Capital gains tax

How to calculate capital gains tax (CGT) on your assets, assets that are affected, and the CGT discount.

What is capital gains tax?

How capital gains tax (CGT) works, and how you report and pay tax on capital gains when you sell assets.

List of CGT assets and exemptions

Check if your assets are subject to CGT, exempt, or pre-date CGT.

Acquiring CGT assets

Establish the date you buy or acquire an asset, your share of ownership and records to keep.

CGT events

How and when CGT is triggered, such as when an asset is sold, lost or destroyed.

CGT discount

Find out if your asset is eligible for the 50% CGT discount.

Calculating your CGT

Use the calculator or steps to work out your CGT, including your capital proceeds and cost base.

Property and capital gains tax

How CGT affects real estate, including rental properties, land, improvements and your home.

Shares and similar investments

Find out what can trigger a CGT event, such as selling shares or receiving certain distributions.

Inherited assets and capital gains tax

How and when CGT applies if you sell assets you inherited, including properties and shares.

Foreign residents and capital gains tax

Your tax residency may be different to your residency for other purposes.

Relationship breakdown and capital gains tax

Find out if you can defer, or 'roll over', CGT on assets that transfer to you in a divorce.

Market valuation of assets

You must obtain market valuation of an asset when required by

QC 66013

What is capital gains tax?

How capital gains tax (CGT) works, and how you report and pay tax on capital gains when you sell assets.

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Capital gains tax (CGT) is the tax you pay on profits from **disposing of assets** including investments, such as property, shares and crypto assets. Although it is referred to as 'capital gains tax', it's part of your income tax. It's not a separate tax.

If you dispose of assets (generally when you stop being the owner of an asset) a **CGT event** may be triggered. This is when you need to report capital gains and capital losses in your income tax return.

If you have a:

- capital gain, it will increase the tax you need to pay – you may want to work out how much tax you will owe and set aside funds to cover it
- capital loss, you can offset it against any capital gains in the year they occur, or in future years, and reduce the tax you need to pay – it's important to include losses on your tax return.

Example: calculating CGT

Maree buys some shares for $5,000.

She owns the shares for 6 months and sells them for $5,500. She has no other capital gains or losses.

Maree declares a capital gain of $500 in her tax return. She will pay tax on this gain at her individual income tax rate.

QC 69844

List of CGT assets and exemptions

Check if your assets are subject to CGT, exempt, or pre-date CGT.

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Assets acquired before 20 September 1985

Assets you acquired before 20 September 1985 are exempt from CGT.

Real estate

Most **property** is subject to CGT.

This includes:

- vacant land
- business premises
- rental properties
- holiday houses
- hobby farms.

If you acquired property before 20 September 1985, any **property improvements or additions** you make after that date may be subject to CGT.

Your main residence is generally exempt from CGT.

Your main residence – home

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

However, CGT may apply if:

- you rent out part of it

- you use it for business
- it is on more than 2 hectares of land
- you are a foreign resident and you do not satisfy the requirements of the **life events test** at the time the 'CGT event' happens.

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

Granny flat arrangements

CGT does not apply when an eligible **granny flat arrangement** is created, varied or terminated.

Cars and motorcycles

Your car or motorcycle is exempt from CGT.

A car is defined as a motor vehicle that carries a load of less than 1 tonne and fewer than 9 passengers.

Shares and units

CGT applies to **shares, units and similar investments** when a 'CGT event' happens. This includes when you sell them or receive a distribution (other than a dividend) from a managed fund.

Crypto assets

CGT may apply when you dispose of your **crypto assets**.

If your crypto is a personal use asset, capital gains or losses from disposing of it may be exempt from CGT. Crypto is a personal use asset if it is kept or used mainly to purchase items for personal use or consumption.

Personal use assets

A capital gain on a personal use asset is subject to CGT if it cost you more than $10,000 to acquire the asset.

Capital losses on personal use assets are ignored. This means you cannot use a capital loss on a personal use asset to reduce capital gains on other assets (including other personal use assets).

Personal use assets are CGT assets that you keep for your personal use or enjoyment.

They include:

- boats
- furniture
- electrical goods
- household items
- an option or right to acquire a personal use asset
- a debt resulting from
  - a CGT event involving a CGT asset kept for your personal use
  - making a private loan to a family member or friend.

The following are not classed as personal use assets:

- collectables – these may be subject to CGT
- your main residence, which is generally exempt from CGT
- cars, which are exempt from CGT.

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

Collectables

A collectable is subject to CGT unless:

- you acquired the collectable for $500 or less
- you acquired a share in the collectable for $500 or less before 16 December 1995
- you acquired a share in the collectable when the collectable had a market value of $500 or less.

Collectables include:

- artwork
- jewellery
- antiques
- coins or medallions
- rare folios, manuscripts or books
- postage stamps or first day covers.

If you make a capital loss on a collectable you can only deduct it against capital gains from collectables, not from other capital gains.

If you dispose of collectables individually, that would usually be disposed of as a set, they are exempt only if you acquired the set for $500 or less after 16 December 1995.

Intangible assets

Intangible assets may be subject to CGT.

They include:

- leases
- goodwill
- licences
- contractual rights.

A number of **CGT events**, other than disposal, can happen to these assets. For example, granting a lease is a CGT event.

Foreign currency

Foreign currency is subject to CGT. You make a capital gain or loss on fluctuations in the foreign currency exchange rate.

Foreign currency is subject to **foreign exchange gains and losses**. A capital gain or loss arises from the acquisition or disposal of foreign currency when there is a fluctuation in the exchange rate.

This applies to foreign currency held as cash and CGT assets denominated in a foreign currency (such as an overseas rental property).

Depreciating assets

CGT does not apply to **depreciating assets** used solely for taxable purposes.

This includes:

- business equipment
- items in a rental property.

Gains or losses (**balancing adjustments**) made on these assets are treated as assessable income or claimed as deductions.

However, if you have used a depreciating asset for private purposes, CGT may apply.

Specific exemptions such as awards and payouts

The following are exempt from CGT:

- a decoration awarded for valour or brave conduct (unless you paid or exchanged property for it)
- assets used solely to produce exempt income or some types of non-assessable, non-exempt income
- compensation or damages received for any
  - wrong or injury you suffered at work
  - wrong, injury or illness you or your relatives suffered
- winnings or losses from gambling, a game or a competition with prizes
- reimbursement payment of your expenses under the following
  - Unlawful Termination Assistance Scheme
  - Alternative Dispute Resolution Assistance Scheme
  - M4/M5 Cashback Scheme
  - a scheme established under legislation by an Australian Government agency, a local government body or a foreign government agency (except a payment for the loss, destruction or transfer of an asset)

- the transfer of a super interest in one small super fund (a complying fund that has no more than 6 members) to another because of a relationship breakdown between spouses or former spouses
- rights created or ended in a superannuation agreement (as defined in the *Family Law Act 1975*)
- a CGT event happening to the segregated current pension asset of a complying super fund
- some payouts under a general insurance policy, life insurance policy or annuity instrument, such as payments from the maturity of a life insurance policy
- a payment for surrender of an insurance policy where you are the original beneficial owner of the policy
- shares in a pooled development fund
- shares of certain profits, gains or losses arising from disposal of investments by **certain venture capital and early stage venture capital limited partnership entities**
- a financial arrangement where gains and losses are calculated under the **taxation of financial arrangements (TOFA) rules**
- gifts made through a will to a deductible gift recipient beneficiary.

Norfolk Island residents

CGT does not apply to an asset if both the following are true:

- you were a resident of Norfolk Island before 24 October 2015
- you acquired the asset on Norfolk Island before 24 October 2015.

All other assets are subject to the normal CGT rules. This includes assets acquired on Norfolk Island by people who were not residents of Norfolk Island.

CGT for Norfolk Island residents

If you have an asset on …	and you acquired the asset …	then …

Norfolk Island and you were a resident of Norfolk Island on 23 October 2015	on or before 23 October 2015	CGT doesn't apply
	on or after 24 October 2015	normal CGT rules apply
Norfolk Island and you were not a resident of Norfolk Island on 23 October 2015	on or before 23 October 2015	normal CGT rules apply
	on or after 24 October 2015	normal CGT rules apply
the Australian mainland (or anywhere worldwide)	on or before 19 September 1985	CGT doesn't apply
	on or after 20 September 1985	normal CGT rules apply

QC 66014

Acquiring CGT assets

Establish the date you buy or acquire an asset, your share of ownership and records to keep.

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What to do when you acquire an asset

When you acquire a capital gains tax (CGT) asset, you should establish your acquisition date and share of ownership, and start keeping records.

This will help you work out your capital gain or loss correctly, so you pay the correct amount of CGT when you dispose of the asset.

Acquisition date

Generally, the acquisition date is when you become the owner of the asset – for example, when you purchase it.

However, there are 2 common situations where your acquisition date might differ from the date you become the owner:

- **When you buy an asset under contract and do not take immediate possession.** This commonly happens with real estate. In this case, your acquisition date is the date on the contract, not when you settle.
- **When you inherit a CGT asset.** In this case, the acquisition date is the date of death of the former owner.

