




Personal investors guide to CGT 2002–03

A guide to your tax obligations if you made a capital gain or loss from shares, units or managed funds.

Last updated 6 October 2009

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If you would prefer to read this document in portable document format (pdf): [download the Personal investors guide to capital gains tax 2003 \(PDF 436 KB\)](#) . This guide is 44 pages long.

Error in print publication

In August 2003, an error was identified on page 21 of this publication. Read the correct paragraph here.

Part B: Sale of shares or units

Guidance notes on sale of shares or units.

Explanation of terms

The page number refers to the paper version of this document and indicates the first time each term is used.

Further information



Supporting publications and phone numbers.

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Part B: Sale of shares or units

Guidance notes on sale of shares or units.

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Chapter B1 How to work out your capital gain or capital loss

Note: New terms

Some terms in this section may be new to you. They are printed in red the first time they are used and are explained in [Explanation of terms](#) at the back of this guide. While we have used the word 'bought' rather than 'acquired' in our examples, you may have acquired your asset without paying for it (for example, as a gift or through an inheritance or through the demutualisation of an insurance company such as the NRMA or a demerger such as the demerger of BHP Steel Limited). Similarly, we refer to 'selling' an asset, when you may have disposed of it in some other way (for example, by giving it away or transferring it to someone else).

To calculate your capital gain from the sale of shares or units in a unit trust (for example, a managed fund), the main steps are to:

1. work out how much you have received from each CGT event (your capital proceeds)
2. work out how much each CGT asset cost you (the cost base), and
3. subtract 2 (the cost base) from 1 (the capital proceeds).

If you received more from the CGT event than the asset cost you (that is, the capital proceeds are greater than the cost base), the difference is your capital gain. The [three ways of calculating your capital gain](#) are described in step 3 of part A.

If you made a capital loss—that is, you received less from the CGT event than the asset cost you—you need to work out the reduced cost base for the asset. Generally, for shares, the cost base and reduced cost base are the same. If the reduced cost base is greater than the capital proceeds, the difference is your capital loss.

If the capital proceeds are less than the cost base but more than the reduced cost base, you have not made a capital gain or a capital loss.

The steps on the following pages show you the calculations required to work out your CGT obligation using the 'other' and discount methods. If you want to use the indexation method (by indexing your cost base for inflation) you will need to do this at step 2 and you may find it easier to follow the [worked indexation examples in chapter B2](#).

You may find it useful to use the margins provided beside the following steps (in the paper publication) to do your own calculations so you can transfer the relevant amounts to item **17** on your tax return, or item **9** if you use the tax return for retirees. (Note: You cannot use the 2003 tax return for retirees if you had a distribution from a managed fund during the year.)

Step 1 Work out your capital proceeds from the CGT event

The capital proceeds are what you receive, or are taken to receive, when you sell or otherwise dispose of your shares or units.

For example, with shares the capital proceeds may be:

- the amount you receive from the purchaser
- the amount or value of shares or other property you receive on a merger/ takeover, or
- the market value if you give shares away.

Example

Fred sold his parcel of 1,000 shares for \$6,000. Fred's capital proceeds are \$6,000.

Step 2 Work out the cost base of your asset

Indexing your cost base

There are certain circumstances where a cost base may be indexed. This is called the indexation method and the cost base would then become an 'indexed' cost base. For more information, see [part A of this guide](#) or the [worked examples in chapter B2](#).

The cost base of your asset is what your asset cost you, including certain incidental costs of buying and selling it as well as any costs you had in establishing, maintaining and defending your ownership of it. Incidental costs of buying or selling the asset are brokerage, legal fees, investment advisers' fees and stamp duty.

The cost base for an asset such as a share or unit may also need to be reduced by the amount of any non-assessable payment you received from the company or fund during the time you owned the share or unit. This is explained in [chapter B3](#) (shares) and [chapter C2](#) (units).

Interest you have paid on money borrowed to buy shares or units is not included in your cost base if you have claimed a deduction for it in any income year.

For shares, the cost base is usually the cost of buying the shares including brokerage and any stamp duty costs on selling the shares.

Example

Fred had bought 1,000 shares at \$5 each (\$5,000). He was charged \$50 brokerage and paid duties of \$25. When he sold the shares he paid \$50 brokerage.

