Capital gains tax and property

How to calculate capital gains tax (CGT), which assets it applies to, and how you can benefit from CGT discounts.

Capital gains tax on the sale of property

When selling or disposing of property, you need to consider if capital gains tax (CGT) applies.

Capital gains tax and the main residence exemption

Check our list of examples to see if you are eligible for the full or partial main residence exemption.

Capital gains tax on inherited property

What you need to know about capital gains tax (CGT) when you inherit a capital asset like property.

Marriage or relationship breakdown and real estate transfers

If you transfer real estate to your spouse due to separation or divorce, you may qualify for a CGT rollover.

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Capital gains tax on the sale of property

When selling or disposing of property, you need to consider if capital gains tax (CGT) applies.

Last updated 5 May 2025

You can visit the ATO Publication Ordering Service to download a copy of the Capital gains tax on the sale of property fact sheet.

About CGT when selling property

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

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

If you bought property before 20 September 1985

You're exempt from CGT if you bought property before 20 September 1985. CGT came into effect from 20 September 1985.

Include pre-CGT disposals in your tax return

Reporting pre-CGT disposals won't affect your tax, but it may stop us from needing to contact you.

Include the pre-CGT asset exemption in the capital gains tax section in your tax return:

- under the heading **Capital gains tax exemption, rollover or additional discount type code**
- select **J: Capital gains disregarded as a result of the sale of a pre-CGT asset** from the drop-down list.

Work done on pre-CGT property

If you bought your property before 20 September 1985 and added to, or improved your property such as renovating it, those changes are major capital improvements. This work is treated as a separate CGT asset if its original cost is both:

- **more than** 5% of the amount you receive when you dispose of the asset
- **more than** the improvement threshold for the income year you dispose of the asset. The improvement threshold can be found on ato.gov.au

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

If you bought the property on or after 20 September 1985

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

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

Calculate your cost base

To calculate your capital gain, you need to work out the cost base. The cost base is usually the cost of the property when you bought it, plus any costs associated with acquiring, holding and selling it that haven't already been deducted. The cost base is made up of 5 elements.

Element 1 – Money paid or property given for CGT asset

For example, the purchase price to acquire the asset.

Element 2 – Incidental costs of acquiring the CGT asset or that relate to the CGT event

For example, costs of advertising or marketing to find a seller or buyer, legal fees, valuation fees, borrowing expenses, such as loan application fees.

Element 3 – Costs of owning the CGT asset

For example, insurance costs, rates and land taxes.

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

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

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

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

Capital works deductions

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

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

Depreciating assets

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

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

Working out your reduced cost base

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

How to calculate a reduced cost base:

- Include all elements of the cost base except element 3, which is replaced with the balancing adjustment amount – for example, the sale of depreciating assets in the rental property would be part of the balancing adjustment.
- Don't apply indexation to any elements of the reduced cost base.

How to calculate your capital gain or loss

To help work out your capital gains or losses, use the Capital gains tax record keeping tool or these steps to calculate the CGT yourself:

Step 1: Work out what you received for the asset (capital proceeds). If you give the asset away or sell it 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 (your cost base). It is what it cost you to acquire, plus certain other costs you had to acquire, hold and dispose of the asset. If you have already claimed a deduction for an amount, such as capital works, it doesn't form part of the cost base

Step 3: Subtract the cost base from what you received. If the result is:

- more than zero, you have made a capital gain
- less than zero, you need to use the reduced cost base at step 2 to see if you have made a capital loss.

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

Step 5: Subtract capital losses from your capital gains

Step 6: If the remaining amount is:

- more than zero, go to step 7
- less than zero - go to step 8.

Step 7: Apply the CGT discount (50%) for individuals and trusts to any remaining capital gains that are eligible (Australian resident and owned asset for at least 12 months)

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

Timing of a CGT event

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

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

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

Inherited property

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

Apportioning gain or loss

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

Main residence

If your rental property was your main residence

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

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

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

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

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

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

Using your main residence to produce income

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

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

Property value when first used to produce income rule

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

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

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

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

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

For more information, see Capital gains tax and the main residence exemption.

Example: sale of a rental property

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

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

Interest on money borrowed – $10,000

Rates and land tax – $8,000

Deductible (non-capital) repairs – $15,000

Total expenses – $33,000

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

When Brett decided to sell the property, a real estate agent advised him to spend $30,000 on renovations so the property would be valued at $900,000. The renovations were completed on 1 October 2024, costing $30,000, while the property was still rented.

On 1 February 2025 he sold the property for $900,000 ($4,000 was attributed to depreciating assets), 124 days after the completion of the renovations. Brett also incurred $12,000 in real estate agent's fees and solicitor's fees on disposal.