You should establish the date of acquisition because you will need it to work out your CGT when you dispose of the asset.

It is important because:

- CGT does not apply if you owned the asset before CGT started on 20 September 1985 (but major improvements to a property since 20 September 1985 may be subject to CGT)
- the rules for working out a capital gain or loss have changed over time
- to qualify for the CGT discount you need to own the asset for at least 12 months.

Joint ownership

If you share ownership of an asset with others, each person makes a capital gain or loss.

There are 2 types of shared ownership:

- tenants in common

- joint tenants.

Tenants in common

Tenants in common are 2 or more people who co-own an asset in defined shares. The shares may be unequal.

When a CGT event occurs (such as selling the asset), the individuals split the capital gain or loss between them according to their share of ownership.

Example: tenants in common

Lui and Monica own a rental property as tenants in common.

Lui has a 20% share and Monica has an 80% share.

Lui and Monica decide to sell their rental property. They make a capital gain of $200,000.

Lui and Monica split the capital gain according to their share of ownership:

- Lui has a capital gain of $40,000 (20%)
- Monica has a capital gain of $160,000 (80%).

Joint tenants

Joint tenants have equal shares in the asset. Therefore, each person has an equal share of any capital gain or loss from a CGT event.

When one joint tenant dies, their share in the asset is **acquired in equal shares by the surviving joint tenants**.

Example: joint tenants

Carmen and Joe own a rental property as joint tenants.

They decide to sell their rental property. They make a capital gain of $68,000.

Carmen and Joe each has a capital gain of $34,000 (50%).

Partnerships

For CGT purposes, a partnership does not own an asset. Instead, each partner owns a proportion of the asset.

When a CGT event occurs, the partners use their proportion to work out their capital gain or loss.

Keeping records

You must keep records of all transactions or events that are relevant to working out your capital gain or loss.

What to record

Your records must be in English or be translatable to English.

Keep the following records:

- receipts of purchase or transfer
- details of interest on money you borrowed relating to the asset
- records of agent, accountant, legal and advertising costs
- receipts of insurance costs, rates and land taxes
- market valuations
- receipts of maintenance, repair and modification costs
- bank accounts showing brokerage fees on shares.

You should also keep records to establish whether you have claimed an income tax deduction for an item of expenditure. If you have claimed a deduction, you cannot include the amount in the cost base of the asset.

How long to keep records

Keep records for 5 years after the year that the CGT event occurs.

Example: keeping records for 5 years

Liz sold some shares in September 2023 and made a capital gain.

This means the CGT event happened in the 2023–24 financial year.

Liz needs to keep purchase and sale records of the shares until the end of the 2028–29 financial year (30 June 2029).

Net capital loss

If you have a net capital loss for the year, you should keep records of the loss. You can use the loss to offset a capital gain in a later year.

There is no time limit on how long you can carry forward a net capital loss.

Once you have offset the loss against a capital gain, you should keep records of the CGT event that resulted in the loss.

Keep records for a further:

- 2 years for individuals and small and medium businesses
- 4 years for other taxpayers.

Missing or destroyed records

If you do not have records for your CGT assets, there are ways you can get the information you need. If you:

- **bought a property**, ask your solicitor or estate agent to give you copies of the records
- **made improvements to an investment property**, ask the builder for a copy of the receipt for payment
- **bought shares in a company or units in a managed fund**, ask your stockbroker or investment adviser to give you the relevant information
- **received an asset as a gift**, ask a professional valuer to tell you what the market value would have been
- **lost your records in a natural disaster**, we can help you reconstruct them.

QC 66015

CGT events

How and when CGT is triggered, such as when an asset is sold, lost or destroyed.

Last updated 18 June 2024

What is a CGT event?

When you dispose of an asset that is subject to capital gains tax (CGT), it is called a CGT event. This is the point at which you make a capital gain or loss.

Common disposals that will trigger a CGT event include:

- selling an asset
- trading, exchanging or swapping assets
- loss or destruction of an asset or creating contractual or other rights (this is known as an involuntary disposal).

The type of CGT event that applies to your situation may affect:

- the time when the CGT event happens
- how to calculate your capital gain or loss.

Watch: CGT events

Media:Example: contract of sale
http://tv.ato.gov.au/ato-tv/media?v=bi9or7odtmhqdk

Sale or disposal of asset

Selling or disposing of an asset will trigger a CGT event and you may have a capital gain or capital loss.

If there is a contract of sale, the CGT event happens when you enter into the contract. For example, if you sell a house, the CGT event happens on the date of the contract, not when you settle.

If there is no contract of sale, the CGT event is usually when you stop being the asset's owner. For example, if you sell shares, the CGT event happens on the date of sale.

Example: contract of sale

In June 2023, Sue entered into a contract to sell land she owned.

The contract settled in October 2023.

Sue made the capital gain in the 2022–23 income year (the year she entered into the contract), not the 2023–24 income year (the year settlement took place).

Your capital gain or loss for an asset is usually the selling price less the original cost and certain other costs associated with acquiring, holding and disposing of the asset. Find out how to **calculate your CGT**.

Loss, theft or destruction of asset

If your CGT asset is lost, stolen or destroyed:

- the CGT event happens when you first receive compensation for the loss, theft or destruction
- your capital gain is the amount of compensation less the asset's original cost.

If you do not receive any compensation, the CGT event happens when the loss is discovered or the destruction occurred.

If you replace the asset with a similar asset, you may be able to defer (or 'roll over') your capital gain until another CGT event happens, such as selling the replacement asset. See **Involuntary disposal of a CGT asset** for more information.

Example: insurance policy

Laurie's rental property was destroyed by fire in June 2023.

He received compensation under an insurance policy in October 2023.

The CGT event happened in October 2023 when he received the compensation.

Example: no compensation or insurance policy

Christine owned a rental property that was damaged by floods in May 2023.

The local council deemed the property uninhabitable in August 2023. The property was demolished in November 2023 and Christine did not receive any compensation.

The CGT event happened in May 2023 when the damage happened.

All CGT events

All CGT events are listed below.

If more than one CGT event happens, you apply the rules for the one that best matches your situation.

For more information about the CGT events listed below see Division 104 of the *Income Tax Assessment Act 1997*.

Disposal (A)

CGT event	Time of event	Capital gain	Capital loss
A1 – Disposal of a CGT asset	When the disposal contract is entered into or, if none, when the entity stops being the asset's owner	The capital proceeds from disposal *less* the asset's cost base	The asset's reduced cost base *less* the capital proceeds

Hire purchase and similar agreements (B)

CGT event	Time of event	Capital gain	Capital loss
B1 – Use and enjoyment before title passes	When use of the CGT asset passes	The capital proceeds *less* the asset's cost base	The asset's reduced cost base *less* the capital proceeds

End of a CGT asset (C) – includes loss or destruction

CGT event	Time of event	Capital gain	Capital loss
C1 – Loss or destruction	When compensation is first	The capital proceeds *less* the	The asset's reduced cost base

of a CGT asset	received or, if none, when the loss is discovered or destruction occurred	asset's cost base	*less* the capital proceeds
C2 – Cancellation, surrender and similar endings	When the contract ending an asset is entered into or, if none, when an asset ends	The capital proceeds from the ending *less* the asset's cost base	The asset's reduced cost base *less* the capital proceeds
C3 – End of an option to acquire shares etc	When the option ends	The capital proceeds from granting the option *less* the expenditure in granting it	The expenditure in granting the option *less* the capital proceeds

Bringing a CGT asset into existence (D)

CGT event	Time of event	Capital gain	Capital loss
D1 – Creating contractual or other rights	When the contract is entered into or the right is created	The capital proceeds from creating the right *less* the incidental costs of creating the right	The incidental costs of creating the right *less* the capital proceeds
D2 – Granting an option	When the option is granted	The capital proceeds from the grant *less* the expenditure to grant it	The expenditure to grant the option *less* the capital proceeds

D3 – Granting a right to income from mining	When the contract is entered into or, if none, when the right is granted	The capital proceeds from the grant of right *less* the expenditure to grant it	The expenditure to grant the right *less* the capital proceeds
D4 – Entering into a conservation covenant	When covenant is entered into	The capital proceeds from covenant *less* the cost base apportioned to the covenant	The reduced cost base apportioned to the covenant *less* the capital proceeds from covenant

Trusts (E)