The cost base of his shares is $\$5,000 + \$50 + \$25 + \$50 = \$5,125$.

Step 3 Did you make a capital gain?

Subtract the amount in step 2 from the amount in step 1. If the capital proceeds are greater than the cost base, the difference is your capital gain.

Example

As Fred sold his shares for \$6,000, he subtracts the \$5,125 from the \$6,000 to arrive at \$875.

Fred made a capital gain of \$875.

Step 4 If you did not make a capital gain, work out the reduced cost base of the asset

If you did not make a capital gain, you need to calculate a reduced cost base of your asset before you can work out any capital loss.

The reduced cost base is the cost base less any amounts you need to exclude from it. Interest on borrowings and indexation are excluded.

Example

In our example, Fred's cost base and reduced cost base for his shares are the same.

For shares, the cost base and reduced cost base are generally the same.

For units, adjustments may be needed to the cost base or reduced cost base depending on the types of amounts distributed. Your fund should advise you of these amounts in its statements:

- **tax-deferred amount**-this reduces the cost base and reduced cost base
- **CGT-concession amount**-if received BEFORE 1 July 2001, this reduces the cost base and reduced cost base (if received ON or AFTER 1 July 2001, it does not affect either your cost base or reduced cost base).
- **tax-free amount**-this reduces your reduced cost base only
- **tax-exempted amount**-this does not affect either your cost base or reduced cost base.

Step 5 Did you make a capital loss?

If the capital proceeds are less than your reduced cost base, the difference is your capital loss.

Example

If Fred had sold his shares for \$4,000 instead of \$6,000, he would have a capital loss of \$1,125 (that is, his reduced cost base of \$5,125 less his capital proceeds of \$4,000).

Step 6 Did you make neither a capital gain nor a capital loss?

If the capital proceeds are less than or equal to the cost base but more than the reduced cost base, you have not made a capital gain or a capital loss.

Example

If Fred had sold his shares for \$5,125, he would not have made a capital gain or a capital loss.

Step 7 Work out your total current year capital gains

Write the total of all of your capital gains for the current year at **H** item **17** (or **H** item **9** if you use the tax return for retirees)

If you only had one asset, show the amount of the capital gain relating to that asset. If you have more than one asset (including assets other than shares and units) which resulted in a capital gain, you should include those capital gains in the total at **H**.

If you had a distribution from a managed fund you need to include this in your total capital gains. You can calculate the amount at [step 3 in C1](#).

If you have any capital losses, do not deduct them from the capital gains before showing the total amount at **H**.

Example

Fred does not have any other capital gains. Therefore, from step 3, he shows \$875 at **H** item **17** on his tax return, or at **H** item **9** if he uses the tax return for retirees.

Step 8 Applying capital losses against capital gains

If you have no capital losses from assets you disposed of this year nor a net capital loss from an earlier year that you were able to carry forward to this year, go to [step 9](#).

If you had capital losses (including net capital losses from earlier years), deduct them from the amount you wrote at **H**. You may do this in the order that gives you the greatest benefit.

Offsetting your losses

You will probably get the greatest benefit if you deduct capital losses against:

1. capital gains for which neither the indexation method nor the discount method applies (that is, if you bought and sold your shares within 12 months)
2. capital gains calculated using the indexation method, and then
3. capital gains to which the CGT discount can apply.

Note: Losses from personal use assets and collectables

Remember a net capital loss from collectables can only be used to reduce capital gains from collectables. Losses from personal use assets are disregarded. Refer to the [Guide to capital gains tax](#) for more information.

If your capital losses (including net capital losses from earlier years) are greater than your capital gains, go to [step 11](#).

Example

If Fred had a net capital loss of \$75 from some shares that he sold last year, he reduces his capital gain of \$875 by \$75. Fred's remaining capital gain is \$800.

Step 9 Applying the CGT discount

If you have any remaining capital gains you can now apply the CGT discount-if it is applicable-and reduce them by 50%.

Remember, you cannot apply the CGT discount to:

- capital gains calculated using the indexation method, and
- CGT assets you bought and sold within 12 months.