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

Brett works out his cost base by:

Purchase price of property ($350,000 – $12,000 [depreciating assets]) *plus*

Pest and building inspections, stamp duty and solicitor's fees on purchase of the property ($20,000) *plus*

Capital expenditure (renovations) ($30,000 – $254 [capital works deduction]) *plus*

Real estate agent's fees and solicitor's fees on sale of the property ($12,000), *equals*

Cost base unindexed – that is:
$338,000 + $20,000 + $29,746 + $12,000 = $399,746

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

Proceeds from selling the house, $896,000 ($900,000 – $4,000 [depreciating assets])

Less Cost base unindexed, $399,746

Capital gain $496,254 ($896,000 – $399,746)

He decides the discount method gives him the best result, so he uses it to calculate his net capital gain:

$496,254 × 50% = $248,127

Example: partial main residence during part of the ownership period

Vrinda bought a house on 1 July 2009 for $350,000 and moved in immediately. On 1 July 2016 she bought a new house and moved into it on 1 December 2016 (5 months later) as her main residence and began to rent out her old house. She had a valuation done at the time for $500,000 for her old house.

She sold the old house (rental property) for $950,000. Its contract for sale was signed on 1 July 2024.

When Vrinda started renting out the old house on 1 December 2016, its market value was $500,000 (value at the time of first use for producing income).

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

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

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

Example: renting out part of a home

Thomas purchased a house 1 July 1999 and sold it on 30 June 2025. The house was his main residence for the entire time.

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

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

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

> Capital gain × percentage of floor area = Taxable portion
>
> **$120,000 × 35% = $42,000**

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

Record keeping

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

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

For more information on record keeping, see Records for rental properties and holiday homes.

Foreign residents, main residence and capital gains tax

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

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

This is a general summary only.

For more information:

- see Property and capital gains tax
- watch our short videos at Rental property video series
- download our Rental properties guide
- read our Capital gains tax guide.

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Capital gains tax and the main residence exemption

Check our list of examples to see if you are eligible for the full or partial main residence exemption.

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You can visit the ATO Publication Ordering Service to download a copy of the Capital gains tax and the main residence exemption factsheet.

Eligibility for the main residence exemption

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

You are an Australian resident and the dwelling:

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

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

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

What is a main residence?

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

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

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

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

What is a dwelling?

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

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

Report your capital gain, loss or main residence exemption

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

For example, a contract signed on 29 June 2025, but settled on 1 August 2025 needs to be reported in the 2024–25 income year.

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

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

How to complete your tax return

If you make the choice to claim the main residence exemption, you must include this at the CGT exemptions and rollovers question in your tax return.

Lodging your tax return using myTax

In the **Personalise** your return section:

- select **You had Australian interest, or other Australian income or losses from investments or property**
- select **Capital gains or losses that are not from a managed fund or Trust distribution**
- select **Add/edit** for the capital gains or losses section
- select **Yes** to *Have you applied an exemption/rollover or additional discount?*
- under the heading *Capital gains tax exemption, rollover or additional discount type code*, select the code **I: Main residence exemption (Subdivision 118-B)** from the drop-down list.

Lodging your tax return via a tax agent

For the property to be considered your main residence or your primary place of residence (PPOR), you will have to show that:

- you lived in your main residence for the entire duration that you've owned it or have not treated any other place as your main residence
- you keep your possessions at your main residence
- you use the property's address to receive your post
- the property's connected utilities are in your name
- you are registered on the electoral roll covering that address.

Main residence exemption eligibility – common scenarios

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

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

Scenario…	Eligibility for main residence	What to include in

During property ownership period	exemption (MRE)	your tax return
You lived in your home the entire time you owned it, but your home is on more than 2 hectares of land.	You're eligible to claim a partial MRE for the area your house is on, up to 2 hectares of land. The rest of the property is subject to CGT. For more information, see Home on more than 2 hectares.	Report MRE. Report CGT gain or loss amount.
You lived in the property before renting it out for 6 years or less.	You may elect to claim a full MRE, but you can't claim the exemption for another property for the same period. If you make the choice to continue to treat your former home as your main residence, and you rented it out for 6 years or less until its sale, include the MRE in your tax return. For more information, see Treating former home as main residence.	Report MRE.
You first lived in the property and then rented it out for more than 6 years.	You're eligible for a partial MRE. You can choose to treat the property as your main residence for the period you lived in it and the first 6 years you rented it out, but you can't claim the exemption for another property for the same period. CGT must be applied for the remaining time you	Report MRE. Report CGT gain or loss amount.