CGT event	Time of event	Capital gain	Capital loss
E1 – Creating a trust over a CGT asset	When the trust is created	Capital proceeds from creating the trust *less* the asset's cost base	The asset's reduced cost base *less* the capital proceeds
E2 – Transferring a CGT asset to a trust	When the asset is transferred	Capital proceeds from the transfer *less* the asset's cost base	The asset's reduced cost base *less* the capital proceeds
E3 – Converting a trust to a unit trust	When the trust is converted	Market value of the asset at that time *less* its cost base	The asset's reduced cost base *less* that market value
E4 – Capital payment for trust interest	When the trustee	Non-assessable part of the	No capital loss

	makes the payment	payment *less* the cost base of the trust interest	
E5 – Beneficiary becoming entitled to a trust asset	When the beneficiary becomes absolutely entitled	For a trustee: market value of the CGT asset at that time *less* its cost base For a beneficiary: that market value *less* the cost base of the beneficiary's capital interest	For a trustee: the reduced cost base of the CGT asset at that time *less* that market value For a beneficiary: the reduced cost base of the beneficiary's capital interest *less* that market value
E6 – Disposal to a beneficiary to end an income right	The time of the disposal	For a trustee: market value of the CGT asset at that time *less* its cost base For a beneficiary: that market value *less* the cost base of the beneficiary's right to income	For a trustee: the reduced cost base of the CGT asset at that time *less* that market value For a beneficiary: the reduced cost base of the beneficiary's right to income *less* that market value
E7 – Disposal to a beneficiary to end capital interest	The time of the disposal	For a trustee: market value of the CGT asset at that time *less* its cost base	For a trustee: the reduced cost base of the CGT asset at that time *less* that market value

		For a beneficiary: that market value *less* the cost base of the beneficiary's capital interest	For a beneficiary: the reduced cost base of the beneficiary's capital interest *less* that market value
E8 – Disposal by a beneficiary of capital interest	When the disposal contract is entered into or, if none, when the beneficiary ceases to own the CGT asset	Capital proceeds *less* the appropriate proportion of the trust's net assets	The appropriate proportion of the trust's net assets *less* the capital proceeds
E9 – Creating a trust over future property	When the entity makes an agreement	Market value of the property (as if it existed when the agreement was made) *less* incidental costs in making the agreement	The incidental costs in making the agreement *less* the market value of the property (as if it existed when the agreement was made)
E10 – Annual cost base reduction exceeds cost base of interest in attribution managed investment trust	When the reduction happens	Excess of cost base reduction over cost base	No capital loss

Leases (F)

CGT event	Time of event	Capital gain	Capital loss
F1 – Granting a lease	For granting a lease: when the entity enters into the lease contract or, if none, at the start of the lease For a lease renewal or extension: at the start of the renewal or extension	Capital proceeds *less* the expenditure on grant, renewal or extension	Expenditure on grant, renewal or extension *less* the capital proceeds
F2 – Granting a long-term lease	For granting a lease: when the lessor grants the lease For a lease renewal or extension: at the start of the renewal or extension	Capital proceeds from the grant, renewal or extension *less* the cost base of the leased property	Reduced cost base of the leased property *less* the capital proceeds from the grant, renewal or extension
F3 – Lessor pays lessee to get lease changed	When the lease term is varied or waived	No capital gain	Amount of expenditure to get lessee's agreement
F4 – Lessee receives payment for changing a lease	When the lease term is varied or waived	Capital proceeds *less* the cost base of lease	No capital loss

F5 – Lessor receives payment for changing a lease	When the lease term is varied or waived	Capital proceeds *less* expenditure in relation to variation or waiver	Expenditure in relation to variation or waiver *less* the capital proceeds

Shares (G)

CGT event	Time of event	Capital gain	Capital loss
G1 – Capital payment for shares	When the company pays a non-assessable amount	Payment *less* the cost base of shares	No capital loss
G3 – Liquidator or administrator declares shares or financial instruments worthless	When declaration was made	No capital gain	Reduced cost base of shares or financial instruments

Special capital receipts (H)

CGT event	Time of event	Capital gain	Capital loss
H1 – Forfeiture of a deposit	When the deposit is forfeited	Deposit *less* expenditure in connection with the prospective sale	Expenditure in connection with the prospective sale *less* deposit
H2 – Receipt for an event relating to a CGT asset	When the act, transaction or event occurred	Capital proceeds *less* the incidental costs	Incidental costs *less* the capital proceeds

Cessation of residency (I)

CGT event	Time of event	Capital gain	Capital loss
I1 – Individual or company stops being an Australian resident	When the individual or company stops being an Australian resident	For each CGT asset the individual or company owns, its market value *less* its cost base	For each CGT asset the individual or company owns, its reduced cost base *less* its market value
I2 – Trust stops being a resident trust	When the trust ceases to be a resident trust for CGT purposes	For each CGT asset the trustee owns, its market value *less* its cost base	For each CGT asset the trustee owns, its reduced cost base *less* its market value

Rollovers (J)

CGT event	Time of event	Capital gain	Capital loss
J1 – Company stops being a member of a wholly owned group after a rollover	When the company stops being a member of a wholly owned group after a rollover	Market value of the asset at the time of the event *less* its cost base	Reduced cost base of the asset *less* that market value
J2 – Change in relation to a replacement asset or improved asset after a rollover under	When the change happens	The amount mentioned in subsection 104-185(5)	No capital loss

Subdivision 152-E			
J4 – Trust failing to cease to exist after rollover under Subdivision 124-N	When the failure to cease to exist happens	For a company: market value of the asset at the time the company acquired it *less* its cost base at that time For a shareholder: market value of the share at the time the shareholder acquired it *less* its cost base at that time	For a company: reduced cost base of the asset at the time the company acquired it *less* its market value at that time For a shareholder: reduced cost base of the share at the time the shareholder acquired it *less* its market value at that time
J5 – Failure to acquire a replacement asset and to incur fourth element expenditure after a rollover under Subdivision 152E	At the end of the replacement asset period	The amount of the capital gain that you disregarded under Subdivision 152E	No capital loss
J6 – Cost of acquisition of replacement asset or amount of fourth element expenditure, or both, not sufficient to	At the end of the replacement asset period	The amount mentioned in subsection 104-198(3)	No capital loss

cover disregarded capital gain			

Other CGT events (K)

CGT event	Time of event	Capital gain	Capital loss
K1 – As the result of an incoming international transfer of a Kyoto unit or an Australian carbon credit unit from your foreign account or your nominee's foreign account, you start to hold the unit as a registered emissions unit	When you start to hold the unit as a registered emissions unit	Market value of the unit *less* its cost base	Reduced cost base of the unit *less* its market value
K2 – Bankrupt pays an amount in relation to debt	When the payment is made	No capital gain	That part of the payment that relates to the denied part of a net capital loss
K3 – Asset passing to a tax-advantaged entity	When an individual dies	Market value of the asset at death *less* its cost base	Reduced cost base of the asset *less* that market value
K4 – CGT asset starts	When the asset starts being	Market value of asset *less* its cost base	Reduced cost base of the asset

being trading stock	trading stock		*less* that market value
K5 – Special capital loss from a collectable that has fallen in market value	When CGT event A1, C2 or E8 happens to shares in the company, or an interest in the trust, that owns the collectable	No capital gain	Market value of the shares or interest (as if the collectable had not fallen in market value) *less* the capital proceeds from CGT event A1, C2 or E8
K6 – Pre-CGT shares or trust interest	When another CGT event involving the shares or interest happens	Capital proceeds from the shares or trust interest that are attributable to post-CGT assets owned by the company or trust, *less* the assets' cost bases	No capital loss
K7 – Balancing adjustment occurs for a depreciating asset that you used for purposes other than taxable purposes	When the balancing adjustment event occurs	Termination value *less* cost times fraction	Cost *less* termination value times fraction
K8 – Direct value shifts affecting	The decrease	Capital gain worked out under	No capital loss

your equity or loan interests in a company or trust	time for the interests	section 725-365	
K9 – Entitlement to receive payment of a carried interest	When you become entitled to receive the payment	Capital proceeds from the entitlement	No capital loss
K10 – You make a forex realisation gain as a result of **forex realisation event 2** and item 1 of the table in subsection 775-70(1) applies	When the forex realisation event happens	Equal to the forex realisation gain	No capital loss
K11 – You make a forex realisation loss as a result of **forex realisation event 2** and item 1 of the table in subsection 775-75(1) applies	When the forex realisation event happens	No capital gain	Equal to the forex realisation loss
K12 – Foreign hybrid loss exposure adjustment	Just before the end of the income year	No capital gain	The amount stated in subsection 104-270(3)

Consolidations (L)

CGT event	Time of event	Capital gain	Capital loss
L1 – Reduction under section 705-57 in tax cost setting amount of assets of entity becoming subsidiary member of consolidated group or multiple entry consolidated group	Just after entity becomes subsidiary member	No capital gain	Amount of reduction
L2 – Amount remaining after step 3A (of the table in section 705-60) of joining ‘allocable cost amount’ is negative	Just after entity becomes subsidiary member	Amount remaining	No capital loss
L3 – Tax cost setting amounts for retained cost base assets exceed joining ‘allocable cost amount’	Just after entity becomes subsidiary member	Amount of excess	No capital loss
L4 – No reset cost base assets against which to apply excess	Just after entity becomes subsidiary member	No capital gain	Amount of excess

of net 'allocable cost amount' on joining			
L5 – Amount remaining after step 4 (of the table in section 711-20) of leaving 'allocable cost amount' is negative	When entity ceases to be subsidiary member	Amount remaining	No capital loss
L6 – Error in calculation of tax cost setting amount for joining entity's assets	Start of the income year when the Commissioner becomes aware of the errors	The net overstated amount resulting from the errors, or a portion of that amount	The net understated amount resulting from the errors, or a portion of that amount
L8 – Reduction in tax cost setting amount for reset cost base assets on joining cannot be allocated	Just after entity becomes a subsidiary member	No capital gain	Amount of reduction that cannot be allocated

Involuntary disposal of a CGT asset

How to roll over or defer your CGT liability when your asset is lost, destroyed or compulsorily acquired.