Example

As Fred had owned his shares for at least 12 months, he can reduce his \$800 gain by the CGT discount of 50% to arrive at a net capital gain of \$400 (cents are not shown):

$$\$800 \times 50\% = \$400.$$

Step 10 Work out your net capital gain

At **A** item **17** (or **A** item **9** if you use the tax return for retirees) you show the total of your remaining capital gains:

- calculated using the indexation method
- to which the CGT discount of 50% has been applied, and/ or
- calculated using the 'other' method.

Ignore step 11 – it does not apply if you have a capital gain.

Example

Fred shows his net capital gain of \$400 at **A** item **17** on his tax return or **A** item **9** if he uses the tax return for retirees.

Step 11 Work out your carry-forward losses

If your capital losses were greater than your capital gains, you were directed to this step from step 8.

If you have capital losses remaining, you should show '0' (zero) at **A** on your tax return.

At **V**, item **17** (or **V** item **9** if you use the tax return for retirees) show the amount by which your capital losses are greater than your capital gains. You can carry these capital losses forward to be applied against later year capital gains.

Example

Continuing the example from step 5, if Fred has no other capital losses, he would show '0' (zero) at **A** and \$1,125 at **V** item **17** on his tax return (or at **V** item **9** if he uses the tax return for retirees) and he would leave **H** blank.

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Capital gain p. 1

You may make a capital gain from a CGT event such as the sale of an asset. Generally your capital gain is the difference between your asset's cost base (what you paid for it) and your capital proceeds (what you received for it). You can also make a capital gain if a managed fund or other unit trust distributes a capital gain to you.

Capital gains tax p. 1

Capital gains tax (CGT) refers to the income tax you pay on any net capital gain you make and include on your annual income tax return. For example, when you sell (or otherwise dispose of) an asset as part of a CGT event, you are subject to CGT.

Capital loss p. 1

Generally, you may make a capital loss as a result of a CGT event if you received less capital proceeds for an asset than its reduced cost base (what you paid for it). Your capital loss is your reduced cost base less your capital proceeds.

Capital proceeds p. 2

Capital proceeds is the term used to describe the amount of money or the value of any property you receive or are entitled to receive as a result of a CGT event. For shares or units, capital proceeds may be:

- the amount you receive from the purchaser
- the value of shares (or units) you receive on a demerger
- the value of shares (or units) and the amount of cash you receive on a merger/ takeover, or
- the market value if you give them away.

CGT asset p. 1

The CGT assets covered by this guide are shares and units.

However, CGT assets also include collectables (such as jewellery), assets for personal use (such as furniture or a boat) and other assets (such as an investment property). If you have made a capital gain from the sale of one or more of these assets, you may need to read the publication [Guide to capital gains tax](#).

CGT-concession amounts p. 7

These amounts are the CGT discount component of any actual distribution from a managed fund.

CGT event p. 1

A CGT event happens when a transaction takes place such as the sale of a CGT asset. The result is usually a capital gain or capital loss.

Cost base p. 2

The cost base of an asset is generally what it costs you. It is made up of five elements:

- money you paid or property you gave for the asset
- certain incidental costs of acquiring or selling it-brokerage, stamp duty, investment consultants fees and legal fees
- non-capital costs associated with owning it (generally this will not apply to shares or units because you will usually have claimed these costs as tax deductions)
- costs associated with increasing its value (for example, if you paid a call on shares), and

- what it has cost you to establish, preserve or defend your ownership or rights to it.

The cost base for a share or unit may need to be reduced by the amount of any non-assessable payment you receive from the company or fund.

Demerger roll-over p. 16

This generally applies to CGT events that happen on or after 1 July 2002 to interests that you own in the head entity of a demerger group and a company or trust is demerged from the group. Generally the head entity undertaking the demerger will advise owners whether demerger roll-over is available but you should seek our advice if you are in any doubt. The ATO may have provided advice in the form of a class ruling on a specific demerger, confirming that the roll-over is available.

This roll-over allows you to defer your CGT obligation until a later CGT event happens to your original or your new shares or units.

Demutualisation p. 1

A company demutualises when it changes its membership interests to shares. If you received shares as part of a demutualisation of an Australian insurance company (for example, the NRMA), you are not subject to CGT until you sell the shares.

Usually the company will advise you of your cost base for the shares you received. The company may give you the choice of keeping the shares they have given you or of selling them and giving you the capital proceeds.

