and gas
- property insurance
- cleaning and maintenance costs
- fees or commission charged by the platform
- other expenses that directly relate to the earning of your rental income.

How much of the expense you can claim depends on:

- the number of days the room or whole property is rented during the year
- the portion of the property you have rented out – for example, a room or the whole property.

Working out the deductions you can claim

- How big is the property?
- How big is the rented room?
- How big are the shared or common areas?
- How many days was the room rented out?

How to work it out

Rented room (claim 100% for days rented):

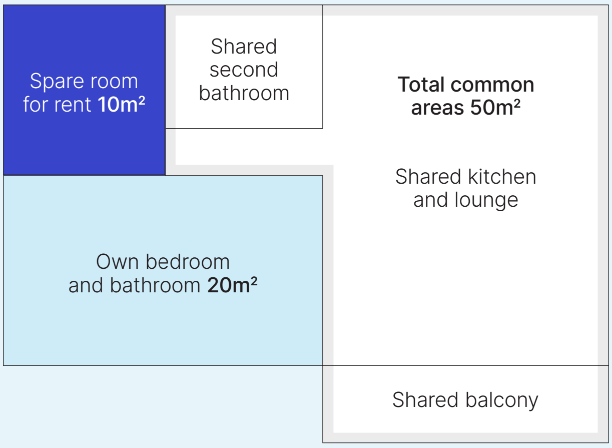
(Rented rooms size ÷ Total size of house or unit) × (Number of days rented ÷ Total days in the year) × 100 = Percent of expenses claimable

Common areas (claim 50% for days rented):

(Total common areas ÷ Total size of house or unit) × (Number of days rented ÷ Total days in the year) × 50% × 100 = Percent of expenses claimable

Example: how to work out deductions you can claim

(80m^2 unit, 10m^2 room rented for 150 days)



Rented room

(10 ÷ 80) × (150 ÷ 365) × 100 = 5.13%

Common areas

(50 ÷ 80) × (150 ÷ 365) × 50% × 100 = 12.84%

Total percentage of expenses you can claim = 17.97%

Capital gains tax when you sell

When you earn income for your home, you need to consider capital gains tax (CGT) when you sell.

When working out your eligibility for a full or partial CGT main residence exemption, you need to factor in both:

- floor-area of the residence you rent
- the number of days the property was used to generate income.

You will need to keep records, such as:

- statements from platforms that show your income
- receipts of any expenses you want to claim as a deduction.

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Australian Government
Australian Taxation Office

Capital gains tax on the sale of property

Capital gains tax (CGT) is the tax you pay on profits from disposing of assets, such as a rental property, vacant land or a holiday home. When you dispose of a property, such as by selling it, you may make a capital gain or loss.

You report capital gains and capital losses in your tax return and pay tax on your capital gains. Although it is referred to as 'capital gains tax', it is part of your income tax. It's not a separate tax.

As this is a complex topic, it may not meet your individual circumstances.

If you're uncertain, get professional advice relevant to your circumstances.

If you bought property before 20 September 1985

You're exempt from capital gains tax (CGT) if you bought property before 20 September 1985. CGT came into effect from 20 September 1985.

However, an addition or improvement, such as renovating a house, is a major capital improvement and treated as a separate CGT asset if its original cost is both:

- **more than** 5% of the amount you receive when you dispose of the asset
- **more than** the improvement threshold for the income year you dispose of the asset.

Calculate the capital gain or loss by comparing the cost base of the improvements to the proceeds of sale that are reasonably attributable to the improvements.

If you bought the property on or after 20 September 1985

When you dispose of your property – for example, you sell it, you may make a capital gain or capital loss.

- If you sell the property for more than it cost – you make a capital gain.
- If you sell the property for less than it cost – you make a capital loss.

Working out your cost base

To calculate your capital gain, you need to work out the cost base. The cost base is usually the cost of the property when you bought it, plus any costs associated with acquiring, holding and selling it. The cost base is made up of 5 elements.

Element 1 – Money paid or property given for CGT asset

This includes the total money paid (or required to be paid) for the rental property and the market value of property given (or required to be given) to acquire the asset. For example, the purchase price to acquire the asset.

Element 2 – Incidental costs of acquiring, selling or disposing of the asset

For example, stamp duty, legal fees, valuation fees.

These costs are **not included** if you:

- claimed a tax deduction for them in any year, or
- can claim a tax deduction for them because the period for amending the relevant income tax assessment has not expired.

Working out your cost base (continued)

Element 3 – Costs of owning the CGT asset

For example, insurance costs, rates and land taxes.

These costs are **not included** if you:

- can claim a tax deduction for them in any income year, or
- can claim a tax deduction for them because the period for amending the relevant income tax assessment has not expired
- acquired the asset before 21 August 1991.

Element 4 – Capital costs to increase or preserve the value of your asset or to install or move it

For example, costs for initial repairs that are not otherwise deductible.

Element 5 – Capital costs of preserving or defending your title or rights to your CGT asset

For example, legal fees to defend your ownership of the rental property.

These costs are **not included** if you:

- acquired the asset after 13 May 1997, and
- claimed a tax deduction for them in any income year, or
- can claim a tax deduction for them because the period for amending the relevant income tax assessment has not expired.

Capital works deductions

You need to subtract any capital works deductions if you acquired the rental property after 13 May 1997 and you either:

- claimed a deduction for them in any income year
- haven't claimed a deduction, but can still claim, because the period for amending the relevant income tax assessment has not expired.

Depreciating assets

A depreciating asset is considered a separate asset from the property for CGT purposes. They include things like flooring, air conditioners and white goods.

When calculating your capital gain or loss, the value of a property's depreciating assets at the time of purchase and at sale are removed from the cost base and capital proceeds.

Working out your reduced cost base

If your calculations show that you have made a capital loss, some of the costs you included when working out your cost base need to be removed. Your cost base becomes a 'reduced cost base'.

How to calculate a reduced cost base:

- Include all elements of the cost base except the third element, which changes to be the balancing adjustment amount – for example, the sale of depreciating assets in the rental property would be part of the balancing adjustment.
- Don't apply indexation to any elements of the reduced cost base.

Working out your capital gain

There are 3 methods for working out your capital gain. If eligible for more than one of the calculation methods, you can choose the method that gives you the best result – that is, the smallest capital gain.

These are:

1. Discount method – reduce your capital gain by 50% for Australian resident individuals where the asset was **held for 12 months or more** before the CGT event.
2. Indexation method – increase the cost base by applying an indexation factor based on the consumer price index (CPI). This method is only available for assets purchased **before** 11:45 am (legal time in the Australian Capital Territory) on 21 September 1999 and held for 12 months or more **before** the relevant CGT event.
3. The 'other' method – subtract the cost base from the capital proceeds (sale price) if the asset was owned for **less than 12 months**. In this case, the indexation and discount methods do not apply.

To help work out your calculation, use the CGT record keeping tool.

Timing of a CGT event

The date of the CGT event for disposing of your property is the date you enter a **contract for the sale** of disposal, **not** the settlement date.

If there's no contract, the CGT event takes place when the change of ownership occurs.

The timing of a CGT event tells you the income year to report your capital gain or loss and may affect how you calculate your tax liability.

Inherited property

If you inherit property, there are special rules for calculating the Cost base of inherited assets.

Apportioning gain or loss

If you are a co-owner of a property, any capital gain or loss must be apportioned to your share of the ownership interest in the property.