How to choose a CGT rollover and apply for an extension

Find out when and how you can choose to roll over a capital gain, and how to get an extension of time.

QC 66016

Involuntary disposal of a CGT asset

How to roll over or defer your CGT liability when your asset is lost, destroyed or compulsorily acquired.

Last updated 18 June 2024

Choosing to roll over your CGT liability

If your capital gains tax (CGT) asset is involuntarily disposed of (lost, destroyed or compulsorily acquired) and you receive compensation for it, you can roll over your CGT liability.

If you choose to roll over your CGT liability, you defer your liability to pay tax on any capital gain from the involuntary disposal of the asset.

You do not need make a choice in writing – it will be clear from the way you prepare your tax return.

If the involuntary disposal results in a capital loss, you can use it to reduce any capital gain made in the same or later income year.

There are no CGT obligations for assets acquired before 20 September 1985. If you acquired the original asset before this date, any replacement asset is generally **exempt from CGT**.

Events eligible for the rollover

The rollover is available if any of the following events occur:

- all or part of your CGT asset is lost or destroyed

- your CGT asset is compulsorily acquired by an Australian government agency (Australian, state or territory) or by a non-government entity under a power given by an Australian or foreign law
- you dispose of your CGT asset to an entity (other than a foreign government agency) after a notice is served on you inviting you to negotiate a sale agreement. You must have been informed that if the negotiations are unsuccessful the asset will be compulsorily acquired
- you dispose of land to an entity (other than a foreign government agency) where
  - a mining lease was, or would have been, compulsorily granted over the land
  - the lease significantly affected, or would have affected, your use of the land
  - the entity to which you disposed of the land was, or would have been, the lessee
- a lease that had been granted to you by an Australian government agency under a Commonwealth, state or territory law expires and is not renewed.

The rollover is not available for the compulsory acquisition of minority interests in CGT assets. For example, the acquisition of shares in a company, under the *Corporations Act 2001* or similar foreign law, is excluded.

Main residence

A **compulsory acquisition** of part of your main residence may not qualify for the rollover. This is because you may not meet the requirement that you acquire a replacement asset that is used for the same or a similar purpose.

However, the **main residence exemption** may apply.

Depreciating assets

A rollover is not available for **depreciating assets**, which are exempt from CGT when used solely for taxable purposes. Depreciating assets include business equipment and fittings in a rental property.

The capital allowances provisions may allow for a balancing adjustment offset if the depreciating asset is:

- lost or destroyed
- compulsorily acquired
- compulsorily acquired by forced negotiation (other than by a foreign government agency).

With the capital allowances provision, you can offset the balancing adjustment amount against the cost of the replacement asset.

Vehicles

For rollover relief to apply, the replacement asset cannot be a car, motorcycle or similar vehicle.

Compensation

Different eligibility criteria apply depending on whether you receive money, a replacement asset, or both as compensation.

Eligibility when money is received

You can choose the rollover only if:

- you incur expenditure in acquiring another CGT asset that is used
  - in your business (or installed ready for use in the business for a reasonable period), if the original asset was a business asset
  - for a reasonable period for the same or a similar purpose as the original asset
- part of the original asset is lost or destroyed, and you incur expenditure of a capital nature in repairing or restoring it.

You must incur at least some of the expenditure:

- no earlier than one year before the CGT event occurs
- within one year of the end of the income year in which the CGT event occurs.

This period may be extended in special circumstances.

The replacement asset does not need to be identical to the one it is replacing for the rollover to apply. However, you must use the asset in the same business or for the same or similar purpose as the original asset.

Example: rollover applies

Trish owns a bakery. On 1 September 2023 part of her bakery was destroyed in an electrical fire. Trish received an insurance payout as compensation for the damage to her bakery on 12 December 2023.

Trish paid to repair her bakery premises early in the following year (January 2024). Her capital expenditure would qualify for the rollover because she incurred it between 13 December 2022 to 30 June 2025.

Example: rollover does not apply

Denise is compensated when her manufacturing business premises are destroyed. With this money, she buys a rental property.

Denise cannot access the rollover because she does not use the rental property for the same or similar purpose as her old business premises.

Eligibility when a replacement asset is received

You can choose a rollover only if the:

- replacement asset is not a depreciating asset or held as trading stock when you acquire it
- market value of the replacement asset is more than the cost base of the original asset just before the event occurred.

Eligibility when both money and a replacement asset are received

You can choose to apply a rollover. However, the requirements and consequences are different for each part of the compensation.

Working out the timing of the CGT event

You need to know when the CGT event occurred to work out in which income year a capital gain or loss affects your income tax.

- If an asset is lost or destroyed and you receive compensation, the time of the CGT event is when you first received the compensation, such as when you received an insurance pay out.
- If you do not receive any compensation, the time of the CGT event is when the loss was discovered or the destruction occurred.
- If your asset was compulsorily acquired by an entity under an Australian or foreign law, the time of the CGT event is the earlier of when
  - you first received compensation from the entity
  - the entity occupied the asset (for example, land) or took possession of it.
- If an entity acquires your asset following negotiation (rather than compulsorily acquiring it), the time of the CGT event is either
  - the date of the contract to acquire it
  - the date of the change of ownership if there was no contract.
- If a lease that had been granted to you by an Australian government agency (Australian, state or territory) expires and is not renewed, the time of the CGT event is when the lease expired.

Applying the rollover

You may receive money or another CGT asset (or both) as compensation for the involuntary disposal of your CGT asset. The type of compensation you receive affects how you roll over your CGT liability.

Receiving money

When you receive money as compensation your CGT will be affected by:

- when you acquired the original asset
- whether the capital gain is more or less than the excess

- whether the money you receive exceeds the repair or replacement cost.

Original asset acquired before 20 September 1985

If you acquired the original asset before 20 September 1985, you are taken to have acquired the repaired or replacement asset before that day if you either:

- repair or restore the original asset
- replace the original asset at either
  - a cost of no more than 120% of its market value at the time of the event
  - any cost, provided all or part of it was lost or destroyed by a natural disaster and the replacement asset is substantially the same.

If a CGT event later occurs to the repaired or replacement asset, you disregard any capital gain or capital loss you make.

Original asset acquired on or after 20 September 1985

The way the rollover applies depends on whether the money you received exceeds the cost of repairing or replacing the asset.

Money received exceeds the repair or replacement cost

If the money you received exceeds the cost you have incurred to repair or replace the original asset, you may have a CGT liability.

The capital gain you include on your tax return depends on whether your capital gain from the compensation is more or less than the amount by which the compensation exceeds the cost of repair or replacement.

When the capital gain is more than the excess

If the capital gain is more than the excess, you reduce the capital gain you report to the amount of the excess. Include this amount on your tax return in the year the event happens. This capital gain may be eligible for the CGT discount.

When a later CGT event happens, you reduce the amount of expenditure included in the cost base of the asset by the difference between the capital gain before it is reduced and the excess. This enables you to defer part of your CGT liability until a later CGT event happens.

When the capital gain is less than or equal to the excess

If the capital gain is less than or equal to the excess (the compensation amount less the cost of the repair or replacement), you do not reduce the capital gain, and the amount of the expenditure on the repair or replacement is included in the cost base.

Example: money received is more than the replacement expenditure

Gerard's business premises were destroyed by fire on 15 January 2024. He received $246,000 in compensation from his insurance company.

It cost him $240,000 to reconstruct the premises, and the cost base attributed to the building was $230,000.

Money received	$246,000
Cost base	$230,000
Capital gain	$16,000
Money received	$246,000
Replacement expenditure	$240,000
Excess	$6,000

The compensation money ($246,000) is $6,000 more than the replacement expenditure ($240,000). The capital gain ($16,000) is $10,000 more than the excess of $6,000. The capital gain is reduced to the excess amount of $6,000.

Gerard’s capital gain (before applying the CGT discount of 50%) is $6,000. Therefore, assuming he has not made any other capital losses or capital gains in the 2023–24 income year (and does not have any unapplied net capital losses from earlier years), Gerard includes $3,000 ($6,000 × 50%) as his net capital gain for the 2023–24 income year.

Also, he reduces the expenditure he incurred on the replacement asset by the balance of the capital gain ($10,000) to $230,000. This means $10,000 of the capital gain is deferred. In effect, this reduces the cost base of the new asset.

Money received does not exceed the repair or replacement cost

You disregard any capital gain and reduce the replacement expenditure you include in the cost base of the asset under a later CGT event by the amount of the capital gain.

Example: money received is less than the replacement expenditure

Assume that, in the previous example, Gerard spent $257,000 for repairs, and the cost base for the building was $244,000.

