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COMPLETING THE CAPITAL GAINS SECTION OF YOUR TAX RETURN

- item **17** of the tax return for individuals (supplementary section)
- item **9** of the tax return for retirees

Part B

Read this first

Are you an individual?

If you are completing a tax return on behalf of an individual (rather than an entity), read this part of the guide.

If you need help completing the:

- Capital gain or capital loss worksheet – go to step 1 of **part C** (ignoring the word ‘entity’)
- CGT summary worksheet – go to steps 2 and 3 of **part C**.

Is your entity a company, trust or fund?

If the tax return is for a company, trust or fund, go to **part C** of this guide.

INTRODUCTION

Read **part B** if you are an individual and a capital gains tax (CGT) event has happened to you in 2004–05 or you received a distribution from a trust (including a managed fund) that included a net capital gain.

If you have only sold a few shares or units, or have a managed fund distribution, you may find it easier to use the *Personal investors guide to capital gains tax 2005*.

The steps that follow explain how to calculate your net capital gain or net capital loss for 2004–05 and complete item **17 Capital gains** on your *Tax return for individuals (supplementary section) 2005* – or item **9** if you use the *Tax return for retirees 2005*. **Note:** You cannot use the tax return for retirees if you had a distribution from a managed fund during the year.

Individuals, including individual partners in a partnership, who lodge using a paper tax return are not required to complete a CGT schedule.

Chapter 2 in **part A** explains how to calculate a capital gain or capital loss for each CGT event or asset using the **Capital gain or capital loss worksheet** that you can tear out from the back of this guide. For most individuals, this worksheet is all you will need to work out what needs to be included at item **17** on your tax return (supplementary section) – or item **9** if you use the tax return for retirees. Make copies of the worksheet if you need more than one. If you need help completing the **Capital gain or capital loss worksheet**, read step 1 in **part C** (ignoring the word ‘entity’).

If you have a number of the **Capital gain or capital loss worksheets** because several CGT events happened to you, you may wish to use the CGT summary worksheet (also at the back of this guide) to help you calculate your net capital gain or net capital loss. Read steps 2 and 3 in **part C** of this guide (ignoring the word ‘entity’) to find out how to complete the summary worksheet. Then complete item **17** on your tax return (supplementary section) – or item **9** if you use the tax return for retirees.

! NEW TERMS

We may use some terms that are new to you. These words are printed in **red** the first time they are used and explained in **Definitions** on page 123. Generally they are also explained in more detail in the section where they first appear.

STEP 1

Types of CGT assets and CGT events

Certain capital gains and capital losses (that is, those from collectables and personal use assets) are treated differently when calculating your net capital gain or net capital loss. See chapter 1 in **part A** for explanations of these assets. In particular you should note that you disregard capital losses from personal use assets and do not take them into account when working out your net capital gain. You can only use capital losses from collectables to reduce capital gains from collectables.

You need to separate the records of your CGT events into the following three categories:

- those relating to collectables (for example, jewellery)
- those relating to personal use assets (for example, a boat you use for recreation)
- other CGT assets or CGT events, including distributions of capital gains from managed funds.

STEP 2

Calculating your current year capital gain or capital loss for each CGT asset or CGT event

Calculate whether you have made a capital gain or capital loss for each CGT event that has happened during the year. The **Capital gain or capital loss worksheet** at the back of this guide can help you work this out.

In calculating your capital gain, you will use one of the following three methods for each asset:

- indexation method
- discount method, or
- ‘other’ method.

See chapter 2 in **part A** for a full explanation of these methods and how to use them to calculate your capital gain or capital loss for each CGT event.

For a CGT event that happens after 11.45am (by legal time in the ACT) on 21 September 1999 to a CGT asset that you acquired at or before that time, you can choose to use either the indexation or the discount method to calculate your capital gain if you have owned the asset for at least 12 months. If you bought and sold your asset within 12 months, you must use the ‘other’ method to calculate your capital gain.

If you use the discount method, do not apply the discount percentage until you have applied current year capital losses and unapplied net capital losses from earlier years.

You also need to work out the amount of any capital gains that you are taken to have made as part of a distribution from a trust. You must use the same method the trustee used in calculating the amount of the capital gain. For more information, see chapter 4 in **part A**.

! CONCESSIONS THAT MAY APPLY

There are special rules if a trust’s net capital gain was reduced by the CGT discount or by applying the small business 50% active asset reduction, or both. The trust should advise you if it has claimed either (or both) of these concessions as you will need to adjust the amount of the net capital gain to be included in your total capital gains (see chapter 4 in **part A** for more information).