Main residence

If your rental property was your main residence

Generally, your main residence is exempt from CGT. A property stops being your main residence once you stop living in it. However, you can choose to continue treating it as your main residence for CGT purposes even though you no longer live in it:

- for up to 6 years if it's used to produce income (the 6-year rule)
- indefinitely, if it's not used to produce income.

You can't treat any other property as your main residence for the same period (except for a limited time if you're moving to a new house – up to 6 months).

You make the choice to treat a property as your main residence, when preparing your tax return. Do this in the income year you enter a contract to sell the property and report the main residence exemption in the CGT section of your tax return.

If you use your former home to produce income for more than 6-years in one absence, it's subject to CGT for the period after the 6-year limit and you need to report a capital gain, or loss as well as the main residence exemption.

If you sold property as vacant land, including when you demolish your main residence, or intended to build on that land before selling – you're **not** entitled to a main residence exemption. Report the capital gain or loss when you sell the property.

Using your main residence to produce income

If you rent out part of your home or run a business from home, you don't get the full main residence exemption from CGT. You're **not** entitled to the full main residence exemption when:

- you acquire a property on or after 20 September 1985 and used it as your main residence, and
- you're allowed a deduction for interest on money borrowed to acquire the property (interest deductibility test).

Value of home when first used to produce income rule

To work out your capital gain, you need to know the market value of your property at the time you first used it to produce income if **all** the following apply:

- you acquired the property on or after 20 September 1985
- you first used the property to produce income after 20 August 1996
- when a CGT event happens to the property, you would get a partial exemption as you used the property to produce assessable income during the period you owned it (and the 6 year rule doesn't apply).
- you would have been entitled to a full exemption if the CGT event happened to the property immediately before you first used it to produce income.

Use our Capital gains tax property exemption tool to calculate the percentage of your exemption.

To determine the property's market value at the time of change of use, you should get a professional market valuation.

If you used your property to earn income and you're eligible for a CGT exemption or rollover, including the main residence exemption, make the election in your tax return at the CGT section.

For more information, see ato.gov.au/MREfactsheet.

Example: partial main residence during part of the ownership period

Vrinda bought a house on 1 July 2008 for $350,000 and moved in immediately. On 1 July 2015 she bought a new house and moved into it on 1 December 2015 (5 months later) as her main residence and began to rent out her old house. She had a valuation done at the time for $500,000 for her old house.

She sold the old house (rental property) for $950,000. Its contract for sale was signed on 1 July 2023.

When Vrinda started renting out the old house on 1 December 2015, its market value was $500,000 (value at the time of first use for producing income).

Vrinda also had incidental costs for $15,000 for selling the property and made a capital gain of $435,000. Since she owned her old house for at least 12 months, she uses the discount method to calculate her net capital gain of $217,500.

> **$950,000 - $500,000 + $15,000 = $435,000 ÷ 50% = $217,500 net capital gain**

She adds $217,500 in her tax return at **Net capital gain**.

Example: renting out part of a home

Thomas purchased a house 1 July 1999 and sold it on 30 June 2023. The house was his main residence for the entire time.

Throughout the period Thomas owned the home, a long-term tenant rented one bedroom (20% of the homes floorplan). Both Thomas and the tenant used the living room, bathroom, laundry and kitchen (30% of the homes floorplan). The rest of the home was only used by Thomas.

Thomas is entitled to a 35% (20% + half of 30%) rental deduction for interest on money borrowed to acquire his home.

Thomas made a capital gain of $120,000 when he sold the home. Of this total gain, he calculates the portion of the gain that isn't eligible for the main residence exemption. Thomas includes the taxable portion of the capital gain in his tax return, calculated as:

> Capital gain × percentage of floor area = Taxable portion

> **$120,000 × 35% = $42,000**

Thomas can use either the indexation or the discount method to calculate his net capital gain.

Record keeping

You must keep records relating to your ownership and all the costs of acquiring, holding and disposing of property such as, contract of purchase and sale, stamp duty and major renovations.

Records are generally required to be held for at least 5 years after the sale of the property (or year you declare a capital gain). If you make a capital loss, once you've offset the loss against a capital gain, keep your records for a further 2 years.

For more information, see ato.gov.au/Rentaltaxsmarttips.

Foreign residents and capital gains tax

There are special CGT rules if you're a foreign resident for tax purposes when you sell residential property in Australia.

As this is a complex topic, it may not meet your individual circumstances. If you're uncertain, get professional advice relevant to your circumstances.

Example: sale of a rental property

Brett purchased a residential rental property on 1 July 1998, for $350,000 of which $12,000 was attributed to depreciating assets. He also paid $20,000 for pest and building inspections, stamp duty and solicitor's fees.

For the next few years, Brett incurred the following expenses on the property and claimed them in the years they occurred:

Interest on money borrowed	$10,000
Rates and land tax	$8,000
Deductible (non-capital) repairs	$15,000
Total	**$33,000**

Brett can't include the expenses of $33,000 in the cost base, as he already claimed rental deductions for them.

When Brett decided to sell the property, a real estate agent advised him to spend $30,000 on renovations so the property would be valued at $900,000. The renovations were completed on 1 October 2023, costing $30,000, while the property was still rented.

On 1 February 2024 he sold the property for $900,000 ($4,000 was attributed to depreciating assets), 124 days after the completion of the renovations. Brett also incurred $12,000 in real estate agents fees and solicitor's fees on disposal.

Brett claims a capital works deduction of **$254** ($30,000 × 2.5% × 124 ÷ 366) for the renovations.

Brett works out his cost base as follows:

- Purchase price of property ($350,000 – $12,000 (depreciating asset)) *plus*
- Pest and building inspections, stamp duty and solicitor's fees on purchase of the property ($20,000)
- Capital expenditure (renovations) ($30,000 – $254 (capital works deduction))
- Real estate agent's fees and solicitor's fees on sale of the property ($12,000), *equals*
- **Cost base unindexed** – that is: **$338,000 + $20,000 +$29,746 + $12,000 = $399,746**

Brett deducts his cost base from his capital proceeds (sale price) as below:

- Proceeds from selling the house ($900,000 – $4,000 (depreciating assets)), $896,000
- *Less* Cost base unindexed **$399,746**
- **Capital gain $496,254** ($896,000 – $399,746).

He decides the discount method gives him the best result, so he uses it to calculate his net capital gain: **$496,254 × 50% = $248,127**

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Capital gains tax

and the main residence exemption

Eligibility for the main residence exemption

Your main residence (your home) is generally exempt from capital gains tax (CGT) if you meet the following conditions.

You are an Australian resident and the dwelling:

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

If you meet the eligibility conditions, you can claim a full main residence exemption and don't pay tax on any capital gain when a CGT event happens (for example, you sell it) and you ignore any capital loss.

If you don't meet all these conditions, you may still be entitled to a partial main residence exemption. If this happens, you need to report capital gains or losses and the main residence exemption in your tax return.

What is a main residence?

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

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

To be your main residence, your property must have a dwelling on it and you must have lived in it.

You can only have one main residence for the same period, except where you acquire a new home before you dispose of your old one. You can treat both as your main residence for up to 6 months.

What is a dwelling?

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

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

When to report your capital gain, loss or main residence exemption

When you sell your property, the date of the CGT event is the date you sign the contract of sale – not the date of settlement.

For example, a contract signed on 29 June 2023, but settled on 1 August 2023 needs to be reported in the 2022–23 income year.

In your tax return in the same income year as your contract of sale, you report:

- the capital gain or capital loss
- if you're claiming the main residence exemption.