Gerard made a capital gain of $2,000 because the cost base of the building was $244,000 at the time of the fire.

Money received	$246,000
Cost base	$244,000
Capital gain	$2,000
Money received	$246,000
Replacement expenditure	$257,000
Shortfall	$11,000

As the compensation money does not exceed the replacement expenditure, Gerard disregards the capital gain.

However, the amount of expenditure that Gerard can include in the cost base of the replacement building is reduced by the amount of the capital gain ($2,000) to $255,000.

Receiving a replacement asset

If you receive a replacement asset as compensation and you choose to apply a rollover, you disregard any capital gain you make from the original asset.

Original asset acquired before 20 September 1985

You can treat the replacement asset as if you acquired it before that date.

Original asset acquired on or after 20 September 1985

The first element of the cost base or reduced cost base of the replacement asset is taken to be the cost base or reduced cost base of the original asset at the time of the event.

However, you may have to recalculate the first element of the cost base of your replacement asset if:

- the cost base of the original asset included an amount of indexation, and
- you wish to apply the CGT discount to a capital gain from the replacement asset.

Example: asset received

The state government compulsorily acquired land that Jon had bought after 19 September 1985.

The cost base of the land at the time it was compulsorily acquired was $180,000. As compensation, Jon received another piece of land with a market value of $200,000.

Because the market value of the replacement land was greater than the cost base of the original land just before it was compulsorily acquired, Jon disregards the capital gain made on the disposal of the original land.

He is taken to have paid $180,000 to acquire the replacement land (the cost base of the original land at the time it was compulsorily acquired). This is the cost base of the replacement land in the event of a future CGT event.

Choosing the indexation or discount method

If a CGT event occurs to the replacement asset, you may be able to use the **indexation method** or the **discount method** to calculate your capital gain.

You can use either of these methods if the periods of ownership of the original asset and the replacement asset add up to at least 12 months.

To apply the indexation method, you must also have acquired the asset before 11:45 am (ACT time) on 21 September 1999.

Receiving both money and an asset

You need to separately determine what happens to the replacement asset and the money. Consider the proportion of the original asset attributable to each type of compensation.

Example: money and an asset received as compensation

The state government compulsorily acquired land Kris bought in 2002. Its cost base at the time was $150,000, but Kris received compensation worth $160,000.

Half of the total compensation was money ($80,000) and half was replacement land (market value $80,000).

Therefore, the cost base of the original land attributable to each part of the compensation is $75,000 (50% × $150,000). Kris bought additional replacement land for $82,000.

The total capital gain is $10,000, which is capital proceeds of cash and property totalling $160,000, less the cost base of $150,000.

Half of this capital gain can be attributed to the money and half to the asset (the replacement land).

The money Kris received as compensation is less than the amount he paid to buy the additional land. He can, therefore, disregard the $5,000 of the capital gain that is attributable to the money compensation. He reduces the expenditure on the additional land by $5,000, so the first element of its cost base is only $77,000.

As the market value of the replacement land is more than that part of the cost base of the original land, Kris can choose to take rollover relief and disregard the capital gain of $5,000 relating to the land.

As a result, half of the cost base of the original land ($75,000) forms the first element of the cost base of the replacement land, not its market value ($80,000) when it was acquired.

QC 66017

How to choose a CGT rollover and apply for an extension

Find out when and how you can choose to roll over a capital gain, and how to get an extension of time.

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When and how you make a choice

The capital gains tax (CGT) rules allow you to roll over capital gains in some situations. For example, a business that replaces an asset with a similar asset can roll over the capital gain on the original asset.

As a rule, if you want to roll over a capital gain:

- you must make your choice by the date you lodge your tax return for the year in which the relevant CGT event happened
- the information you report in your tax return is sufficient evidence of your choice
- once you make a choice, it cannot be changed.

Apply for an extension of time

We may give you more time to make a choice if you lodged your tax return without being aware that:

- events had happened that required you to make a choice

- a choice was available
- a choice you made was not valid.

You can apply for an extension by completing a **Private ruling application form**.

We will consider your request and tell you our decision. We consider whether:

- you have an acceptable explanation for not making the choice by the time it should have been made
- it would be fair and equitable in the circumstances to allow you more time to make a choice
- prejudice to the ATO might result from additional time being allowed to you (the absence of prejudice by itself is not enough to justify granting an extension)
- it would be fair to people in similar positions and the wider public interest
- any mischief is involved.

Businesses wishing to use the **small business CGT concessions** can also apply for an extension in situations where they need to take a certain action within a certain period of time.

For example, a business can apply for an extension if it needs to replace a rollover asset and has not acquired the asset in the time allowed.

QC 66018

CGT discount

Find out if your asset is eligible for the 50% CGT discount.

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How the CGT discount works

When you sell or otherwise dispose of an asset, you can reduce your capital gain by 50%, if both of the following apply:

- you owned the asset for at least 12 months
- you are an Australian resident for tax purposes.

This is called the capital gains tax (CGT) discount.

12-month ownership requirement

For an asset to qualify for the CGT discount you must own it for at least 12 months before the 'CGT event' happens. The CGT event is the point at which you make a capital gain or loss. You exclude the day of acquisition and the day of the CGT event when working out if you owned the CGT asset for at least 12 months before the 'CGT event' happens.

- **If you sell the asset and there is no contract of sale**, the CGT event happens at the time of sale.
- **If there is a contract to sell the asset**, the CGT event happens on the date of the contract, not when you settle. Property sales usually work this way.
- **If the asset is lost or destroyed**, the CGT event happens when:
  - you first receive an insurance payment or other compensation
  - if there is no insurance payment or compensation, when the loss occurred or was discovered.

You can count an asset's previous ownership towards your 12-month ownership period if you acquired it:

- through a **deceased estate** if the asset was acquired by the deceased on or after 20 September 1985
- through a **relationship breakdown** – you will satisfy the 12-month requirement if the combined period your spouse and you owned the asset was more than 12 months
- as a rollover replacement for an asset that was lost, destroyed or compulsorily acquired if the period of ownership of the original asset and the replacement asset was at least 12 months.

Exclusions from the CGT discount

You cannot use the CGT discount in the following circumstances.

Home first used for rental or business in last 12 months

If the asset is your home and you first started **using it for rental or business** less than 12 months before disposing of it, you can't use the CGT discount.

You use the indexation method instead

If you have owned the asset since before 21 September 1999, you can **index the cost of the asset for inflation** instead of using the CGT discount. But in most cases you will get a better result (a smaller capital gain) by using the discount.

Foreign or temporary residents

The full CGT discount cannot be used for capital gains made by **foreign or temporary residents** after 8 May 2012.

Creation of new asset

The CGT discount is not available for a CGT event that creates a new asset and a capital gain. This might happen, for example, with a restrictive covenant, where you receive payment for agreeing not to do something or granting a lease.

In these cases the asset has not been acquired at least 12 months before the CGT event.

Disposal of interest in a non-widely held entity

The CGT discount may be denied when you dispose of certain shares or trust interests in non-widely held companies and trusts. These are companies and trusts with fewer than 300 members.

Conversion of income asset

If an income asset is converted into a capital asset for the purposes of claiming the CGT discount, the discount may be denied (under Part IVA of the *Income Tax Assessment Act 1936*).

Trusts and companies

If an asset is owned for at least 12 months:

- Australian trusts can discount a capital gain by 50%
- complying super funds can discount a capital gain by 33.33%.

Companies cannot use the CGT discount.

How to use the CGT discount

Calculating your CGT explains how to use the CGT discount to reduce your tax. Briefly, this is how it works:

1. If you have any capital losses from other assets, you must subtract these from your capital gains before applying the discount.
2. If you are entitled to the discount for an asset, you reduce the remaining capital gain on that asset by 50% and report this amount in your income tax return. Complying super funds reduce their capital gain by 33.33%.

Extra discount for affordable rental housing

There is an additional CGT discount of up to 10% for individuals who are Australian residents for tax purposes who provide **affordable rental housing** to people earning low to moderate income.

This increases the CGT discount to up to 60% for owners of these residential rental properties.

QC 66019

Calculating your CGT

Use the calculator or steps to work out your CGT, including your capital proceeds and cost base.

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What you pay tax on

If you sold assets during the year, such as property or shares, you need to work out your capital gain or loss for each asset.

When you sell an asset for:

- more than it cost you – you have a capital gain
- less than it cost you – you have a capital loss.

You pay tax on your **net** capital gains. This is:

1. your total capital gains
2. less any capital losses
3. less any discount you are entitled to on your gains.

There is a capital gains tax (CGT) **discount** of 50% for Australian resident individuals who own an asset for 12 months or more. This means you pay tax on only half the net capital gain on that asset.

Some assets are **exempt from CGT**, such as your home.

Example: CGT with discount

Justin, an Australian resident, buys a block of land. He owns it for 18 months and sells it, making a profit of $10,000. He has no capital losses.

Justin is entitled to the 50% CGT discount for the land. He will declare a capital gain of $5,000 in his tax return.

How to calculate your CGT

Work out your CGT using our online calculator and record keeping tool. You can also access the tool and save your data through your myGov account.