	rented out the property until its sale. For more information, see Treating former home as main residence.	
You rented the property out before you moved into it.	You're eligible for a partial MRE. CGT must be applied to the period you rented it before living in the property. This includes when tenants remain in the property after settlement. For more information, see Using your home for rental or business.	Report MRE. Report CGT gain or loss amount.
You used part of your home to earn rental income.	You're eligible to claim a partial MRE for the part of your home not used to produce assessable income. This includes renting part of your property on a sharing economy platform (for example Airbnb or Stayz). For more information, see Using your home for rental or business.	Report MRE. Report CGT gain or loss amount.
You used part of your home to run a business.	You're eligible to claim a partial MRE for the part of your home not used to produce assessable income. You are running a business from home if it is your principal place of business and you have a space set aside just for this purpose. Merely	Report MRE. Report CGT gain or loss amount.

	working from home occasionally does not qualify. For more information, see [Using your home for rental or business]().	

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

Scenario... During property ownership period	Eligibility for main residence exemption (MRE)	What to include in your tax return
You own your home and a holiday house.	If you own 2 homes at the same time – for example, your home and a holiday house – you can only apply the MRE to one property at a time. A holiday house can only be treated as your main residence if you move into the property and live in it as your main residence. If you are intending to claim a full MRE for your home when you sell it, you need to report a capital gain or loss when you sell your holiday house. For more information, see Holiday homes.	Report MRE. Report CGT gain or loss amount.
You rented the property and	You're not eligible for the MRE.	Not eligible for MRE.

never lived in it.	For more information, see CGT when selling your rental property.	Report CGT gain or loss amount.
You bought vacant land with the intent to build a new home, but didn't build and sold it as vacant land.	You're not eligible for the MRE if you sold vacant land, even if your intention was to build a home on it. For more information, see: • Eligibility for main residence exemption • Vacant land and subdividing	Not eligible for MRE. Report CGT gain or loss amount.
You demolished your home and sold the property as vacant land.	You're not eligible for a MRE when you sell vacant land, even if you lived in the house as your main residence before demolishing it. For more information, see Vacant land and subdividing.	Not eligible for MRE. Report CGT gain or loss amount.
You subdivided a property and sold the new subdivision as vacant land.	You're not eligible for the MRE if you subdivide a block and sell as vacant land. For more information, see Subdividing and combining land.	Not eligible for MRE. Report CGT gain or loss amount.
You subdivided the property your home is on and built a house on	You're not eligible for a MRE when you sell the new subdivided property.	Not eligible for MRE.

the new subdivision then sold it.	For more information, see Subdividing and combining land.	Report CGT gain or loss amount.
You're a foreign resident and sold your property after 30 June 2020.	You're not eligible for a MRE unless you satisfy the life events test. This is even if you were a resident for some of the time you owned the property. For more information, see Main residence exemption for foreign residents.	If you **don't satisfy** the life events test: • you're not eligible for MRE • report CGT gain or loss amount • claim any CGT foreign resident withholding credit. If you **satisfy** the life events test: • report MRE • claim any CGT foreign resident withholding credit.

Table: common scenarios when you sell your home and are eligible for a full main residence exemption.

Scenario... During property ownership period	Eligibility for main residence exemption (MRE)
You lived in your home the entire time you owned it, and did not earn any income from renting it or running a business from home.	You're eligible to a full MRE. For more information, see Eligibility for main residence exemption.
You moved into your new home before selling your old	You're eligible to a full MRE.

home.	You can treat both properties as your main residence for up to 6 months when you acquire a new home before you sell your old one. For more information, see Moving to a new main residence.
You occasionally work from home, but your home is not your place of business.	You're eligible to a full MRE. Occasional work from home is treated differently to running a business from your home. If you're not entitled to deduct interest and other occupancy expenses, working from home doesn't affect your eligibility for the MRE. For more information, see Using your home for rental or business.
You are an Australian resident, and you inherited the property from an Australian resident.	You're eligible to a full MRE if the property was the deceased person's main residence prior to their death and you dispose of the property within 2 years. This includes if you rent it out during the 2 years after their death. For more information on the tax implications of deceased estate residences, see Inherited property and CGT.
You built or renovated your home on land you own.	You're eligible to a full MRE for up to 4 years before you move in. • You must move into your home as soon as practicable after it's finished. • You must continue to use it as your main residence for

	at least 3 months. • You can't claim the exemption for another property for the same period. For more information, see Building or renovating your home.
You demolished your home and built a new one.	You're eligible to a full MRE. If the home was originally your main residence, you knocked it down and rebuilt within 4 years and moved back in, you can apply the MRE from the date your original home was purchased. You can't claim a MRE for another property for the same period. For more information, see Building or renovating your home.
You subdivided your property and remained in your original residence.	You're eligible to a full MRE. You will be required to report a capital gain or loss on the subdivided land, but not your original main residence. For more information, see Subdividing and combining land.
Your home is accidentally destroyed (for example, by a natural disaster) and you sell the vacant land.	You're eligible to a full MRE as the land is treated as if the home wasn't destroyed. If you acquire a new home before you dispose of the land, you can treat both as your main residence for up to 6 months. For more information, see Destruction of your home.