Main residence exemption eligibility – common scenarios

Use this list of common scenarios to find out about eligibility to a main residence exemption and what you need to report in your tax return when you have sold your property.

Common scenarios for eligibility to the main residence exemption and what to report in your tax return when you sell your property

Scenario… During property ownership period	Eligibility for main residence exemption (MRE)	What to include in your tax return
You lived in your home the entire time you owned it, but your home is on more than 2 hectares of land	You're eligible to claim a partial MRE for the area your house is on up to 2 hectares of land. The rest of the property is subject to CGT. For more information, see Home on more than 2 hectares.	Report MRE. Report CGT gain or loss amount.
You lived in the property before renting it out for 6 years or less	You may elect to claim a full MRE, but you can't claim the exemption for another property for the same period. If you make the choice to continue to treat your former home as your main residence, and you rented it out for 6 years or less until its sale, include the MRE in your tax return. For more information, see Treating former home as main residence.	Report MRE.
You first lived in the property and then rented it out for more than 6 years	You're eligible for a partial MRE. You can choose to treat the property as your main residence for the period you lived in it and the first 6 years you rented it out, but you can't claim the exemption for another property for the same period. CGT must be applied for the remaining time you rented out the property until its sale. For more information, see Treating former home as main residence.	Report MRE. Report CGT gain or loss amount.
You rented the property out before you moved into it	You're eligible for a partial MRE. CGT must be applied to the period you rented it before living in the property. This includes when tenants remain in the property after settlement. For more information, see Using your home for rental or business.	Report MRE. Report CGT gain or loss amount.
You used part of your home to earn rental income	You're eligible to claim a partial MRE for the part of your home not used to produce assessable income. This includes renting part of your property on a sharing economy platform (for example Airbnb or Stayz). For more information, see Using your home for rental or business.	Report MRE. Report CGT gain or loss amount.
You used part of your home to run a business	You're eligible to claim a partial MRE for the part of your home not used to produce assessable income. You are running a business from home if it is your principal place of business and you have a space set aside just for this purpose. Merely working from home occasionally does not qualify. For more information, see Using your home for rental or business.	Report MRE. Report CGT gain or loss amount.

Common scenarios when you sell your property and are not eligible for the main residence exemption and what to report in your tax return

Scenario… During property ownership period	Eligibility for main residence exemption (MRE)	What to include in your tax return
You own your home and a holiday house	If you own 2 homes at the same time – for example, your home and a holiday house - you can only apply the MRE to one property at a time. A holiday house can only be treated as your main residence if you move into the property and live in it as your main residence. If you are intending to claim a full MRE for your home when you sell it, you need to report a capital gain or loss when you sell your holiday house. For more information, see Holiday homes.	Report MRE Report CGT gain or loss amount.
You rented the property and never lived in it	You're not eligible for the MRE. For more information, see CGT when selling your rental property	Not eligible for MRE. Report CGT gain or loss amount.
You bought vacant land with the intent to build a new home, but didn't build and sold it as vacant land	You're not eligible for the MRE if you sold vacant land, even if your intention was to build a home on it. For more information, see: • Eligibility for main residence exemption • Vacant land and subdividing.	Not eligible for MRE. Report CGT gain or loss amount.
You demolished your home and sold the property as vacant land.	You're not eligible for a MRE when you sell vacant land, even if you lived in the house as your main residence before demolishing it. For more information, see Vacant land and subdividing.	Not eligible for MRE. Report CGT gain or loss amount.
You subdivided a property and sold the new subdivision as vacant land.	You're not eligible for the MRE if you subdivide a block and sell as vacant land. For more information, see Subdividing and combining land.	Not eligible for MRE. Report CGT gain or loss amount.
You subdivided the property your home is on and built a house on the new subdivision then sold it.	You're not eligible for a MRE when you sell the new subdivided property. For more information, see Subdividing and combining land.	Not eligible for MRE. Report CGT gain or loss amount.

Scenario… During property ownership period	Eligibility for main residence exemption (MRE)	What to include in your tax return
You're a foreign resident and sold your property after 30 June 2020.	You're not eligible for a MRE unless you satisfy the life events test. This is even if you were a resident for some of the time you owned the property. For more information, see Main residence exemption for foreign residents.	If you don't satisfy the life events test: • you're not eligible for MRE • report CGT gain or loss amount • claim any CGT foreign resident withholding credit. If you satisfy the life events test: • report MRE • claim any CGT foreign resident withholding credit.

Common scenarios when you sell your home and are eligible for a full main residence exemption

Scenario… During property ownership period	Eligibility for main residence exemption (MRE)
You lived in your home the entire time you owned it, and did not earn any income from renting it or running a business from home	You're eligible to a full MRE. For more information, see Eligibility for main residence exemption.
You moved into your new home before selling your old home.	You're eligible to a full MRE. You can treat both properties as your main residence for up to 6 months when you acquire a new home before you sell your old one. For more information, see Moving to a new main residence.
You occasionally work from home, but your home is not your place of business.	You're eligible to a full MRE. Occasional work from home is treated differently to running a business from your home. If you're not entitled to deduct interest and other occupancy expenses, working from home doesn't affect your eligibility for the MRE. For more information, see Using your home for rental or business.

Scenario… During property ownership period	Eligibility for main residence exemption (MRE)
You are an Australian resident, and you inherited the property from an Australian resident.	You're eligible to a full MRE if the property was the deceased person's main residence prior to their death and you dispose of the property within 2 years. This includes if you rent it out during the 2 years after their death. For more information the tax implications of deceased estate residences, see Inherited property and CGT.
You built or renovated your home on land you own.	You're eligible to a full MRE for up to 4 years before you move in. • You must move into your home as soon as practicable after it's finished • You must continue to use it as your main residence for at least 3 months • You can't claim the exemption for another property for the same period. For more information, see Building or renovating your home.
You demolished your home and built a new one.	You're eligible to a full MRE. If the home was originally your main residence, you knocked it down and rebuilt within 4 years and moved back in, you can apply the MRE from the date your original home was purchased. You can't claim a MRE for another property for the same period. For more information, see Building or renovating your home.
You subdivided your property and remained in your original residence.	You're eligible to a full MRE. You will be required to report a capital gain or loss on the subdivided land, but not your original main residence. For more information, see Subdividing and combining land.
Your home is accidentally destroyed (for example, by a natural disaster) and you sell the vacant land.	You're eligible to a full MRE as the land is treated as if the home wasn't destroyed. If you acquire a new home before you dispose of the land, you can treat both as your main residence for up to 6 months. For more information, see Destruction of your home.
You create a granny flat arrangement involving your main residence	You're eligible to a full MRE The creation, variation or termination of a granny flat arrangement does not affect the main residence exemption. This is because the granny flat arrangement is a right to occupy the property, not a right to the property itself. For more information, see Granny flat arrangements and CGT.

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Marriage or relationship breakdown and real estate transfers

Capital gains tax (CGT) generally applies to changes in ownership of an asset, such as real estate. However, if you transfer real estate to your spouse due to the breakdown of your marriage or relationship, you may be eligible for a CGT marriage or relationship breakdown rollover.

As this is a complex topic, it may not meet your individual circumstances. If you're uncertain, seek professional advice relevant to your circumstances.

Marriage or relationship breakdown rollover

A marriage or relationship breakdown rollover may apply when the transfer of property (by you, a company or the trustee of a trust) results from a court order, a binding financial or formal agreement or an award.