CGT calculator and record keeping tool

Calculate CGT yourself

Step 1: Work out what you received for the asset

- This is your **capital proceeds**. It is what you receive when you sell the asset or another CGT event happens to it – for example, if the asset is destroyed and you receive an insurance payout.
- If you give an asset away or sell it to a friend for less than it is worth, your capital proceeds are the market value of the asset.

Step 2: Work out your costs for the asset

- This is your **cost base**. It is what it cost you to acquire the asset, plus certain other costs you had to acquire, hold and dispose of the asset.
- If you made a loss on the asset, you work out the loss amount using the **reduced cost base**.
- If you made a gain on the asset and acquired it before 21 September 1999 you can **index the costs for inflation** up to that date instead of using the CGT discount to reduce your capital gain. This may give you a lower net capital gain in some circumstances, such as if you also have capital losses.

Step 3: Subtract the costs (2) from what you received (1). If the result is:

- more than zero, you have a capital gain for this asset
- less than zero, you have a capital loss for this asset (make sure you used the *reduced* cost base at step 2).

Step 4: Repeat steps 1–3 for each CGT event you have had this financial year

- for example, for each asset you have sold.

Step 5: Subtract your capital losses from your capital gains

- If you have no **allowable capital losses**, skip to step 7.
- If you have a net capital loss carried forward from previous years, subtract this first.
- You can choose which capital gains to subtract your losses from. If you have any capital gains that are not eligible for the CGT discount, subtract your losses from these gains first. This will give you the best result (the lowest CGT).

Step 6: If the remaining amount is:

- more than zero – go to step 7
- less than zero – this is your net capital loss. Go to step 8.

Step 7: Apply the CGT discount (50% for individuals and trusts) to any remaining capital gains that are eligible

- Generally, a capital gain is **eligible for the discount** if you are an Australian resident and you owned the asset for at least 12 months.
- If you owned an asset less than 12 months you cannot discount a capital gain on that asset.
- For complying super funds the discount is 33.33%. Companies cannot use the discount.
- If you owned an **affordable housing fixed domestic residential property**, such as a house, unit or apartment, the discount is up to 60%
- If you acquired the asset before 21 September 1999 and chose to index its cost base at step 2, you cannot use the discount.

Step 8: Report your net capital gain or loss in your income tax return

- If you have a net capital gain you pay tax on the gain at your marginal income tax rate.
- If you have a net capital loss you cannot deduct it from your other income but you can carry it forward to reduce capital gains you make in future years.

Example: working out CGT for a single asset

Rhi buys an investment property for $500,000 and sells it 5 years later for $600,000.

She has no other capital gains or losses.

Using the steps above, Rhi works out her capital gain as follows.

1. The capital proceeds from the CGT event are $600,000.
2. The cost base is $530,000, made up of:
    - purchase costs of $500,000 + $15,000 stamp duty + $1,200 conveyancing fees

- sale costs of $1,300 conveyancing fees + $12,500 agent's commission.

3. Rhi’s capital gain on the investment property is:
$600,000 – $530,000 = $70,000
4. Rhi has no other capital gains or losses, so she skips to step 7.
5. This step is not applicable.
6. This step is not applicable.
7. Rhi can use the CGT discount to reduce her capital gain because she is an Australian resident and owned the asset for at least 12 months:
$70,000 × 50% = $35,000
8. Rhi reports a net capital gain of $35,000 and a capital gain of $70,000 at question **18** – labels **A** and **H** respectively in her tax return (supplementary section). She will pay tax on the net capital gain at her marginal income tax rate.

The capital gain for the property happens on the date of the sale contract, not the date of settlement. For example, if contracts are exchanged on 4 June 2024 and settlement happens on 6 July 2024, Rhi must report her capital gain in her income tax return for the financial year ending 30 June 2024.

Example: working out CGT for multiple assets

Take the same facts as above, except that in addition to the investment property, Rhi also sells some shares in the same financial year.

- Rhi bought 1,000 shares at $10 each for a total of $10,000, including stamp duty and brokerage costs.
- Rhi sells the shares (at a loss) for $5,500. There are no brokerage costs on the sale of the shares.

Using the steps above, Rhi works out her net capital gain or loss as follows.

1. The capital proceeds from the sale of the shares are $5,500.
2. The reduced cost base is $10,000. This includes stamp duty and brokerage, which are costs Rhi had to acquire the asset.
3. Rhi's capital loss on the shares is:
   $5,500 – $10,000 = ($4,500)
4. Rhi also had a capital gain of $70,000 on her investment property (see previous example).
5. $70,000 (gains) – $4,500 (losses) = $65,500
6. Rhi has a capital gain so she continues to step 7.
7. Rhi can use the CGT discount to reduce the remaining capital gain on her investment property:
   $65,500 × 50% = $32,750
8. Rhi reports a net capital gain of $32,750 and a capital gain of $70,000 at question **18** – labels **A** and **H** respectively in her tax return (supplementary section). She will pay tax on the net capital gain at her marginal income tax rate.

Capital proceeds from disposing of assets

Money and other types of capital proceeds, market valuation of an asset, and reductions to your capital proceeds.

Cost base of assets

Work out the cost base of an asset, including foreign currency and excluded amounts, and when not to use the cost base.

Using capital losses to reduce capital gains

Find out when you can use capital losses to reduce your capital

QC 66020

Capital proceeds from disposing of assets

Money and other types of capital proceeds, market valuation of an asset, and reductions to your capital proceeds.

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Types of capital proceeds

Capital proceeds are what you receive, or are entitled to receive, from a capital gains tax (CGT) event, such as selling an asset.

For most CGT events your capital proceeds will be money. They can also be the value of any property you receive or are entitled to receive.

If you receive:

- foreign currency – work out the capital proceeds by converting it to Australian currency at the time of the CGT event
- property (including shares) subject to a deed of escrow – your capital proceeds include the market value of the property at the time of the CGT event (a deed of escrow imposes a restriction on dealing in that property).

If you give away or sell an asset for less than it is worth, your capital proceeds equal the market value of the asset.

Market value substitution

If you receive nothing in exchange for a CGT asset, you are taken to have received the **market value** of the asset at the time of the CGT event.

This is the market value substitution rule for capital proceeds.

You may also be taken to have received the market value if both of the following apply:

- what you received was more or less than the market value of the CGT asset
- you and the new owner were not dealing with each other at arm's length.

You are dealing at ‘arm's length’ with someone when each party acts independently. This occurs when neither party exercises influence or control over the other in connection with the transaction.

The law looks at the relationship between the parties and the quality of the bargaining between them.

The market value substitution rule may apply when **transferring property to family or friends**.

Example: gifting an asset

Martha and Stephen bought a block of land in 2010.

In 2024, they completed a transfer form to have the block transferred to their son, Paul, as a gift.

As Martha and Stephen received nothing for it, they are taken to have received the market value of the land at the time it was transferred to Paul.

Reducing your capital proceeds

You reduce your capital proceeds from a CGT event if:

- you are not likely to receive some or all of the proceeds
- it is not due to anything you have done or failed to do
- you took all reasonable steps to get payment.

If you repay part of the proceeds and you are not entitled to a tax deduction for the repayment, your capital proceeds are reduced by the amount you repaid. The same applies to compensation you pay that can reasonably be regarded as a repayment of the proceeds.

If you are registered for GST, any GST payable on the amount you receive is not part of the capital proceeds.

Proceeds from a depreciating asset

CGT does not apply to depreciating assets you use solely for taxable purposes. This includes assets such as business equipment or items in a rental property. If you have used a depreciating asset for private purposes, CGT may apply.

There are special rules for calculating the proceeds from a **depreciating asset**.

If you sold assets during the year, such as property or shares, see **Calculating your CGT** to work out your capital gain or loss for each asset.

QC 66021

Cost base of assets

Work out the cost base of an asset, including foreign currency and excluded amounts, and when not to use the cost base.

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Work out the cost base for a capital gain

The cost base of a capital gains tax (CGT) asset is generally what it cost you to buy it, plus other costs you incur to hold and dispose of it.

Work out your cost base using our online calculator and record keeping tool. You can also access the tool and save your data through your myGov account.

CGT calculator and record keeping tool

To work out the cost base of a CGT asset yourself, add these 5 elements:

1. Money paid or property given for the CGT asset
2. Incidental costs of acquiring the CGT asset or that relate to the CGT event
3. Costs of owning the CGT asset
4. Capital costs to increase or preserve the value of your asset or to install or move it
5. Capital costs of preserving or defending your title or rights to your CGT asset

Do not include any costs for which you can claim a tax deduction. For example, you do not include the cost of capital works for which you can claim a deduction.

First element: money paid or property given for the CGT asset

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

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

There are 10 incidental costs you may have incurred when you acquired the asset or when the CGT event (such as selling or disposing of the asset) occurred.

