



Next 5,000: avoid common CGT errors

Next 5,000 privately owned and wealthy groups: avoid CGT mistakes and steer clear of costly errors and audits.

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Our engagement with Next 5,000 privately owned and wealthy groups reveals a range of common capital gains tax (CGT) mistakes. These are usually the result of the mischaracterisation of information and poor record keeping. They include:

- cost base errors
- reporting of transactions in the wrong year, or not at all
- incorrect characterisation of ordinary income as capital income
- beneficiaries that fail to gross up discounted share of capital gain distributed by trusts
- unsubstantiated carried forward capital losses
- inability to substantiate assets sold to related parties.

Consequences for getting things wrong

Failing to correctly prepare tax returns can lead to audits and amendments. These can be time consuming and costly, highlighting the importance of accurate CGT reporting and record keeping.

For example, a Next 5,000 group incorrectly characterised a transaction as capital income instead of ordinary income when lodging their tax return. The group acquired a property while it was in the process of being subdivided and developed, and shortly afterwards marketed the property for sale.

During our audit, we concluded the property sale wasn't simply the mere realisation of an asset but part of a profit-making undertaking where the intention was to generate a return.

We amended the group's tax returns, which increased their tax liability by over \$5 million, plus penalties and interest of over \$1 million.

To avoid these type of issues, you should note that certain capital losses, disposals, and **business CGT** concession claims will **attract our attention**.

How to get things right

To ensure compliance and accuracy in CGT reporting, you need to:

- understand the nature of the transaction and asset
- keep records of everything that may be relevant to working out whether you've made a capital gain or loss from a CGT event
- obtain independent professional valuations to support assets sold between related parties.


By addressing these key areas, Next 5,000 groups can ensure compliance and avoid the pitfalls associated with CGT errors.

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