This rollover means that you disregard any capital gain or loss made when you transfer the property to your spouse.

For the **transferor** (the person, company or trustee of a trust transferring an asset):

- Your interest in the property is transferred to your spouse.
- You disregard any capital gain or loss.
- You report the rollover in your tax return.

For the **transferee** (the spouse receiving the asset):

- The property and cost base are transferred to you.
- You make a capital gain or loss when you dispose (such as selling) the property.
- If you already had a legal interest in the property, you must calculate your capital gain or loss separately to the interest transferred from your spouse.
- If the transferred property was acquired by your spouse (or a company or trustee) before 20 September 1985, CGT doesn't apply. However, if they made a major capital improvement to the dwelling on or after 20 September 1985 the improvements are separate assets and you may be subject to CGT.

If a rollover doesn't apply

The rollover doesn't apply to property that's divided under a private or informal arrangement. This includes anything outside of a court order or binding financial or formal agreement.

For the **transferor** (the person, company or trustee of a trust transferring an asset):

- Your interest in the property is transferred to your spouse. You must consider any capital gain or loss made when working out your capital gain (or capital losses carried forward to future years) on your tax return for that year.
- Where the dealings are not arm's length, you are taken to have received the market value of the property for CGT purposes.

For the **transferee** (the spouse receiving the asset):

- The property is transferred to you and you're taken to have acquired it at the time of transfer. You make a capital gain or loss when you sell the property.

If a rollover doesn't apply (continued)

- Where the dealings are not arm's length, you are taken to have acquired the property at market value for CGT purposes.
- If you already had a legal interest in the property, calculate your capital gain or loss separately from the interest transferred from your spouse.

Note: An arm's length dealing is where each party acts independently and without influence or control over the other. It depends on the nature of your relationship and the bargaining between you.

To determine the property's market value at the time of transfer, you should get a professional market valuation.

Record keeping

Keep records relating to your ownership and all costs of acquiring, holding and disposing of property including:

- contract of purchase and sale
- stamp duty
- major renovations.

Ensure you have records from your spouse if you don't already have a copy, including records that show:

- how and when they acquired the property (or the interest in it)
- the cost base of the property when transferred it to you
- the extent (if any) the property was used to produce income during their ownership period (for example, the periods when it was rented out or available for rent) and the portion used for that purpose
- the number of days (if any) it was their main residence during their ownership period.

You must hold records for at least 5 years after the sale of the property, or the year you declare a capital gain.

If you make a capital loss, once you've offset the loss against a capital gain, keep records for another 2 years.

Example: transferor is entitled to rollover

Sam and Alex jointly bought a holiday home on 1 March 2010 for $400,000. The home was never used to produce assessable income, or their main residence.

Sam and Alex's relationship broke down and on 1 March 2020, Sam's ownership interest in the property was transferred to Alex under the terms of a binding agreement.

Alex moved into the property on 1 March 2020. He lived there until he sold it on 29 February 2023 for $800,000.

During the ownership period, the property was used as below.

Property ownership dates and interest percentage

Property classification	Dates	Ownership interest
Holiday home	1/03/2010 to 29/02/2020	50% Sam + 50% Alex
Alex's main residence	1/03/2020 to 28/02/2023	100% Alex

Sam is entitled to the relationship breakdown rollover and doesn't have to report a capital gain or loss, however he will need to report the rollover in his tax return.

Alex must consider how he and Sam used the property during their respective ownership periods to determine if a partial main residence exemption applies.

Alex calculates the capital gain on his original interest in the property separately to the interest Sam transferred to him.

Example: pre-CGT assets and main residence exemption

After marrying, Sergio and Nina bought a home on 1 February 1985 for $175,000. They decided to convert their original home into a residential rental property and buy another home. They bought a larger home on 1 January 1996 for $325,000, that became their main residence.

This means they each owned 50% of the interest in the following assets.

CGT assets purchase price and date

Asset	Purchase price	Purchase date
Rental property	$175,000	1 February 1985
Family home	$325,000	1 January 1996

Sergio and Nina's marriage broke down and, on 1 April 2012, a court order was made:

- Nina transferred her interest in the rental property to Sergio
- Sergio transferred his interest in the family home to Nina.

After the court order, Nina continued living in the family home and Sergio moved into the rental property.

The CGT implications are:

Rental property – as the couple acquired the property before the introduction of CGT on 20 September 1985, Sergio is taken to have acquired Nina's interest in the property before that date. As the property is a pre-CGT asset, there are no capital gain or loss obligations for either party, unless major capital improvements were made to the property after 19 September 1985.

Family home – Sergio and Nina lived here from the time of purchase until the court order. It remained Nina's main residence after Sergio transferred his interest to her.

As the property was transferred to Nina under a court order, Sergio is entitled to the marriage or relationship breakdown rollover and he doesn't have to record a capital gain or loss. Sergio will need to report a marriage or relationship rollover in his tax return.

Nina is taken to have acquired Sergio's interest in the family home. Nina's cost base includes Sergio's cost base at the time of transfer, as well as the cost base of her own original interest. This means, the full purchase price of the property ($325,000) forms part of the cost base for Nina.

Nina considers how she and Sergio used the property during their respective ownership periods to determine if a main residence exemption applies. The property was their main residence since purchase and they didn't use it to produce income at any time, so Nina is entitled to the main residence exemption.

The property isn't subject to any CGT on sale.

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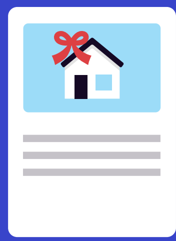
Capital gains tax on inherited property



The property you inherit is a capital asset you acquire on the day a person dies. Generally, capital gains tax (CGT) doesn't apply at the time you inherit the dwelling. However, CGT will apply when you later sell or dispose of the dwelling, unless an exemption applies.

This depends on whether:

- the deceased person acquired the property before or after 20 September 1985
- it was the deceased person's main residence immediately before they died, and wasn't being used to produce income at the time
- the deceased person was an excluded foreign resident at the time of death
- you were an Australian resident when you inherited the property
- it was your main residence, or
  - the main residence of anyone with the right to occupy it under the will
  - the main residence of the spouse of the deceased person immediately before their death
  - wasn't used to produce income
- you dispose of an inherited property within 2 years of the deceased person's death and either
  - the deceased acquired the property before 20 September 1985
    - this exemption applies whether or not you used the dwelling as your main residence or to produce income during the 2-year period
  - the deceased acquired the property on or after 20 September 1985
  - the dwelling passed to you after 20 August 1996, and it was the deceased person's main residence and not being used to produce income just before the date they died.

Note: The 2-year limit is extended if disposal of the property is delayed by exceptional circumstances outside your control. Safe harbour in these circumstances provides for the 2-year limit to be extended for another 18 months.

For more information, see Extensions to the 2-year ownership period.

CGT main residence exemption rules when you sell a dwelling that was passed to you after 20 August 1996

1. **Did the deceased person acquire the dwelling before 20 September 1985?**
   - Yes – continue to question 2
   - No – continue to question 5

2. **Did settlement of your contract to sell the dwelling:**
   - happen within 2 years of the person dying, or
   - are you eligible for an extension?
     - Yes – dwelling is fully exempt
     - No – continue to question 3

CGT main residence exemption rules (continued)

3. From the deceased person's death until settlement, was the dwelling the main residence of either:

- you
- an individual who had a right to occupy the dwelling under the will
- the spouse of the deceased person
  - Yes – continue to question 4
  - No – CGT applies (you may qualify for a part exemption).