They are:

- remuneration for the services of a surveyor, valuer, auctioneer, accountant, broker, agent, consultant, or legal adviser – you can include the cost of tax advice as an incidental cost if the advice was provided by a recognised tax adviser and you incurred it after 30 June 1989
- costs of transfer
- stamp duty or other similar duty
- costs of advertising or marketing (but not entertainment) to find a seller or buyer

- costs of making a valuation or apportionment to calculate your capital gain or loss
- search fees for an asset – this includes fees to check land titles, but not travel costs to find an asset suitable for purchase
- cost of a conveyancing kit (or a similar cost)
- borrowing expenses, such as loan application fees and mortgage discharge fees
- expenses incurred as a direct result of your ownership of a CGT asset ending. This includes termination and exit fees
- expenses by the head company of a consolidated group where the expense
  - is to an entity that is not a member of the group
  - reasonably relates to a CGT asset held by the head company
  - is incurred because of a transaction between members of the group.

Third element: costs of owning the CGT asset

The costs of owning an asset include:

- rates
- land taxes
- repairs
- insurance premiums
- any non-deductible interest on loans used to finance
  - the acquisition of a CGT asset
  - capital expenditure to increase an asset's value.

These expenses can be included in the cost base only if they are not deductible. This would happen if, for example, they were incurred for vacant land.

You can't:

- include costs you can claim an income tax deduction for

- include these costs in the cost base of collectables or personal use assets
- index these costs
- use these costs to work out a capital loss
- include these costs if you acquired the asset before 21 August 1991.

Fourth element: capital costs to increase or preserve the value of your asset or to install or move it

These are capital costs you incurred:

- for the purpose of increasing or preserving the asset's value – for example, the costs of applying (successfully or unsuccessfully) for zoning changes
- to install or move an asset.

The fourth element doesn't include capital expenditure for goodwill. This may be deductible as a business-related cost.

Fifth element: capital costs of preserving or defending your title or rights to your CGT asset

This is your capital expenditure to preserve or defend your ownership of, or rights to, the asset – for example, if you paid a call on shares.

Work out the reduced cost base for a capital loss

The reduced cost base of a CGT asset has the same 5 elements as the cost base, except that the third element is different.

Use the Capital gains tax calculator

To work out the reduced cost base of a CGT asset , add these 5 elements:

1. Money paid or property given for the CGT asset

2. Incidental costs of acquiring the CGT asset or that relate to the CGT event
3. Balancing adjustment amount for the asset. This is any amount that is assessable because of a balancing adjustment for the asset. It includes amounts that would be assessable if certain balancing adjustment relief were not available.
4. Capital costs to increase or preserve the value of your asset or to install or move it
5. Capital costs of preserving or defending your title or rights to your CGT asset.

You do not index these elements because you cannot use indexation for capital losses.

Don't include any costs you can claim a tax deduction for, such as the cost of capital works.

Foreign currency amounts

If the cost base or reduced cost base includes an amount paid in a foreign currency, you must convert it to Australian currency.

Use the exchange rate at the time of the relevant transaction or event – for example, when the money was paid for the asset.

Amounts not included

The following amounts aren't included in the cost base or the reduced cost base.

Deductible costs

The cost base and reduced cost base don't include any costs you can claim as a tax deduction.

Example: effect of capital works deduction on reduced cost base

Danuta acquired a new income-producing asset on 28 September 2010 for $100,000.

She sold it for $90,000 in November 2022

While she owned it, she claimed capital works deductions of $7,500 for expenditure incurred by the previous owner.

Her capital loss is worked out as follows:

Cost base	$100,000
less capital works deductions	$7,500
Reduced cost base	$92,500
less capital proceeds	$90,000
Capital loss	$2,500

In some cases, a deduction you have claimed on a CGT asset can be partly or wholly 'reversed'. This happens when the value of part or all of the deduction may be declared as income in the year the CGT event happens.

When a deduction is wholly or partly reversed, the cost base of the CGT asset is increased by the amount reversed and must be included in your assessable income.

GST for registered businesses

If you are:

- **registered for GST**, you reduce each element by the amount of any GST net input tax credits included in the cost
- **not registered for GST**, you do not make any adjustment. The GST is included in the cost base.

Expenditure on heritage conservation, land care and water facilities

If you acquired a CGT asset after 13 May 1997, the cost base and reduced cost base do not include:

- heritage conservation expenditure
- land care and water facilities expenditure incurred after 12 November 1998, which gave rise to a tax offset.

Recouped expenditure

Recouped expenditure includes insurance payouts you received or an amount paid for by someone else.

You do not include expenditure you subsequently recoup in the cost base and reduced cost of a CGT asset, unless you included the recouped amount in your assessable income.

Example: recouped expenditure

Amid bought a building in 2002 for $200,000 and incurred $10,000 in legal costs associated with the purchase.

As part of the settlement, the vendor agreed to pay $4,000 of the legal costs. Amid did not claim any part of the $6,000 he paid in legal costs as a tax deduction.

Amid later sells the building. As he received reimbursement of $4,000 of the legal costs, he includes only the $6,000 he incurred in the cost base when working out his capital gain.

Expenditure not attributable to asset

If only part of your expenditure can be attributed to acquiring a CGT asset, only that part can be included in the asset's cost base or reduced cost base.

The same applies to other elements of the cost base and reduced cost base.

Similarly, if a CGT event happens to only part of a CGT asset, you apportion the cost base or reduced cost base of the asset to work out your capital gain or loss.

CGT events where cost base isn't used

Cost base and reduced cost base aren’t relevant for some CGT events. For example, if you enter an agreement not to work in a particular industry for a period, calculate your capital gain or loss by comparing the capital proceeds with the incidental costs.

For depreciating assets there are special rules for calculating capital gains – the cost base is not relevant.

Interaction with other rules

There are other CGT rules that may affect the cost base or reduced cost base of an asset. You should check these rules if:

- the asset is your home and you **used your home to produce income**
- the asset is a property and you have **capital works expenses for which you can claim a deduction**
- the asset is an **inherited property**
- the asset is **bonus shares, bonus units, rights and options to acquire shares or units**, or **convertible notes**
- the asset is a **depreciating asset**
- the CGT event happens under a **demerger**
- you are in a **consolidated group**
- you are affected by the **general value shifting regime**
- you have been **freed from paying a debt**
- you start or cease to have a **financial arrangement** as consideration for acquiring a CGT asset.

To work out your capital gain or loss for each asset, see **Calculating your CGT**.

Cost base adjustments for capital works

Capital works deductions can't be included in the cost base or reduced cost base of an asset.

Indexing the cost base

If you acquired an asset before 21 September 1999, you can index its cost base for inflation to reduce capital gains.

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Cost base adjustments for capital works

Capital works deductions can't be included in the cost base or reduced cost base of an asset.

Last updated 18 June 2024

Capital works expenses you can claim as deductions against income can't be included in either:

- the **cost base** of an asset (including a structure or other capital improvement treated as a **separate asset for capital gains tax purposes**)
- the **reduced cost base** of an asset.

There are 2 exceptions to this rule:

- You acquired the asset at or before 7:30 pm (ACT time) on 13 May 1997 and incurred the capital works expense by 30 June 1999 – see the **Guide to capital gains tax** for more information about this situation.
- You were unable to claim a deduction because you didn't know the full amount or exact nature of the construction expense – you can include the expense in your cost base or reduced cost base.

Example: adjusting cost for capital works

Brett purchased a residential rental property on 1 July 2004 for $150,000.

- As part of the purchase he had non-deductible expenses of $20,000 for pest and building inspections, stamp duty and solicitor’s fees.
- Over the next few years, Brett incurred deductible expenses of $33,000 for interest on money borrowed, council rates and deductible (non-capital) repairs.
- In 2023 Brett decided to sell the property. Prior to the sale he spent $30,000 on major structural repairs to increase the value of the property. The repairs were completed on 1 October 2023.
- On 1 February 2024 he sold the property. The real estate agent’s fees and solicitor’s fees for the sale of the property totalled $12,500.

The purchasing expenses of $20,000 and sale expenses of $12,500 are capital costs and not deductible. These are added to the cost base of the property.

The deductible expenses of $33,000 are not added to the cost base because Brett is able to claim deductions for them.

Brett can claim a capital works deduction for the major structural repairs:

- at the depreciation rate for capital works of 2.5% per year
- for the period between completing the capital works and selling the property (124 days).

Therefore, Brett's deduction for the major structural repairs is:

- $30,000 × 2.5% × (124 days ÷ 366 days) = $254

When working out his cost base, Brett reduces the capital costs element by the amount that he was able to claim as a deduction:

Purchase price of property	$150,000
Purchase-related costs	$20,000
Capital costs (major structural repairs): $30,000 less capital works deduction ($254)	$29,746

Sale-related costs	$12,500
Cost base	**$212,246**

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Indexing the cost base

If you acquired an asset before 21 September 1999, you can index its cost base for inflation to reduce capital gains.

Last updated 18 June 2024

How indexation works

The indexation method adjusts the amount of an asset's costs by the rate of inflation. The adjustment is based on the consumer price index (CPI).

The increased cost amounts will reduce your capital gain on the asset.

However, you:

- must have incurred the costs by 21 September 1999
- can index for inflation only up to 30 September 1999
- cannot index the third element of the cost base (costs of owning the asset).