If you hold a policy in an overseas insurance company that demutualises, you may be subject to CGT at the time of the demutualisation.

Discount method p. 2

The discount method is one of the ways to calculate your capital gain if:

- the CGT event happened after 11.45am (by legal time in the ACT) on
- 21 September 1999, and
- you acquired the asset at least 12 months before the CGT event.

If you use the discount method, you do not index the cost base but you can reduce your capital gain by the CGT discount of 50%. However, you must first reduce your capital gains by the amount of all your available capital losses (both current year and prior years) before you discount any remaining capital gain.

If you acquired the asset before 11.45am (by legal time in the ACT) on 21 September 1999, you can choose either the discount method or the indexation method, whichever gives you the better result.

The examples in part B of this guide show you how the discount method works.

Discounted capital gain p. 18

A discounted capital gain is a capital gain that has been reduced by the CGT discount. If the discounted capital gain has been received from a managed fund, the amount will need to be grossed up before you apply any capital losses and the CGT discount.

Dividend reinvestment plans p. 15

Under these plans, shareholders can choose to use their dividend to acquire additional shares in the company instead of receiving a cash payment. For CGT purposes, you are treated as if you received a cash dividend and then used it to buy additional shares. Each share (or parcel of shares) received in this way is treated as a separate asset when the shares are issued to you.

Gross up p. 18

Grossing up applies to unit holders who are entitled to a share of the fund's income that includes a capital gain reduced by the CGT discount. In this case, you 'gross up' your capital gain by multiplying by two your share of any discounted capital gain you have received from the fund.

Income year p. 2

The income year is the financial year relating to your current income tax return.

Indexation factor p. 2

The indexation factor is worked out based on the Consumer Price Index (CPI) in [appendix 2](#) of this guide.

The indexation of the cost base of an asset is frozen as at 30 September 1999. For CGT events after that time the indexation factor is the CPI for the September 1999 quarter (123.4) divided by the CPI for the quarter in which you incurred costs relating to the asset. The result is rounded to three decimal places. You may have different indexation factors for different amounts included in your cost base.

Indexation method p. 2

The indexation method is one of the ways to calculate your capital gain if you bought a CGT asset before 11:45am (by legal time in the ACT) on 21 September 1999. This method allows you to increase the cost base by applying an indexation factor to each item of expenditure in your cost base (based on increases in the Consumer Price Index up to September 1999).

Some examples in part B of this guide show you how the indexation method works. You may prefer to use the discount method for CGT events after 21 September 1999 if that method gives you better result.

LIC capital gain amount p. 17

This is an amount notionally included in a dividend from a listed investment company (LIC) which represents a capital gain made by that company. The amount is not included as a capital gain under item **17** on the tax return, or item **9** if you use the tax return for retirees. (Refer to instructions for Dividend income at item **11** on the tax return or item **8** if you use the tax return for retirees.)

Net capital gain p. 1

A net capital gain is the difference between your total capital gains for the year and your total capital losses (including capital losses from prior years), less any CGT discount to which you are entitled.

You show the result at **A** item **17** on your tax return, or item **9** if you use the tax return for retirees.

Non-assessable payment p. 1

A non-assessable payment is a payment received from a company or fund that is not assessed as part of your income on your income tax return. This includes some distributions from unit trusts and managed funds and, less commonly, from companies.

'Other' method p. 2

To calculate your capital gain using the 'other' method, you subtract your cost base from your capital proceeds. You must use this method for any shares or units you have bought and sold within 12 months (that is, when the indexation and discount methods do not apply).

Reduced cost base p. 2

The reduced cost base is the amount you take into account when you are working out whether you have made a capital loss when a CGT event happens. The reduced cost base may need to have amounts deducted from it such as non-assessable payments. The reduced cost base does not include indexation or non-capital costs of ownership such as interest on monies borrowed to buy the asset.

Roll-over p. 3

Roll-over allows a capital gain to be deferred or disregarded until a later CGT event happens.

Scrip-for-scrip roll-over p. 3

This can apply to CGT events that happen on or after 10 December 1999 in the case of a takeover or merger of a company or fund in which you have holdings. The company or fund would usually advise you if the roll-over conditions have been satisfied. This roll-over allows you to defer your CGT obligation until a later CGT event happens to your shares or units.