STEP 3

Total current year capital gains

If you do not have any capital gains from collectables, add up all your capital gains from step 2 and show this amount at **H Total current year capital gains**.

If you have a capital gain from collectables, deduct any capital losses from collectables (including unapplied net capital losses from earlier years from collectables). Do not deduct capital losses from other capital gains at this stage. Any capital gain remaining is added to all your other capital gains from step 2. Show the total amount at **H** item **17** on your tax return (supplementary section) – or item **9** if you use the tax return for retirees.

If you received (or are entitled to receive) a distribution from a trust that includes a net capital gain, you also need to include this amount here in your total capital gains. Do not include this amount as a distribution from the trust at item **12 Partnerships and trusts** on your tax return (supplementary section).

If your capital gains from collectables were reduced to zero when you applied your losses from collectables – and you still have capital losses from collectables remaining – make a note of this amount.

This capital loss can be carried forward to future years and will be recorded at **V Net capital losses** carried forward to later income years (see step 9).

STEP 4 Capital losses

If you have no current year capital losses or unapplied net capital losses from earlier years, go to step 7. Otherwise, read on.

From your **Capital gain or capital loss worksheets**, add up all your capital losses for 2004–05 and make a note of this amount. Remember that you do not include:

- capital losses from personal use assets
- capital losses from collectables, or
- capital losses that are disregarded (for example, those from assets acquired before 20 September 1985).

If you have a current year capital loss, go to step 5.

If you have only unapplied net capital losses from earlier years and no capital gains, go to step 6.

STEP 5 Applying current year capital losses

You must apply your current year capital losses from step 4 against (that is, deducted from) any capital gains you made during the year to determine your net capital gain or net capital loss.

EXAMPLE: Sale of shares and collectables

Kathleen sold some assets during the year and has the following capital gains and capital losses for 2004–05:

Capital gain on the sale of 1000 shares for \$6 each on 17 December 2004

Kathleen bought these shares on 17 November 1998 and each has a cost base of \$3 (including incidental costs of acquisition and disposal).

$$\text{Capital gain} = \$6,000 - \$3,000 = \$3,000$$

Kathleen chooses to calculate her capital gain using the discount method.

Capital gain on the sale of 130 shares for \$8 each on 27 February 2005

Kathleen bought these shares on 10 October 2004 and each has a cost base of \$4 (including incidental costs of acquisition and disposal). As the asset was bought and sold within 12 months, Kathleen must use the 'other' method to calculate her capital gain from these shares:

$$130 \times \$8 = \$1,040 - (130 \times \$4) = \$520$$

Capital loss on the sale of jewellery for \$1,000 on 1 April 2005

Kathleen bought this jewellery for \$1,500 and sold it six months later for \$1,000.

She calculates her capital loss as follows:

$$\$1,000 - \$1,500 = \$500 \text{ capital loss}$$

Kathleen takes the following steps to complete item **17** on her tax return (supplementary section) – or item **9** if she uses the tax return for retirees.

Firstly, Kathleen shows her total current year capital gain of \$3,520 (\$3,000 + \$520) at **H**. Her total current year capital gain is the amount before deducting any capital losses or applying the CGT discount. If Kathleen had made a net capital gain on her collectables (jewellery), she would also have included it here.

Next, Kathleen notes her capital loss from collectables on her **Capital gain or capital loss worksheet** or on a separate piece of paper. Although she made a capital loss from collectables, she cannot reduce her other capital gains by this amount. However, she can carry this amount over so that if she makes a capital gain from collectables in the future, she can deduct this capital loss from her capital gain on a later tax return. If Kathleen has no other capital losses from the current year or earlier years, she will now show the amount of \$500 at **V Net capital losses carried forward to later income years**.

Kathleen still has to complete **A Net capital gain**.

EXAMPLE: Capital loss on the sale of shares

Using the facts from our earlier example, we will also assume that Kathleen has the following to consider:

Capital loss on the sale of 600 shares for \$3 each on 25 June 2005

Kathleen had bought these shares on 10 October 2004 and each has a reduced cost base of \$4 (including incidental costs of acquisition and disposal).

Reduced cost base	600 × \$4 =	\$2,400
Capital proceeds	600 × \$3 =	\$1,800
Capital loss		\$600

Kathleen now has a \$600 loss she can use to deduct from her capital gains. From the earlier example, we know Kathleen has a \$3,000 capital gain calculated using the discount method.