You create a granny flat arrangement involving your main residence	You're eligible to a full MRE. The creation, variation or termination of a granny flat arrangement does not affect the main residence exemption. This is because the granny flat arrangement is a right to occupy the property, not a right to the property itself. For more information, see Granny flat arrangements and CGT.

This is a general summary only.

For more information:

- download our Rental properties guide
- read our Capital gains tax guide.

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Capital gains tax on inherited property

What you need to know about capital gains tax (CGT) when you inherit a capital asset like property.

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You can visit the ATO Publication Ordering Service to download a copy of the Capital gains tax on inherited property factsheet.

When CGT applies

Inherited property is a capital asset and for CGT purposes you acquire it on the day a person dies.

CGT doesn't usually apply at the time you inherit the dwelling, however it will apply when you later sell or dispose of the dwelling, unless an exemption applies.

The following circumstances determine if CGT or a CGT exemption applies to the sale or disposal of inherited property:

- the deceased person acquired the property before 20 September 1985, and if a major improvement has been made to the property on or after 20 September 1985
- it was the deceased person's main residence immediately before they died, and if the property was being used to produce income at the time
- the deceased person was an excluded foreign resident at the time of death
- if you were an Australian resident when you inherited the property
- if it was your main residence, or
  - the main residence of anyone with the right to occupy it under the will
  - the main residence of the spouse of the deceased person immediately before their death
  - wasn't used to produce income
- if you dispose of the inherited property within 2 years (or the within an extension period) of the deceased person's death.

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

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

To find out if the disposal of inherited property is fully or partially exempt from CGT, see Inherited property and CGT.

Acquisition cost base of inherited property

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

- the property was acquired by the deceased before 20 September 1985

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

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

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

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

Joint tenants and tenants in common

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

- tenants in common
- joint tenants.

Tenants in common

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

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

Joint tenants

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

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

However, if you're a joint tenant and another joint tenant dies, on that date their interest in the asset is:

- taken to pass in equal shares to you and any other surviving joint tenants
- as if their interest is an asset of their deceased estate and you are beneficiaries.

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

Example: surviving joint tenant

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

On 1 May 2024, Lee dies. Ming acquires Lee's interest for an amount equal to Lee's cost base on that day (1 May 2024).

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

Inherited dwelling from, or as, a foreign resident

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

The changes may also apply to you if:

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

Inheriting a dwelling from someone who inherited it themselves

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

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

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

Rodrigo died in January 2023. He leaves the flat to his son, Petro. Petro initially rents out the flat and then sells it 15 months after his father died.

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

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

Lucy buys a home on 1 April 2005 for $250,000. It's her main residence from the time she acquired it until her death on 31 March 2017 (a total of 4,383 days). The property passes on to her beneficiary, Amy.

Amy lets the home as a rental property throughout her ownership period. After 8 years she decides to sell. Amy sells the rental property for $975,000 on 30 June 2025 (3,013 days after Lucy's death).

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

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

Amy needs to declare the capital gain as follows:

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

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

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

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

Amy's capital gain is:

> $550,000 × 3,013 ÷ 7,396 = $224,060

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

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

Vicki bought a house for $200,000 on 12 February 2000 and uses it as a rental property. She dies on 17 November 2003 (owning the home for a total of 1,375 days). The house passes on to her beneficiary, Lesley, who uses it as his main residence.

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

Lesley sells the property for $650,000 on 27 November 2024. He owned it for a total of 7,681 days. As the house was not Vicki's main residence just before she died, Lesley can't claim an exemption from CGT for the period Vicki used the house to produce income.

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

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

Mary acquired a dwelling on 1 June 2004 for $650,000. It is her main residence until she dies on 31 August 2009 (a total of 1,918 days). Her son, Steve, inherits the dwelling and rents it out.

After renting the dwelling until 31 August 2012 (a total of 1,096 days), Steve begins living in it as his main residence. On 31 August 2024 he sells it for $900,000 (owning it for a total of 5,479 days).