When to use indexation

If your asset is eligible for indexation, it is probably also eligible for the 50% CGT discount for individuals.

You can use whichever of these methods gives you the best result (the lowest capital gain), but not both.

In most cases the discount will give you the best result. Indexation may give you a better result in some situations, such as if you also have capital losses. The **Guide to capital gains tax** has information on choosing the indexation or discount method.

Companies cannot use the CGT discount. They should use indexation for assets acquired before 21 September 1999.

If you have had a capital loss on an asset, you cannot use indexation.

How to apply indexation

You can use the CGT calculator to work out your capital gain. It will automatically apply the method (indexation or discount) that gives you the best result.

Use the Capital gains tax calculator

If you prefer to index your asset cost base yourself, follow these steps.

Step 1: Identify your eligible capital costs

- The costs must be incurred no later than 21 September 1999.
- Costs of owning the asset (the third element of the cost base) cannot be indexed.

Step 2: For each eligible cost, identify the CPI rate for the quarter in which the cost was incurred

- Use the **CPI quarter-ending rates** table to find the applicable rate.
- If there is a call on partly paid shares or units you acquired after 15 August 1989, you index the full cost of buying them from the date you made the later payment.

Step 3: Calculate the indexation factor for the cost

- Divide 68.7 (the CPI for 30 September 1999) by the CPI from step 2.
- Limit the indexation factor to 3 decimal places. If the fourth decimal figure is 5 or higher, round it up (for example, 1.4125 would become 1.413).

Step 4: Multiply the cost by the indexation factor

Step 5: Total your indexed eligible costs and any non-indexed capital costs

- This is your indexed cost base for the asset.

Step 6: Subtract the indexed cost base from your capital proceeds for the asset

- This is your capital gain for the asset.
- Remember, if you index the cost base you cannot apply the CGT discount.

Example: indexing the cost base

Val bought an investment property for $150,000 under a contract dated 24 June 1991. She paid:

- a deposit of $15,000 on 24 June 1991
- the balance of $135,000 on settlement on 5 August 1991
- stamp duty of $5,000 on 20 July 1991
- solicitor's fees of $2,000 on 5 August 1991 as part of settlement.

Val sold the property on 15 October 2023 (the day contracts were exchanged) for $600,000. She incurred costs of:

- $1,500 in solicitor’s fees
- $15,000 in agent’s commission.

Using the steps above, Val works out her cost base as follows.

1. The costs of buying the property are eligible for indexation. They were incurred prior to 21 September 1999.
2. The CPI rates for the quarters in which Val incurred her eligible costs are:
    - deposit and balance: CPI for June 1991 quarter = 59.0
    - stamp duty and solicitor's fees: CPI for September 1991 quarter = 59.3

    Although the balance was paid in the September quarter, it is indexed from the date of contract, which was in the June quarter.

3. The indexation factors are:
   - for the June 1991 quarter: 68.7 ÷ 59.0 = 1.164
   - for the September 1991 quarter: 68.7 ÷ 59.3 = 1.159
4. The indexed costs are:

   Deposit × indexation factor
   $15,000 × 1.164 = $17,460

   Balance × indexation factor
   $135,000 × 1.164 = $157,140

   Stamp duty × indexation factor
   $5,000 × 1.159 = $5,795

   Solicitors' fees for purchase of property × indexation factor
   $2,000 × 1.159 = $2,318
5. Val's total cost base is $199,213, made up of:
   - indexed costs $17,460 + $157,140 + $5,795 + $2,318 = $182,713
   - $1,500 solicitor's fees for sale of property (not eligible for indexation)
   - $15,000 agent's commission for sale of property (not eligible for indexation)
6. Using indexation, Val's capital gain for the asset is:

   Capital proceeds – cost base (indexed) = capital gain
   $600,000 – $199,213 = $400,787

Val is eligible to use the CGT discount instead of indexation. Unless she has significant capital losses to apply, she will get a better result by using the CGT discount to calculate CGT.

For more information on how to calculate your CGT, see **Calculating your CGT**.

QC 66024

Using capital losses to reduce capital gains

Find out when you can use capital losses to reduce your capital gains, and how to carry forward a net capital loss.

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When to use capital losses

You use your current year capital losses to offset your current year capital gains. You can choose which capital gains to subtract your capital losses from. If you have any capital gains that are not eligible for the CGT discount, subtract your capital losses from these gains first. This will result in the lowest payable CGT.

If you have capital losses from prior years, also known as net capital losses carried forward, you can use them to offset your current year capital gains. If your prior year capital losses extinguished your current year capital gain, you do not have a current year capital gain.

As net capital losses can be carried forward indefinitely, there is an order of using your capital losses to offset capital gains. You apply your net capital losses in the order that you make them.

There are capital losses you can't use to offset capital gains, they are listed at non-allowable capital losses.

Carrying forward a net capital loss

If your allowable capital losses are greater than your capital gains, you have a net capital loss. You can carry it forward to later income years to be deducted from future capital gains. You can’t deduct capital losses or a net capital loss from your other assessable income.

There is no time limit on how long you can carry forward a net capital loss.

Non-allowable capital losses

You cannot deduct capital losses you make from:

- **personal use assets**, such as boats or furniture
- assets that are **exempt from CGT**, such as cars and motorcycles
- **collectables below a certain value**
- a lease (whether the result of expiry, forfeiture, surrender or assignment) – except if its main purpose is producing income, such as for a commercial rental property or a car
- paying **personal services income** to yourself through an entity you have set up.

Capital losses from collectables

Capital losses from **collectables** can only be deducted from capital gains made from collectables. They cannot be deducted from gains made from other assets.

If you do not have a capital gain from another collectable, you can carry forward the capital loss to deduct it against a gain from a collectable in a future year.

A collectable is not subject to CGT if you acquired it for $500 or less (or acquired an interest in it when it had a market value of $500 or less). This means you ignore a capital gain or loss from the collectable.

Company capital losses

A company can deduct previous net capital losses from capital gains in the current year as long as it is either:

- substantially under the same ownership and control
- still in the same line of business.

Trust capital losses

Capital losses made by a trust cannot be distributed to the trust's beneficiaries. The trust can carry forward its net capital losses and deduct them from capital gains in future years.

Exempt entity losses

Losses made by an entity that is exempt from income tax are disregarded.

For more information and help on how to calculate you CGT, see **Calculating your CGT**.

QC 66025

Market valuation of assets

You must obtain market valuation of an asset when required by tax law. The valuation must be objective and supportable.

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About market value

Market value is the estimated monetary worth of an asset on the open market at a particular time. It is based on:

- the most valuable use of the asset (which may be different to how it is currently used)
- the amount that a willing buyer and seller would agree to in an arm's length transaction.

The **market value definition for tax purposes** may vary for particular provisions of tax law and types of asset.

When you need a market valuation

Taxpayers may need a market valuation for many purposes, including:

- **individual taxpayers**
  - transferring property or shares between related parties, such as family members

  - when you start to use your **main residence (your home) for rental or business**
- **employees** receiving shares or options under an employee share scheme
- **small businesses** meeting the asset threshold tests for capital gains tax concessions
- **property developers** applying the GST margin scheme
- **businesses** that consolidate for income tax purposes.

What a market valuation report should include

At a minimum, valuation reports should contain the following:

- the purpose of the valuation
- the scope of the valuation
- details of the asset being valued
- the date it was conducted
- if it is a retrospective valuation assessment
- the date of inspection (if applicable)
- records to explain the basis of the market value
- the value.

Depending on what is being valued and when, you may need additional information in your report. Refer your valuer to **Market valuation for tax purposes.**

Getting a market valuation

A valuation must be objective and supported with appropriate evidence.

Valuations undertaken by **professional valuers** are more credible than those provided by someone who is not a professional valuer.

When you engage a valuer, you must provide them with clear instructions and accurate information. You need to demonstrate that you have:

- set out the scope and purpose of the valuation
- acknowledged the valuer's independence to draw conclusions and write their report
- recognised that the valuer can refuse to provide an opinion or report if you do not provide the information and explanations they need
- granted the necessary access to your premises and records
- provided all necessary help to complete the report
- stated that any fee is not dependent on the report's outcome.

Instructions to valuers are usually documented in a written request or letter of engagement.

Generally, if you engage and properly instruct a professional valuer, you won’t be liable for penalties if we find the professional valuation is deficient.

Keep your market valuation report

You need to keep a market valuation report or other records that:

- show the valuation is objective, accurate and supported by evidence
- include all required information we expect a **valuation report** to cover.

If we later **review** your tax affairs, you will need these records to support the valuation.

Market valuation guide

The **Market valuation for tax purposes** guide is available on our legal database for taxpayers and their advisers (including valuers) who need to value an asset for tax purposes. It explains:

- the principles and processes for establishing a market value for tax purposes

- our expectations
- the most common valuations for tax purposes.

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Our commitment to you

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

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

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

If you feel that our information does not fully cover your circumstances, or you are unsure how it applies to you, contact us or seek professional advice.