4. Was any part of the dwelling used to produce income, from the deceased person's death until settlement?

- Yes – CGT applies (you may qualify for a part exemption)
- No – dwelling is fully exempt.

5. Was the dwelling the deceased person's main residence just before they died?

- Yes – continue to question 6
- No – CGT applies (you may qualify for a part exemption).

6. Just before they died, was the dwelling being used to produce income?

- Yes – CGT applies (you may qualify for a part exemption)
- No – continue to question 2.

When the deceased person died before 20 September 1985

If the deceased person died before 20 September 1985, the property is exempt from CGT when you sell it (it is a pre-CGT asset). However, if you made a major capital improvement to the dwelling on or after 20 September 1985 the improvements are a separate asset and may be subject to CGT.

How to determine the value of an inherited property

The acquisition cost of the property is the market value of the property at the date of death, if any of the following apply:

- the property was acquired by the deceased before 20 September 1985
- the property was passed to you after 20 August 1996 (but not as a joint tenant), and
  - it was the deceased person's main residence just before they died
  - it wasn't used to produce income
- the dwelling was passed to you as the trustee of a special disability trust.

In all other circumstances, your acquisition cost is the deceased's cost base on the day they died. This means:

- the deceased's original purchase price, and
- any other costs incurred then and afterwards (by the deceased) – for example, legal fees on that purchase and any capital improvements.

You may need to contact the trustee or the deceased's tax advisor to get these details.

Joint tenants and tenants in common

If 2 or more people acquire a property together, it can be either:

- tenants in common
- joint tenants.

Tenants in common

If a tenant in common dies, their interest in the property becomes the asset of their deceased estate. This means it can be:

- transferred to a beneficiary of the estate (only)
- sold (or otherwise dealt with) by the legal personal representative of the estate.

How to determine the value of an inherited property (continued)

Joint tenants

For CGT purposes, if you are a joint tenant you:

- are treated as if you are a tenant in common
- own equal shares in the asset.

However, if you're a joint tenant and another joint tenant 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.

This means, if the dwelling was the deceased's main residence, you may be entitled to the main residence exemption for the interest you acquired from them.

Inherited dwelling from, or as, a foreign resident

The law for foreign residents changed on 12 December 2019. This may affect your entitlement to claim the main residence exemption on an Australian residential property you inherit from a foreign resident.

The changes may also apply to you if:

- you inherit an Australian residential property
- you have been a foreign resident for more than 6 years when you sell or dispose of the property.

Inheriting a dwelling from someone who inherited it themselves

If you inherit a deceased persons property, who also acquired the interest in the property on or after 20 September 1985 as a beneficiary (or trustee) of a deceased estate, you may be entitled to a partial main residence exemption. This is calculated on the number of days the property was your and the previous beneficiary's main residence.

Example: surviving joint tenant

In 2005, Ming and Lee buy a residential property for $300,000 as joint tenants. Each one has a 50% interest in it. They live in it as their main residence.

On 1 May 2022, Lee dies. Ming acquires Lee's interest for an amount equal to Lee's cost base on that day (1 May 2022).

Ming continues to use the property as his main residence after Lee's death. He is entitled to the main residence exemption for the interest he acquired from Lee, as well as for his original interest.

Example: fully exempt – deceased acquired the dwelling on or after 20 September 1985 and beneficiary sold it within 2 years of death

Rodrigo was the sole occupant of a flat he bought in April 1990. He has only ever lived in it and not used it to produce income.

Rodrigo died in January 2021. He leaves the flat to his son, Petro. Petro initially rents out the flat and then sells it 15 months after his father died.

Petro is entitled to a full exemption from CGT. This is because Rodrigo lived in it when he died and Petro disposed of it within 2 years of his father's death.

Example: partial exemption – main residence of deceased but then rented out for more than 2 years after death by beneficiary

Lucy buys a home on 1 April 2000 for $250,000. It's her main residence from the time she acquired it until her death on 31 March 2012 (a total of 4,383 days). The property passes on to her beneficiary, Amy.

Amy lets the home as a rental property throughout her ownership period. After 8 years she decides to sell. Amy sells the rental property for $975,000 on 30 June 2020 (3,013 days after Lucy's death).

The acquisition cost of the property for Amy is its market value at Lucy's date of death, which was $425,000. This is because it was:

- passed to Amy after 20 August 1996
- Lucy's main residence immediately before her death
- not producing income at Lucy's date of death.

Amy needs to declare the capital gain as follows:

- calculate CGT
  - sale price $975,000
  - acquisition cost (total cost base) $425,000
- deduct cost base from sale price
  - total capital gain $550,000.

Amy's taxable portion of the capital gain is calculated as:

Capital gain amount × (Non-main residence days ÷ total days)

The non-main residence days is the number of days Lucy and Amy used the dwelling to produce income, which is 3,013 (0 for Lucy and 3,013 for Amy). Total days is the number of days Lucy and Amy owned it, which is 7,396.

Amy's capital gain is:

$550,000 × 3,013 ÷ 7,396 = $224,060

Amy can use the CGT discount method to reduce her capital gain by 50%.
This reduces her capital gain to $112,030.

Example: partial exemption – inherited rental property – main residence of beneficiary

Vicki bought a house for $200,000 on 12 February 1998 and uses it as a rental property. She dies on 17 November 2001 (owning the home for a total of 1,375 days). The house passes on to her beneficiary, Lesley, who uses it as his main residence.

As the property was purchased by Vicki after 20 September 1985 and used solely for income producing purposes, Lesley's acquisition cost is Vicki's cost base on the day she died of $208,000. The cost base includes $200,000 plus legal fees and solicitor fees on purchase.

Lesley sells the property for $650,000 on 27 November 2022. He owned it for a total of 7,681 days. As the house was not Vicki's main residence just before she died, Lesley can't claim an exemption from CGT for the period Vicki used the house to produce income.

However, Lesley is entitled to a partial exemption from CGT for the period he used the house as his main residence. This is throughout his ownership period of 7,681 days only.

Example: partial exemption – main residence deceased – rental property and main residence beneficiary

Mary acquired a dwelling on 1 June 2002 for $650,000. It is her main residence until she dies on 31 August 2007 (a total of 1,918 days). Her son, Steve, inherits the dwelling and rents it out.

After renting the dwelling until 31 August 2010 (a total of 1,096 days), Steve begins living in it as his main residence. On 31 August 2022 he sells it for $900,000 (owning it for a total of 5,479 days).

Mary acquired the main residence after 19 September 1985 and didn't use it to produce income. On her death, the house was passed to Steve as a beneficiary after 20 August 1996. This means, Steve acquired the dwelling at its market value of $720,000 at the time he first used it to produce income.

The house was Mary's main residence just before she died and Steve used the property as his main residence as well as a rental property. Steve can't claim an exemption from CGT for the period he used the house to produce income. However, he can claim a partial exemption from CGT for the period Mary and Steve used the house as their main residence in their ownership period.

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Capital gains tax on sale of shares or units

When you sell or dispose of shares or units you may make a capital gain or capital loss. This will depend on when you bought or acquired the shares or units.

If you bought the shares or units:

- **before 20 September 1985** – you are exempt from capital gains tax (CGT), because CGT came into effect from 20 September 1985
- **on or after 20 September 1985** – you may make a capital gain or capital loss when you dispose of the shares or units.

Calculating CGT on the sale of your shares or units

A capital gain or loss is the difference between your:

- Cost base
- Capital proceeds.