She has another capital gain of \$520 that she calculated using the 'other' method. Kathleen chooses to deduct the first \$520 of her capital loss from the capital gain calculated using the 'other' method and to deduct the remaining \$80 from the capital gain calculated using the discount method. Working this way gives her the best result:

'Other' method capital gain	\$520
Capital loss of	\$520
	\$0
Discount method capital gain	\$3,000
less capital loss of (\$600 – \$520)	\$80
	\$2,920

Kathleen makes a note that she has capital gains of \$2,920 calculated using the discount method.

When applying your current year capital losses, you can choose the method that gives you the best result to reduce your current year capital gains. While you will need to consider your own situation, for most people the order that usually gives the greatest benefit and the smallest net capital gain is to apply the capital losses against capital gains calculated using the:

- 1 'other' method
- 2 indexation method
- 3 discount method.

Apply your current year capital losses against your current year capital gains and make a note of any capital gains remaining. If you have current year capital losses that can be applied this year they must be applied here. You cannot choose to defer to a later year any amount that can be applied this year.

If your total capital losses for the year are more than your total capital gains, you will need to keep a record of the difference. This amount – your net capital loss – is carried over and used to reduce your future capital gains. There is no time limit on how long you can carry forward your net capital loss. If you have reduced your capital gains to zero, do not put anything at **A Net capital gain**.

STEP 6 Applying net capital losses from earlier years

If you do not have any unapplied net capital losses from earlier years, go to step 7. Otherwise, read on.

You can further reduce your current year capital gains by your unapplied net capital losses from earlier years.

You must apply unapplied net capital losses from earlier years against capital gains in the order you made them (for example, use net capital losses from 1998–99 before you use any net capital losses from 1999–2000). You can then apply these capital losses against your capital gains in the manner that gives you the best result. Again, for most people the order that usually gives the greatest benefit and the smallest net capital gain is to apply the capital losses against capital gains calculated using the:

- 1 'other' method
- 2 indexation method
- 3 discount method.

Reduce your remaining current year capital gains by any unapplied net capital losses from earlier years and make a note of any capital gains remaining. If you have unapplied net capital losses from earlier years that can be applied this year, they must be applied here. You cannot choose to defer to a later year any amount that can be applied this year.

You will need to keep a record of any unapplied net capital losses from earlier years. You can continue to carry over these amounts and use them to reduce your future capital gains. There is no time limit on how long you can carry over your net capital losses. You record these at **V Net capital losses carried forward to later income years** (see step 9). If you have reduced your capital gains to zero, do not put anything at **A Net capital gain**.

EXAMPLE: Unapplied net capital losses from earlier years

Following on from our earlier example, let us also now assume that Kathleen has the following to consider.

Kathleen has unapplied net capital losses from earlier years of \$400 that are not from collectables or personal use assets.

In our example so far, Kathleen applied her current year capital loss and had \$2,920 of capital gains calculated using the discount method remaining.

Taking this example further, Kathleen would now also deduct the unapplied net capital losses from earlier years of \$400 from her capital gain of \$2,920 calculated using the discount method:

$$\$2,920 - \$400 = \$2,520$$

This leaves \$2,520 of capital gains calculated using the discount method.

Kathleen must use all current year capital losses and all the unapplied net capital losses from earlier years before applying the CGT discount of 50%. In this example, the amount at **V** is still \$500 because this is what she will carry forward as losses from collectables to future income years.

STEP 7 Applying the CGT discount

You can now reduce any remaining current year capital gains calculated using the discount method by the discount percentage (50% for individuals).

You cannot apply the discount to capital gains calculated using the indexation method or the 'other' method.

EXAMPLE: Total capital gains calculated using the discount method

From our earlier example, we know Kathleen had capital gains of \$2,520 calculated using the discount method after applying relevant capital losses. She works out her total capital gains calculated using the discount method by multiplying her capital gain by the CGT discount of 50%:

$$\$2,520 \times 50\% = \$1,260$$

STEP 8 Applying the small business CGT concessions

If you are a small business owner, you may qualify for one or more of the following small business CGT concessions: the 50% active asset reduction, small business rollover relief or the small business retirement exemption. You can apply these concessions now to the amount of any relevant capital gains remaining after step 7. You may apply the concessions to capital gains calculated using any of the three methods.

➤ For more information, see the *Guide to capital gains tax concessions for small business*.

STEP 9 Working out your net capital gain

The amount of your remaining capital gains becomes your net capital gain, which you show at **A**.