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

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

This is a general summary only.

- For more information:
- see Inherited assets and capital gains tax
- download our Rental properties guide
- read our Capital gains tax guide.

QC 104441

Marriage or relationship breakdown and real estate transfers

If you transfer real estate to your spouse due to separation or divorce, you may qualify for a CGT rollover.

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You can visit the ATO Publication Ordering Service to download a copy of the Marriage or relationship breakdown and real estate transfers fact sheet.

Marriage or relationship breakdown rollover

Capital gains tax (CGT) generally applies to changes in ownership of an asset, such as real estate.

A marriage or relationship breakdown rollover may apply when the transfer of property results from a qualifying agreement.

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

The **transferor** is the person, company or trustee of a trust transferring the property to their spouse because of a court order or other formal agreement. The transferor:

- disregards any capital gain or loss
- reports the rollover in their tax return.

The **transferee spouse**:

- has the property and cost base transferred to them because of a court order or other formal agreement
- will make a capital gain or loss when they later sell or dispose of the property.

If the transferee spouse already had a legal interest in the property, they must calculate their capital gain or loss separately to the interest transferred from the transferor.

If the transferred property was acquired by the transferor (or a company or trustee) before 20 September 1985, CGT doesn't apply. However, if the transferor made a major capital improvement to the dwelling on or after 20 September 1985 the improvements are separate assets and may be subject to CGT.

How to include your relationship rollover in your tax return

If you are lodging your tax return using myTax, in the **Personalise** your return section:

- select **You had Australian interest, or other Australian income or losses from investments or property**
- select **Capital gains or losses that are not from a managed fund or Trust distribution**
- select **Add/edit** for the capital gains or losses section
- select **Yes** to *Have you applied an exemption/rollover or additional discount?*
- under the heading *Capital gains tax exemption, rollover or additional discount type code, select* **S: Same asset roll-overs (Division 126)** from the drop-down list.

If a rollover doesn't apply

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

The **transferor:**

- Is the person, company or trustee of a trust transferring the property under a private or informal arrangement.
- Must consider any capital gain or loss made from the transfer and report this in their tax return for that year.
- Is taken to have received the market value of the property for CGT purposes where the dealings are not arm's length.

The **transferee spouse**:

- Has the property transferred to them under a private or informal arrangement and is taken to have acquired it at the time of transfer.
- Will make a capital gain or loss when they later sell or dispose of the property.
- Is taken to have acquired the property at market value for CGT purposes where the dealings are not arm's length.

Note: An arm's length dealing is where each party acts independently and without influence or control over the other.

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

Calculating CGT on a property received under a relationship breakdown rollover

When you sell or dispose of a property transferred to you under a relationship breakdown rollover, you need to calculate the CGT as though you had owned the property since your former spouse acquired it.

If the property was the main residence of you or your former spouse, you can generally claim a full or partial main residence exemption depending on your circumstances.

When working out your eligibility for the 50% CGT discount, include the period your former spouse owned the property when calculating the ownership period.

If the rollover property was acquired by your former spouse before 20 September 1985, it's not subject to CGT. However, any subsequent major capital improvements to the property are considered separate assets and are subject to CGT.

For more information, see Calculating CGT on a rollover asset and Main residence exemption in relationship breakdown.

Record keeping

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

- the court order or formal agreement relating to the property transfer
- contract of purchase and sale
- stamp duty
- major renovations.

Ensure you have records from your spouse, including records that show:

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

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

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

Example: pre-CGT assets and main residence exemption

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

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

Table: CGT assets purchase price and date

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

Sergio and Nina's marriage broke down and, on 1 April 2025, a court order was made:

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

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

The CGT implications are:

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

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

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

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

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

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

Example: transferor is entitled to rollover

Sam and Alex jointly bought a holiday home on 1 March 2012 for $400,000. The home was never used to produce assessable income, or as their main residence.

Sam and Alex's relationship broke down and on 1 March 2022, Sam's ownership interest in the property was transferred to Alex under the terms of a binding agreement.

Alex moved into the property on 1 March 2022. He lived there until he sold it on 28 February 2025 for $800,000.

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

Table: Property ownership dates and interest percentage

Property classification	Dates	Ownership interest

Holiday home	1/03/2012 to 28/02/2022	50% Sam + 50% Alex
Alex's main residence	1/03/2022 to 27/02/2025	100% Alex

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

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

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

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

This is a general summary only.

For more information:

- see Involuntary disposal of a CGT asset
- download our Rental properties guide
- read our Capital gains tax guide.

QC 104440

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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.