Cost base

When buying or selling shares or units you need to work out your cost base. The elements of the cost base relating to shares or units are generally:

- what you paid for your shares or units
- certain incidental costs of buying and selling the shares or units
  - brokerage or agent fees
  - legal fees
  - investment adviser's fees (but not investment seminar costs)
- the costs of owning the shares or units, such as interest on monies borrowed to acquire the asset (generally this won't apply to shares or units because you will usually have claimed or be entitled to claim these costs as a tax deduction)
- capital costs of preserving or defending your title or rights to your shares or units.

Capital proceeds

The amount you receive or the market value of what you should have received when you dispose of your shares or units.

Share parcels

A parcel of shares is a distinct number of shares that you own. You can buy different parcels of shares in the same company at different times.

Each parcel of shares that you own added together make up your 'holding' or equity in the stock of that company. For example, you may buy 2 parcels of 500 AZY shares at different times. You have a total of 1,000 AZY shares in your portfolio, made up of 2 parcels.

Parcel selection methods

Shares can be described as 'fungible' because one share is identical to and interchangeable with any other share.

As one share is functionally identical to all others of the same share class (for example, ordinary shares, preference shares) in that company, it is difficult to identify which shares were disposed of. The shares that are disposed of need to be identified to work out the cost base when calculating CGT.

There are 3 common ordering methods for parcel allocation when calculating CGT on shares:

- FIFO (first-in, first out), where the shares bought first are sold first, regardless of cost
- LIFO (last-in, first-out), where the shares bought last are sold first, regardless of cost
- HIFO (highest-in, first-out), sometimes also referred to as HCFO (highest-cost, first-out) – the most expensive shares bought are sold first, regardless of timing.

A different method of parcel selection may be applied for each parcel of shares sold. Most people use FIFO because it is the easiest to keep track of, however you can choose any of these 3 methods.

Capital losses

It is important to report all capital losses in your tax return, so they carry forward and can be applied against future capital gains.

You can only claim a loss for shares or units you have disposed of. You can't claim a 'paper loss' on investments you continue to hold because they may have decreased in value.

If you make a capital loss from the sale of your shares or units, the loss:

- can only reduce capital gains
- can be carried forward indefinitely to reduce future capital gains
- can't reduce your other income such as salary and wages
- can't be converted to revenue losses in future years, even if you haven't been able to reduce it against a capital gain.

You can also make a capital loss on your shareholding when an administrator or liquidator makes a written declaration that a company's shares are worthless.

Working out your net capital gain

There are 3 methods for working out your net capital gain. If eligible for more than one of the calculation methods, you can choose the method that gives you the best result. This is the method that gives you the smallest capital gain.

The 3 methods are:

- **Discount method** – reduce your capital gain by 50% for Australian resident individuals where the asset was held for 12 months or more before the CGT event.
- **Indexation method** – increase the cost base by applying an indexation factor based on the consumer price index (CPI). This method is only available for assets bought at or before 11:45 am (legal time in the Australian Capital Territory) on 21 September 1999 and held for 12 months or more before the relevant CGT event.
- **The 'other' method** – subtract the cost base from the capital proceeds if the asset was owned for less than 12 months. In this case, the indexation and discount methods don't apply.

To help you work out your calculation, use the CGT record keeping tool.

Timing of a CGT event

The timing of a CGT event is important because it determines the income year you report your capital gain or capital loss in.

- If you sell or dispose of the shares or units, the CGT event happens when you enter the contract of sale.
- If there's no contract, the CGT event happens when you stop being the owner of the shares or units. For example, when you sell your shares or units.
- If you receive a distribution of a capital gain from a managed fund, you make the capital gain in the income year shown on your statement from the managed fund.

Disposing of shares or units

You can dispose of your shares or units:

- by selling them
- by giving them away
- by transferring them to a spouse due to a breakdown in your marriage or relationship
- through share buy-backs
- through mergers, takeovers and demergers
- because the company goes into liquidation.

Disposal of shares or units includes the sale, exchange or gifting of all or part of a share or unit. Before selling your shares or units, ensure you identify the correct date of disposal.

- If you dispose of shares or units you received as a gift, you must use the market value on the day that you received them. Use the market value as the first element of your cost base when working out your capital gain or loss.
- If you give shares or units as a gift, treat them as if you disposed of them at their market value on the date you gave this gift. This means a CGT event has occurred. You must include any capital gain or capital loss in your tax return for the income year you gave them away.

Scrip for Scrip rollover relief enables a shareholder to disregard a capital gain made from a share that is disposed of as part of a corporate take-over or merger if the shareholder receives a replacement share in exchange. However, scrip for scrip rollover is only available when the original and replacement interests being exchanged are of the same type. If you are eligible for the rollover, make sure you include the scrip for scrip rollover in the CGT section of your tax return when you lodge.

Disposing of inherited shares

When you sell shares or units you inherit, the normal rules for calculating CGT apply.

Depending on the circumstances, the cost base and acquisition date may be based on either:

- when the deceased acquired it
- when they died.

If the deceased acquired the asset:

- before 20 September 1985
  - you are taken to have owned it since the deceased died
  - your cost base is the market value of the asset on the day the deceased died, plus any other elements of their cost base
- on or after 20 September 1985
  - you are taken to have owned it since the deceased acquired the asset
  - your cost base is the deceased's cost base for the asset on the day they died.

Record keeping

You need to keep records of all your transactions associated with acquiring, holding and disposing of your shares or units.

Records may include:

- receipts of purchase, sale or transfer – for example, documents that show price, date and volume
- interest on money you borrowed relating to the asset
- accountant and legal costs
- brokerage fees on purchase and sale.

Records are generally required to be held for at least 5 years after the disposal of the shares or units (or year in which you declare a capital gain). If you make a capital loss, once you've offset the carried forward loss against a capital gain, you should keep your records for a further 2 years.

Foreign and temporary residents

Foreign and temporary residents are only subject to CGT if a CGT event happens to a CGT asset that is taxable Australian property.

Shares in widely held, publicly listed companies aren't generally considered to be taxable Australian property. Therefore, shares that are purchased and sold by a foreign or temporary resident (even if on the Australian stock exchange) are not liable for CGT, as shares are not Australian taxable property.

If you cease to be a temporary resident but remain an Australian resident (for example, becomes a permanent resident or citizen), you are taken to have acquired the shares (excluding pre-CGT shares) for their market value at the time you ceased being a temporary resident.

Temporary residents:

- hold a temporary visa granted under the *Migration Act 1958*
- aren't an Australian resident within the meaning of the *Social Security Act 1991*
- don't have a spouse who is an Australian resident within the meaning of the *Social Security Act 1991*.

The *Social Security Act 1991* defines an 'Australian resident' as a person who resides in Australia and is an Australian citizen or the holder of a permanent visa. A person with a protected special category visa and who was in Australia on or before 26 February 2001 is also considered an Australian resident for the purposes of the Act. This is different to the standards used to determine tax residency.

Anyone who is an Australian resident for tax purposes on or after 6 April 2006 but isn't a temporary resident can't later become a temporary resident, even if they later hold a temporary visa.

For more information, see Your tax residency.

Example: capital gain

On 6 November 1997 Ellie bought a parcel of 10,000 shares in AZY at $2.50 per share.

Ellie was charged $50 brokerage for the purchase transaction.