It represents the amount you have shown at **H** reduced in accordance with:

- step 5 – current year capital losses
- step 6 – unapplied net capital losses from earlier years
- step 7 – CGT discount, and/or
- step 8 – small business CGT concessions.

If you have capital losses that have reduced your capital gains to zero, do not put anything at **A**. If you have any capital losses remaining after reducing your capital gains, you can carry these forward to future income years (see step 10). Again do not include losses from:

- assets you acquired before 20 September 1985
- personal use assets
- collectables, or
- other losses that are disregarded.

EXAMPLE: Net capital gain – **A**

Kathleen shows \$1,260 at **A** **Net capital gain** item **17** on her tax return (supplementary section) – or item **9** if she uses the tax return for retirees.

STEP 10 Capital losses carried forward to later income years

Your net capital losses amount to be carried forward is the total of:

- Any unapplied current year net capital loss from step 5.
- Any unapplied net capital losses from earlier years from step 6.
- Any capital losses from collectables to be applied in future income years from step 3. You will need to keep a separate record of unapplied net capital losses from collectables because you can only use these to reduce capital gains from collectables in later income years. There is no time limit on how long you can carry over the net capital losses.

Show this amount (if any) at **V** item **17** on your tax return (supplementary section) – or item **9** if you are using the tax return for retirees. Remember to deduct these losses from any capital gains in future income years.

EXAMPLE: Net capital losses to be carried forward – **V**

Kathleen has deducted all her current year capital losses (except those from collectables) and her net capital losses from earlier years from her capital gains in the order that gave her the best result. This means she will only have capital losses from collectables to carry forward to a later income year. Kathleen shows \$500 at **V** item **17** on her tax return (supplementary section) – or item **9** if she uses the tax return for retirees.

Kathleen must make a note of this capital loss for next year, as she did with the unapplied net capital losses from earlier years that she used this year. She must also note that her capital losses this year are capital losses from collectables, as she will only be able to deduct them against capital gains from collectables in a future year.

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INSTRUCTIONS FOR COMPANIES, TRUSTS AND FUNDS (ENTITIES)

Individuals: if you use the worksheets and need help completing them, read steps 1, 2 and 3 in this part (ignore the word 'entity')

Part

C

Read this first

Are you an individual?

If you are completing a tax return on behalf of an individual (rather than an entity), read **part B**.

If you need help completing the:

- **Capital gain or capital loss worksheet** – read step 1 of this part of the guide (ignoring the word 'entity')
- **CGT summary worksheet** – read steps 2 and 3 in this part.

Is your entity a company, trust or fund?

Read this part.

Do you expect your entity's total capital gains or total capital losses for the 2004–05 income year to be \$10,000 or less?

YES Work through steps 1, 2 and 3.

NO Work through steps 1–4. Step 4 will show you how to complete the *Capital gains tax (CGT) schedule 2005*.

INTRODUCTION

The instructions in this part are designed to help companies, trusts and funds (your entity) to calculate a capital gain or capital loss and to complete the capital gains items on the relevant tax return:

- *Company tax return 2005* – item **7**
- *Trust tax return 2005* – item **18**, or
- *Fund income tax and regulatory return 2005* – item **9a**.

Funds include superannuation funds, approved deposit funds and pooled superannuation trusts.

The labels to complete at these items are:

G Did you have a CGT event during the year?

A Net capital gain

You will also need to complete **V** Net capital losses carried forward to later income years at the **Losses information** item on your entity's tax return.

The relevant item number will be:

- *Company tax return 2005* – item **10**
- *Trust tax return 2005* – item **24**
- *Fund income tax and regulatory return 2005* – item **10**.

! NEW TERMS

We may use some terms that are new to you. These words are printed in **red** the first time they are used and explained in **Definitions** on page 123. Generally they are also explained in more detail in the section where they first appear.

! ENTITY

The term 'entity' is used to describe a company (including a head company of a consolidated group), a trust and a fund in this part of the guide.

Worksheets

The worksheets provided at the back of this guide are the:

- **Capital gain or capital loss worksheet** (to calculate the capital gain or capital loss from each CGT event)
- **CGT summary worksheet** (to calculate the net capital gain for the 2004–05 income year or net capital losses carried forward to later income years and complete the CGT labels on the 2005 tax return).

You can tear out the worksheets and complete them as you work through this part.

The worksheets are optional and your entity may prefer to use a different worksheet or a computer-based alternative. We have used these worksheets throughout this part of the guide as examples to help you complete the capital gains item on your entity's tax return, and a *Capital gains tax (CGT) schedule 2005* if this is required.

