

● CAPITAL GAINS TAX (INDIVIDUALS)

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Capital Gains Tax (CGT) is an income tax assessed on the profits from the sale of an asset acquired after 19 September 1985. Any assessable capital gain is added to your taxable income and then taxed at your applicable marginal tax rate.

CGT may also be applicable to transfers to another entity, such as SMSF in-specie transfers, and insurance policy ownership changes. As a managed investment may regularly sell down and purchase investments, capital gains tax liability may be included in your distribution and considered within your tax return.

CGT does not apply to assets acquired before 20 September 1985. It also does not generally apply to personal use assets such as your home, car or furniture or for a depreciating asset used solely for taxable purposes, such as business equipment or fittings in a rental property.

HOW IT WORKS

CAPITAL GAIN

A capital gain can arise if the proceeds from the sale of an asset (purchased after 20 September 1985) exceed your (purchase) costs. A capital gain will be calculated based on the purchase or sale date and will apply to assets sold anywhere in the world for Australian residents.

CAPITAL LOSSES

If you make a capital loss, the capital loss can be used to reduce the assessable capital gain made in the same tax year. If your capital losses exceed your capital gains in an income year, you can generally carry the loss forward and deduct it against capital gains in future years.

CAPITAL GAINS DISCOUNTS AND CONCESSIONS

Generally, if an asset is held for over 12 months, the capital gain assessed for tax is halved for individuals.

Additional discounting may be available if an individual wishes to access the Small Business CGT concessions.

Any assessable capital gain is added to taxable income and then taxed at an individual's applicable marginal tax rate.

CAPITAL GAINS DISCOUNTS- SUPERANNUATION AND PENSIONS

For funds accumulating within superannuation, the 12 month capital gains discount is 1/3rd.

There is no CGT applicable, however, if an income stream, such as an account based pension, is paid from superannuation sourced funds.

Any assessable capital gain will be taken into account within the superannuation fund's income.

Assessable Capital Gain

Total Capital Gain for the tax year (including capital gains distributed by a managed investment)

Less Total Capital Losses (including Net Capital losses from previous years))

Less Any CGT Discount and small business concession that you are entitled to

= Assessable Capital Gain to be added to Assessable Income

WHAT YOU NEED TO CONSIDER

- When you acquire a CGT asset, you need to start keeping records of every transaction, event or circumstance that may be relevant to working out whether you've made a capital gain or capital loss later. Generally, the date applied is your date of acquisition, but you may record the contract date if you do not take immediate possession, or the date of death, if you receive an inheritance. Your records will help you work out your capital gain or capital loss correctly and ensure you don't pay more CGT than necessary
- Owning a managed investment, such as a managed fund, index fund or exchange traded fund may mean that you will need to take in account CGT. This can occur as the fund may sell down investments to maintain the fund's desired asset allocation, take profits or pay for regular distributions.
- You should consider the timing of asset sales with applicable capital gains. The additional capital gain could increase the applicable tax on salary and other income or could be delayed until you expect that you will earn less income.
- You should consider whether the assessable capital gain will affect your eligibility for other payments such as the Age Pension, Newstart, family tax benefits and child support. Additional information is available on www.humanservices.gov.au/customer/enablers/adjusted-taxable-income
- CGT will arise if you undertake an in specie transfer to your SMSF, even if you are the sole member
- CGT may apply to the family home if you rent it out or use an area for business purposes

REFERENCES



You may wish to refer to the following websites for further information about CGT:

- www.ato.gov.au
- www.moneysmart.gov.au

The information in this document is of a general nature and does not take into account your own financial objectives, circumstances or needs. You should consider your own personal situation and requirements before making a decision.