You may only be eligible for partial roll-over if you received shares (or units) plus cash for your original shares. In that case, if the information provided by the company or fund is not sufficient for you to calculate your capital gain, you may need to seek advice from the ATO.

Share buy-backs p. 15

If you disposed of shares back to a company under a buy-back arrangement, you may have made a capital gain or capital loss.

Some of the buy-back price may have been treated as a dividend for tax purposes. The time you make the capital gain or capital loss will depend on the conditions of the particular buy-back offer.

Takeovers and mergers p. 15

If a company in which you held shares was taken over and you received new shares in the takeover company, you may be entitled to scrip-for-scrip roll-over.

If the scrip-for-scrip conditions were not satisfied, your capital proceeds for your original shares will be the total of any cash and the market value of the new shares you received.

Tax-deferred amounts p. 7

These amounts include indexation received by a managed fund on its capital gains and accounting differences in income.

Tax-exempted amounts p. 7

These amounts are generally made up of exempt income of the managed fund—such as amounts on which the fund has already paid tax or income you had to repay to the fund. Tax-exempted amounts do not affect your cost base or your reduced cost base.

Tax-free amounts p. 7

These amounts allow the managed fund to pay a greater distribution to its unit holders. This is due to certain tax concessions funds can receive.

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Further information

Supporting publications and phone numbers.

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This guide only covers basic capital gains tax issues relating to shares and managed funds for personal investors and is not designed to cover all circumstances.

For the ATO's most up-to-date and comprehensive information about capital gains tax, visit our website at **www.ato.gov.au**

You may also find the following publications useful:

- [Guide to capital gains tax](#) (NAT 4151-6.2003)
- *Guide to capital gains tax concessions for small business* (NAT 8384-5.2003)
- [You and your shares](#) (NAT 2632-6.2003)

If you need further information:

- phone the ATO on **13 28 61**, or
- seek advice from a professional tax adviser.

How self-assessment affects most individuals

Self-assessment means the Australian Taxation Office (ATO) uses the information you give on your tax return to work out your refund or tax bill. You are required by law to make sure you have shown all your assessable income and claimed only the deductions and tax offsets to which you are entitled.

What are your responsibilities? Even if someone else-including a tax agent-helps you to prepare your tax return, you are still legally responsible for the accuracy of your information.

What if you lodge an incorrect tax return? Our audit programs are designed to continually check for missing, inaccurate or incomplete information. If you become aware that your tax return is incorrect, you must contact us straight away.

Initiatives to complement self-assessment

There are a number of initiatives administered by the ATO which complement self-assessment. Examples include:

- if you take reasonable care with your tax affairs, you will not receive a penalty for honest mistakes-but please note that a general interest charge on omitted income or over-claimed deductions and tax offsets could still be payable
- the process for applying for private rulings
- your entitlement to interest on early payment or over-payment of a tax debt, or
- the process for applying for an amendment if you find you have left something out of your tax return.

Do you need to ask for a private ruling?

If you have a concern about the way a tax law applies to your personal tax affairs, you may want to ask for a private ruling.

A private ruling will relate just to your situation. Write to the ATO describing your situation in detail and ask for advice. To do this, complete an [Application for a private ruling](#). You should lodge your tax return by the due date, even if you are waiting for the reply to your private ruling. You may need to request an amendment to your tax return once you have received the private ruling.

The ATO publishes on its website all private rulings issued. What we publish will not contain anything which could identify you.

You can ask for a review of a private ruling decision if you disagree with it, even if you have not received your assessment. Details of the review procedures are sent to you when the private ruling decision is made.

For more information on private rulings, visit the ATO website at www.ato.gov.au

Feedback

Reader feedback helps us to improve the information we provide. If you have any comments to make about this publication, please write to:

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As this is a publications area only, any tax matters will be passed on to a technical area; alternatively you can phone our Personal Tax Infoline on **13 28 61** for help.

If you do not speak English and need help from the ATO, phone the Translating and Interpreting Service (TIS) on **13 14 50**.

People with a hearing or speech impairment can phone the Telephone Typewriter Service on **1300 130 478**.

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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.

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