CGT schedule

Your entity must complete this schedule for the 2004–05 income year if the:

- total current year capital gains are greater than \$10,000, or
- total current year capital losses are greater than \$10,000.

If your entity is required to complete a CGT schedule, you must attach it to your entity's 2005 tax return.

! CONSOLIDATED GROUPS

If a group consolidates during the income year, the head company must lodge a CGT schedule if the total capital gains or total capital losses that it makes – as head company of the consolidated group and while not a member of a consolidated group – are greater than \$10,000.

An entity that has joined a consolidated group/s during the year of income as a subsidiary member must lodge a CGT schedule covering any periods of non-membership if the entity satisfies the requirements for lodgment of that schedule.

Detailed information on the operation of consolidation is available on our website or phone the Tax Reform Infoline on **13 24 78**.

STEPS YOU NEED TO TAKE

The completion of the CGT labels on your entity's 2005 tax return involves a three-step process (for entities with capital gains or capital losses under the \$10,000 threshold) or a four-step process (for entities with capital gains or capital losses over the \$10,000 threshold):

Step 1 Calculate the capital gain or capital loss for each CGT event that happens during the 2004–05 income year using the **Capital gain or capital loss worksheet**.

Step 2 Calculate the net capital gain for the 2004–05 income year or net capital losses carried forward to later income years using the **CGT summary worksheet**.

Step 3 Complete the capital gains item on your entity's tax return.

Step 4 If required, complete a CGT schedule.

STEP 1

How to complete the capital gain or capital loss worksheet for each CGT event

The **Capital gain or capital loss worksheet** calculates a capital gain or capital loss for each separate CGT event. Do not attach completed worksheets to your entity's 2005 tax return – these are your working papers and should be kept with your entity's tax records.

There are a few things to remember when you are using the worksheet.

Firstly, you show the type of CGT asset or CGT event that resulted in the capital gain or capital loss.

Organise each of these under one of the following four categories:

- shares and units in unit trusts
- real estate
- other CGT assets (including personal use assets) and any other CGT events
- collectables.

Secondly, there are special rules that apply when working out a capital gain or capital loss for a depreciating asset. A capital gain or capital loss will only arise to the extent that a depreciating asset is used for a non-taxable purpose (for example, used privately). You calculate the capital gain or capital loss according to concepts used in the uniform capital allowance provisions. Those provisions also treat as income or allow as a deduction any gain or loss from a depreciating asset to the extent that it was used for a taxable purpose.

Thirdly, if a capital gain was made, you calculate it using:

- the indexation method (see note 2 of the worksheet) for capital gains made on CGT assets acquired before a certain time (11.45am by legal time in the ACT on 21 September 1999) and owned for at least 12 months, or
- the discount method (see note 3 of the worksheet) for assets owned for at least 12 months and for which you are not using the indexation method, or
- the 'other' method (if neither the indexation method nor the discount method applies).

These three methods of calculating a capital gain are explained in full in **part A** chapter 2 and are also listed in **Definitions** on page 123.

When choosing between the indexation and discount methods, the amounts at (a) and (b) at the bottom of the worksheet do not yet reflect any capital losses or CGT discount you may be able to apply. This affects your choice of the amount to transfer to the **CGT summary worksheet**, which you can use to calculate your net capital gain or net capital loss.

➤ Transfer the capital gain or capital loss calculated on each **Capital gain or capital loss worksheet** to the **CGT summary worksheet**. Transfer a capital gain according to the method you used to calculate it and the type of asset that gave rise to it.

STEP 2

How to complete the CGT summary worksheet

You use the **CGT summary worksheet** to calculate your entity's net capital gain for the 2004–05 income year or net capital losses carried forward to later income years. It also provides the information you need to complete the capital gains item on your entity's tax return and, if required, the CGT schedule.

You should include on this worksheet any capital gain your entity is entitled to as a distribution from a trust.

The **CGT summary worksheet** is designed for entities that make capital gains or capital losses during the income year. However, you may also find it useful if you are an individual (including a partner in a partnership) who has more complex CGT affairs.

The **CGT summary worksheet** differentiates between capital gains from active assets and non-active assets. Generally, an active asset is a business asset the entity owns – for example, goodwill of a business.

A share and an interest in a trust can also be active assets if certain conditions are met.