On 14 October 2023 Ellie decided to sell all her AZY shares due to their excellent price of $6.40 per share. Ellie sold 10,000 shares at $6.40 per share and her capital proceeds from the sale were $64,000. She was charged $30 brokerage for the sale transaction.

The cost base of the shares was $25,080 (10,000 × $2.50 price per share + $80 brokerage).

Ellie made a total capital gain of $38,920 on the sale of her AZY shares ($64,000 – $25,080).

As Ellie held her shares for more than 12 months prior to the CGT event she was able to apply the discount method, reducing her total capital gain by 50%.

Ellie reported the sale of her AZY shares in her 2024 tax return by recording a:

- $38,920 total current year capital gain
- $19,460 net capital gain.

Example: capital loss

On 10 November 2023 Trevor purchased a parcel of 18,000 shares in XYZ at $3.60 per share.

Trevor was charged $50 brokerage for the purchase transaction.

A few months later, Trevor's circumstances changed and he decided to sell his shares, even though the current price of the shares was lower than when he purchased them.

On 6 March 2024 Trevor sold all his 18,000 XYZ shares for a price of $2.70 per share and his capital proceeds from the sale of the shares were $48,600. He was charged $40 brokerage for the sale transaction.

The reduced cost base of the shares was $64,890 (18,000 × $3.60 price per share + $90 brokerage).

Trevor has made a total capital loss of $16,290 on the sale of his XYZ shares ($48,600 – $64,890).

Trevor can't offset his capital loss against his income earned from salary and wages in his tax return, however the capital loss can be carried forward indefinitely to offset against future capital gains.

Trevor reported the sale of his XYZ shares in his 2024 tax return by recording a $16,290 capital loss.

Always keep your details updated

Ensure your broker always has your correct personal details, such as full name, date of birth and tax file number (TFN). This helps you because:

- your dividends won't be subject to the 47% no TFN withholding tax
- we can pre-fill more of your information for tax time.

If you bought shares on behalf of your self-managed super fund (SMSF), make sure your broker set up your account using the super fund's details. Otherwise, the shares may be incorrectly matched to you as an individual.

This is a general summary only.
For more information go to ato.gov.au/shares or speak to a registered tax professional.

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Australian Government
Australian Taxation Office

Tax tips for crypto asset investments

There's more to investing in crypto assets than just what you buy and sell. You also need to understand your tax obligations. The way you interact with crypto determines if you need to report income, a capital gain or loss, and if you can claim a deduction.

If you exchange crypto for goods, cash, or other crypto then it's likely a **disposal** for the purposes of capital gains tax (CGT) and you may need to include a capital gain or loss in your tax return.

Make tax time easier by remembering these tips:

- Keep good records
- Report crypto in your tax return
- Report capital gains, losses, rollovers and exemptions
- Rollover and exemptions
- Personal use assets
- Calculate CGT correctly.

Keep good records

It's important to keep good records of all crypto transactions. If you trade crypto, you should keep:

- receipts when you buy, transfer or dispose of crypto assets
- records when you move crypto to or from platforms or smart contracts, including liquidity pools and wrapping
- records of crypto acquisitions such as gifts, airdrops, staking rewards, prizes, and gambling winnings
- records of agent, accountant and legal costs
- records of software costs that relate to managing your crypto assets
- digital wallet records and keys
- dates of the transactions
- the value of the crypto in Australian dollars at the time of the transactions
- what the transaction was for and who the other party was.

You can find out more at Keeping crypto records.

Report crypto in your tax return

What you need to do:

- convert the value of crypto assets to Australian dollars
- include the Australian dollar value of established tokens received by way of airdrops and tokens received as staking rewards as income at 'Other income'
- include any capital gains or capital losses of crypto assets at the CGT labels on your tax return
  - if you made a capital gain, report it at 'Total current year capital gains' and 'Net capital gains'
  - if you made a capital loss, report it at 'Net capital losses carried forward to later income years'
  - if you're reporting over $10,000 in capital gains and completing the CGT schedule with your tax return, report capital gains and losses at 'Other CGT assets and any other CGT events'.

Records you need to keep when you buy, hold or sell an investment

Buying (acquiring)	Owning (holding)	Selling (disposing)
• receipts of transactions, or • documents that display – the crypto asset – the purchase price in Australian dollars – the date and time of the transaction – what the transaction was for • commission or brokerage fees on the purchase • agent, accountant, and legal costs • exchange records	• software costs related to managing your tax affairs • digital wallet records and keys • documents showing the date and quantity of crypto assets received via staking or airdrop	• receipts of sale or transfer • documents that display: – the crypto asset – the sale or transfer price in Australian dollars – the date and time of the transaction – what the transaction was for • commission or brokerage fees on the sale or transfer • exchange records • calculation of capital gain or loss

You can work out your CGT using our CGT calculator and record keeping tool. Alternatively you can find a reputable Australian crypto tax calculator to sync your exchange and wallet accounts to assist in calculating your CGT.

Watch: How to complete myTax when you have sold crypto assets, go to tv.ato.gov.au and search **sold crypto**.

Report capital gains and losses

You must report 'disposals' of crypto for capital gains tax purposes if you:

- exchange one crypto for another crypto asset, including activities like depositing your crypto assets into liquidity pools and wrapping
- trade, sell or gift crypto
- convert crypto to a fiat currency – for example, to Australian dollars.

Transaction fees paid in fiat currency can be included in the cost base of the crypto you disposed of. However, if your crypto holding reduces during a transfer due to using crypto to cover the fee, the transaction fee is also a disposal and has capital gains tax consequences.

You have a CGT obligation even if you:

- use the proceeds from selling crypto to buy more crypto
- don't convert the proceeds into fiat currency – for example, Australian dollars.

If you transfer crypto from one wallet to another wallet while maintaining ownership of it, it's not a disposal for tax purposes and doesn't need to be reported.

Personal use assets

Crypto assets are usually considered an investment and not a personal use item.

Even if you use your crypto asset investments to buy personal items, this won't change it from being an investment (see Example 1). This includes exchanging crypto for Australian dollars or gift cards or using an online payment gateway to buy personal items.

When you get a crypto asset and use it in a short period of time to buy personal items, it could be a personal use asset (see Example 2).

A capital gain on the disposal of a crypto asset is exempt if:

- the crypto is a personal use asset that's mainly kept or used to purchase personal items
- you got your personal use crypto for less than $10,000.

For more information about personal use assets, see ato.gov.au/cryptopersonaluse.

Calculate CGT correctly

If your crypto is held as an investment, you may pay tax on your net capital gains for the year.

To calculate your CGT use your total capital gain:

- subtract any capital losses
- subtract your entitlement to any CGT discount on your capital gain.

Note: Before calculating your capital gain or loss, convert your crypto purchases and disposals into Australian dollars (A$).

When you purchase crypto in a fiat currency and transfer the crypto for another, the amount of the original purchase in the fiat currency forms part of your cost base (see Example 3)

If you acquire crypto by exchanging it for other crypto, the cost base of the original crypto you disposed of in the exchange is the market value in A$ at the time it was acquired (see Example 4).

Capital losses

If you dispose of your crypto for less than it cost you, you may have a capital loss. Capital losses can be used to reduce your capital gains in the current or future income years.

Make sure you report the loss in your tax return so you have it available to offset future capital gains. For more information see How to work out and report CGT on crypto.

Example 1: investment in crypto assets

Rosa buys crypto with the intention of selling later at a better exchange rate.

She decides to buy some household items using some of her crypto. Because Rosa's intention was to use the crypto as an investment, the crypto she uses to buy household items isn't a personal use asset.