There are four small business CGT concessions that may apply to capital gains from active assets:

- The small business 15-year exemption: this exemption, subject to certain conditions being satisfied, means a capital gain is totally disregarded if your small business entity has continuously owned the CGT asset for at least 15 years, and:
 - you are 55 years old or over and retiring, or
 - you are permanently incapacitated.
- The small business 50% active asset reduction: this concession provides a 50% reduction of a capital gain for an active asset.
- The small business retirement exemption: this allows you to disregard capital gains for active assets (up to a lifetime limit of \$500,000) if the conditions are satisfied. If you are under 55 years old and are eligible for this exemption, you must pay the amount into a superannuation (or similar) fund.
- The small business rollover: this enables you to defer a capital gain if you acquire a replacement asset and satisfy other conditions.

➤ To find out if your business is eligible for the small business CGT concessions, see the *Guide to capital gains tax concessions for small business*.

! ACTIVE ASSETS

Remember that at **Active assets** in the **CGT summary worksheet** (and the **CGT schedule**), you should only include a capital gain from an active asset that qualifies for one or more of the following three small business CGT concessions:

- small business 50% active asset reduction
- small business retirement exemption
- small business rollover.

If the asset does not qualify for one or more of these three concessions, include the capital gain at **Non-active assets**.

! LIMIT ON VALUE OF ASSETS

The small business CGT concessions are not available if the net value of the assets of your entity and related entities just before the CGT event exceeds \$5 million. If your entity is not entitled to the small business concessions, include the capital gain at **Non-active assets**.

! LIFE INSURANCE COMPANIES

Life insurance companies, including friendly societies that conduct life insurance business, need to complete two **CGT summary worksheets** – one for each class of income they derived (superannuation class and ordinary class income). You can only apply capital losses from one class of income against capital gains from that class of income. Combine the details from both summary worksheets onto one CGT schedule, if it is required.

The parts in this step relate to the parts of the **CGT summary worksheet**. Work through each relevant part to complete your worksheet.

Part A: Total current year capital gains

In **part A** you show your entity's total current year capital gains.

Part A1: Current year capital gains (other than capital gains from collectables)

! WHAT TO INCLUDE AND EXCLUDE

You generally do not include any capital gain to which an exemption (for example, the small business 15-year exemption) or exception applies.

However, you must include in the **Active assets** columns capital gains for which your entity may be exempt because it is entitled to one or more of the following:

- small business 50% active asset reduction
- small business retirement exemption
- small business rollover.

If a capital gain does not qualify for one or more of these three concessions, include it at **Non-active assets**.

At **A to I** and **M to U** on the worksheet, show the current year capital gains (other than from collectables) transferred from the **Capital gain or capital loss worksheets**.

Trust capital gains

You must also include at **G to I** and **S to U** on this worksheet any distribution from a trust of a net capital gain from a CGT event (other than one involving a collectable) that your entity is entitled to.

You must use the same method as the method used by the trustee to calculate your entity's capital gain from the trust. For example, if the trustee used the discount method to calculate a capital gain, you must use the discount method. In some cases your entity must gross up the amount of the trust capital gain. If this applies, you include the grossed-up amount at **H, S, T** and **U**, as explained below.

If the trustee used the discount method to calculate a capital gain, you need to gross it up by multiplying the distribution amount by two. Include the result at **H**. Grossing up ensures that any capital losses your entity has made are deducted from your entity's grossed-up capital gain before the CGT discount is applied.

If the trust's capital gain was reduced by the small business 50% active asset reduction, again it needs to be grossed-up by multiplying the distribution amount by two. Include the result at **S** or **U**.

If the trust's capital gain was reduced by the CGT discount and by the small business 50% active asset reduction, multiply the distribution amount by four and include the result at **T**.

Amount of capital gain

Show the full amount of all capital gains in **part A1**.

Do not show the amount remaining after applying:

- capital losses (which are applied on page 4 of the worksheet at **part D**)
- the CGT discount (which is applied on page 6 of the worksheet at **part F**), or
- the small business CGT concessions (which are applied on page 7 of the worksheet at **part G**).

Transfer the amounts at **A1 to A6** to the corresponding **A1 to A6** in part **A3** of the **CGT summary worksheet**.

Part A2: Capital gains and capital losses from collectables

➤ Did your entity make a capital gain or a capital loss from a collectable during the income year? Or did the entity receive a distribution from a trust during the income year that includes a net capital gain from a collectable?

YES

Read on.

NO

Go to **part A3**.

Transfer any capital gains from collectables from the **Capital gain or capital loss worksheets** to **C1**, **C2** or **C3** on your **CGT summary worksheet**. Transfer any capital losses from collectables to **C4** on your **CGT summary worksheet**.