If Rosa makes a capital gain when she disposes of her crypto to buy household items, it won't be exempt

Example 2: personal use asset

Nikesh pays **$50** to acquire crypto each fortnight to buy computer games. In the same fortnight Nikesh uses the crypto to buy computer games directly, where there's no conversion to a fiat currency first.

Nikesh doesn't hold any other crypto.

In these circumstances, Nikesh acquires and uses the crypto in a short period of time to buy personal items. When this occurs, the crypto assets are personal use assets.

In one fortnight, Nikesh sees a computer game he wants to buy from an online retailer that doesn't accept crypto. Nikesh uses an online payment gateway which buys the game on his behalf in exchange for his crypto. Even though the crypto was exchanged through the online payment gateway, it was still held and used in a short period of time to buy a personal item. In these circumstances, the crypto is also a personal use asset.

Example 3: disposing of crypto assets purchased with fiat currency

(a currency established by a country's government regulation or law)

Usha purchased 8,000 XRP for **$5,500** Australian dollars. A few days later Usha exchanged her 8,000 XRP for 2 Ether (ETH). Usha needs to report her capital gain or loss from the disposal of crypto (XRP) in her tax return.

Usha's receipt shows she:

- used **$5,500** Australian dollars to purchase 8,000 XRP
- was charged **$5** for brokerage.

Usha's cost base is **$5,500** + **$5**, which totals **$5,505**.

Usha's exchange provides a receipt for the purchase of 2 ETH, but it doesn't include prices in Australian dollars. According to her exchange records, Usha exchanged 8,000 XRP for 2 ETH on 15 July 2023 at 1:30pm.

At the time of this transaction, the market value of 2 ETH was **$5,600** Australian dollars. Usha's capital proceeds are **$5,600**.

Usha subtracts her cost base (**$5,505**) from her capital proceeds (**$5,600**), which results in a capital gain of **$95**.

Usha is not eligible for a discount or exemption.

Usha keeps a record of her capital gain (**$95**) on the disposal of her XRP to include in her 2024 tax return.

Example 4: exchanging a crypto asset for another crypto asset

A few months later, Usha exchanged her 2 Ether (ETH) for 0.1 Bitcoin (BTC).

Usha's exchange records show she acquired 2 ETH on 15 July 2023 at 1:30pm for 8,000 XRP. At the time of the transaction, the XRP had a market value of **$5,600** Australian dollars.

Usha's exchange charges her a **$10** brokerage fee to trade 2 ETH for 0.1 BTC.

Usha's cost base is **$5,600** + $10, which totals **$5,610**.

Usha's exchange provides a receipt for the acquisition of 0.1 BTC but it doesn't include prices in Australian dollars. Usha's receipt shows she disposed of her 2 ETH for 0.1 BTC on 10 January 2024 at 2:00 pm.

At the time of this transaction, the market value of 0.1 BTC is **$7,000**. Usha's capital proceeds from the exchange of 2 ETH for 0.1 BTC is **$7,000**.

Usha subtracts her cost base (**$5,610**) from her capital proceeds (**$7,000**), which results in a capital gain of **$1,390**.

Usha isn't eligible for a discount or exemption.

Usha keeps a record of her capital gain (**$1,390**) on the disposal of her ETH to include in her 2024 tax return.

This is a general summary only.
For more information go to ato.gov.au/cryptoassets
If you need help working out your capital gain go to ato.gov.au/CGT

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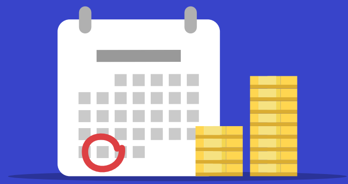
Australian Government
Australian Taxation Office

Pay as you go (PAYG) instalments



If you earn income from investments such as interest, dividends, rent or royalties, using PAYG instalments will help reduce a potential tax bill when you lodge your tax return.

How PAYG instalments work

Pay as you go (PAYG) instalments allow you to make regular payments during the income year towards your expected end of year tax liability. By paying regular instalments throughout the income year, you will reduce any potential amount you may have to pay when you lodge your tax return.

Automatic entry

We will enter you into PAYG instalments if you have all of the following:

- instalment income, including investment and business income – from your latest tax return of $4,000 or more
- tax payable on your latest notice of assessment of $1,000 or more
- estimated (notional) tax of $500 or more.

If we automatically enter you into PAYG instalments, we will notify you explaining how they work and what you need to do.

You will hear from us through:

- a letter in your myGov Inbox
- Online services for business, or
- Standard Business Reporting (SBR) software.

If none of these apply, you or your registered tax agent will receive a letter in the mail.

Voluntary entry

If you're expecting to earn business and investment income over the threshold, it's a good idea to voluntarily enter PAYG instalments.

You can voluntarily enter using your myGov account linked to the ATO's online services:

- select **Tax**
- select **Manage**
- then enter **PAYG instalments**.

You can also enter through your registered tax agent or by phoning us.

Calculating your PAYG instalments

You can choose from 2 options to work out how to pay:

- **instalment amount** is the simplest option as you pay the amount we calculate for you
- **instalment rate** is when you work out the amount you pay using your investment income and allowable tax deductions and the rate we provide.

Calculating by **instalment rate** is best if your instalment income changes a lot and you want to manage your cashflow. You will need to apply the rate to your income for each period.

Varying PAYG instalments

You can vary your PAYG instalments if your investment or business income reduces or increases compared to the prior income year.

Your variations must be lodged on or before the day your instalment is due.

Your varied amount or rate applies for the remaining instalments for the income year or until you make another variation. Use the PAYG instalment calculator to help you work out your new instalment amount or rate.

Example 1: PAYG instalments for investment income

Fiona sells her home in 2021–22 and decides to rent while she invests her profits from the sale, rather than buying a new home straight away.

Fiona lodges her 2022–23 tax return and reports $10,000 of interest and dividends earned on her investments. She receives her notice of assessment with a tax debt of $1,200.

Fiona is now required to make PAYG instalments and starts paying her instalments quarterly.

In April 2024, Fiona buys a new home with the money she invested. She can either use myGov or phone the ATO to advise that she no longer has an investment. Fiona logs onto her myGov account and exits the system.

The exit is effective from 1 April 2024 because she continued to receive instalment income for the January to March 2024 quarter. She lodges her March 2024 quarter instalment notice on the due date of 28 April 2024.

Example 2: income from interest

Pedro has $500,000 deposited in a high interest savings bank account, which pays 5% p.a. He estimates that he will earn $25,000 in interest on the account for the income year. Pedro pays $200 in bank fees on his account.

Pedro uses the PAYG instalments individuals calculator to see if he's eligible to voluntarily enter PAYG instalments. He enters his:

- total investment income of $25,000
- taxable income of $24,800 ($25,000 (investment income) – $200 (bank fees)).

The calculator estimates Pedro needs to pay $1,306 tax this income year. He is eligible to voluntarily enter PAYG instalments. If he doesn't enter, he will receive a tax bill when he lodges his next tax return and will automatically be entered into the system for the following income year.

To work out how much he needs to pay in instalments each quarter, Pedro divides his total estimated tax liability from the calculator by 4 to calculate quarterly instalments:

$1,306 ÷ 4 = $326.50

He needs to pay this when he receives his quarterly instalment activity statement if he chooses to voluntarily enter PAYG instalments.

This is a general summary only.
For more information on PAYG instalments go to ato.gov.au/paygi

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