If your entity was entitled to a distribution of a net capital gain from a trust resulting from a collectable, show this amount at **C5** to **C7**. You must use the same method as the trustee to calculate your entity's capital gain from the trust. For example, if the trustee used the discount method to calculate a capital gain, you need to do the same and show the grossed up amount at **C6**.

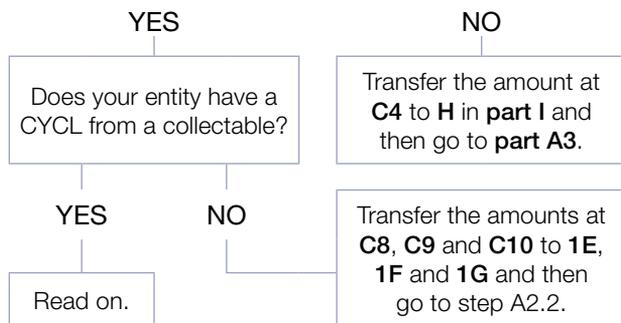
If the trustee used the discount method to calculate a capital gain, gross it up by multiplying the distribution amount by two. Grossing up ensures that any capital losses your entity has made are subtracted from your grossed-up capital gain before the CGT discount is applied.

Show the totals of all of your entity's capital gains from collectables at **C8** to **C10**.

Step A2.1: Deduct any current year capital losses (CYCL) from collectables from current year capital gains (CYCG) from collectables

If your entity has any current year capital losses from collectables, deduct these from any current year capital gains from collectables. This reduces your CGT obligation. If your entity has current year capital losses from collectables that can be deducted they must be deducted here. You cannot choose to defer to a later year any amount that can be deducted this year.

➤ Does your entity have any current year capital gains from collectables?



Deduct any current year capital losses from collectables (shown at **C4**) from your current year capital gains from collectables (shown at **C8** to **C10**).

You can do this in the order that gives the best result, which would usually be to apply the losses against capital gains calculated using the:

- 1 'other' method
- 2 indexation method
- 3 discount method.

Show the amounts deducted from capital gains from your collectables at **1A** to **1C**, depending on the choice made about how to deduct the losses. Show the total losses from collectables deducted from gains from collectables at **1D**.

Show any remaining capital gains from collectables at **1E** to **1G**.

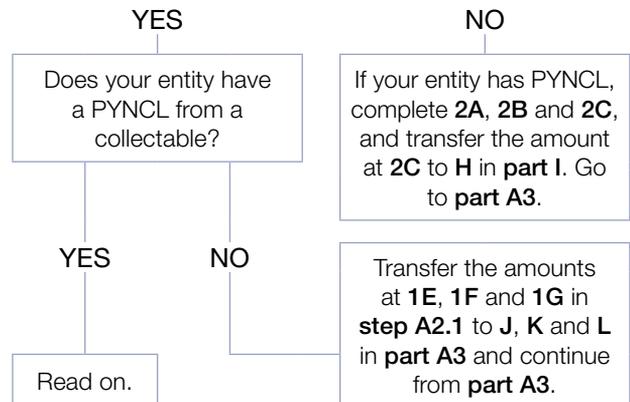
If your entity has net capital losses from collectables (**C4** minus **1D**), you can carry this forward to reduce the capital gains from collectables in later income years. There is no time limit on how long you can carry forward this loss. Transfer the amount of net capital losses from collectables to **H UNCL from collectables** in **part I**.

Step A2.2: Apply any prior year net capital losses (PYNCL) from collectables

Prior year net capital losses are the unapplied net capital losses carried forward from earlier years.

If your entity has prior year net capital losses that can be deducted, deduct them here. You cannot choose to defer to a later year any amount that can be deducted this year.

➤ Does your entity have any remaining current year capital gains from collectables?



At **2C**, show the available prior year net capital losses from collectables after you have made any necessary adjustments for commercial debts forgiven shown at **2B**. For more information on commercial debts forgiven, see page 14 and refer to your entity's tax return instructions.

Again, you can deduct PYNCL from collectables from any remaining capital gains from collectables in the manner that produces the best result. You must, however, deduct them in the order in which they were made – for example, you should deduct a 1995–96 year capital loss before a 1998–99 year capital loss.

At **2D** to **2F**, show the amounts of prior year net capital losses from collectables in the order you have chosen.

At **2G**, show the total amount of prior year net capital losses from collectables that you have deducted from the current year capital gains from collectables.

At **J**, **K** and **L** in **step A2.2**, show the capital gains from collectables after you have applied the current year capital losses and prior year net capital losses from collectables.

You can carry forward any unapplied net capital losses from collectables (**2C** minus **2G**) but in later income years you can only use them to reduce any capital gains from collectables (not from other CGT assets). There is no time limit on how long you can carry forward these losses.

When you have completed **step A2.2**, transfer:

- the amounts at **J**, **K** and **L** to the corresponding labels in **part A3**, and
- the amount of unapplied prior year net capital losses from collectables (referred to above) to **H UNCL from collectables** in **part I** (together with any net capital losses from collectables at **step A2.1**).

Part A3: Total current year capital gains (CYCG)

At **A3**, show the total of your entity's capital gains, including any net capital gain from collectables.

➤ Your entity may not have any of the following losses:

- current year capital losses
- prior year net capital losses, or
- capital losses transferred in.

In this case, transfer the amounts at **A7** to **A12** in **part A3** to **A** to **F** in **part E** and continue from **part F**.

If your entity has one or more of these losses, read on.

Part B: Current year capital losses (CYCL), other than from collectables

In **part B**, show any current year capital losses your entity has made from:

- shares and units (in unit trusts) at **A**
- real estate at **B**, and
- other CGT assets and any other CGT events at **C**.

Show the total at **D**.

You can transfer these from your **Capital gain or capital loss worksheets**.

If your entity does not have any current year capital losses (other than from collectables), go to **part D**.

Do not include any capital loss made from personal use assets at **C Other CGT assets and any other CGT events**. You disregard capital losses from personal use assets and cannot apply them to reduce capital gains.

Do not show capital losses made from collectables in **part B** – they should have been shown in **part A2**.

➤ Now go straight to **part D** – there is no **part C** in this worksheet.

Part D: Applying capital losses against current year capital gains

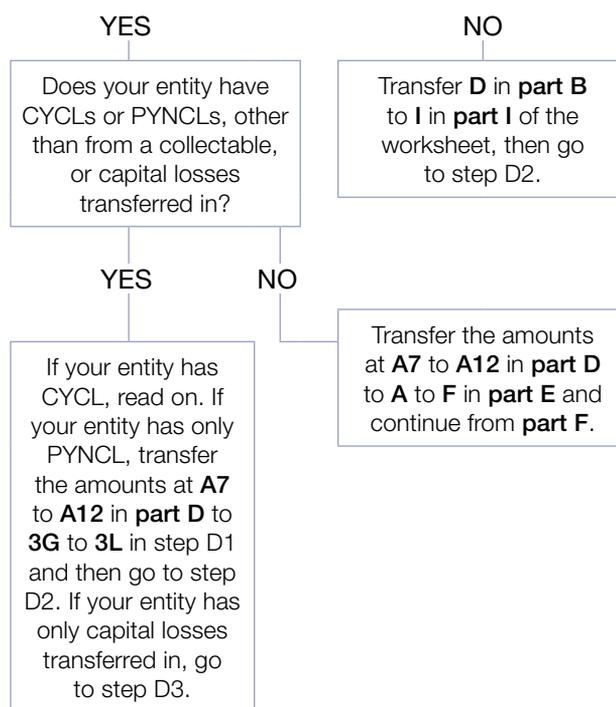
In **part D**, show your entity's current year capital gains reduced by:

- current year capital losses, other than from collectables (step D1)
- prior year net capital losses, other than from collectables (step D2) and
- capital losses transferred in (for companies only – step D3).

Step D1: Apply current year capital losses, other than capital losses from collectables

If your entity has current year capital losses (other than capital losses from collectables) that can be deducted, you must deduct them here. You cannot choose to defer to a later year any amount that can be deducted this year.

➤ Have you shown current year capital gains for your entity at **A7** to **A12** in **part D**?



You can choose the order in which you deduct your entity's current year capital losses (at **D** in **part B**) from the current year capital gains (at **A7** to **A12**).

Generally, if your entity is entitled to the small business CGT concessions, it is better to reduce the non-active asset capital gains first. Within the non-active and active categories you usually get the greatest benefit by reducing:

- 1 capital gains calculated using the 'other' method, then
- 2 capital gains calculated using the indexation method, then
- 3 capital gains calculated using the discount method.

At **3A to 3F**, show the amounts of current year capital losses deducted in the order you have chosen with the total at **H**. At **3G to 3L**, show the capital gains after applying (deducting) the current year capital losses.

You can carry forward net capital losses other than from collectables (**D** in **part B** minus **H**) to reduce capital gains in later income years.

When you have completed **step D1**, transfer the amount of net capital losses (**D** minus **H**) to **I UNCL from other CGT assets** in **part I**.

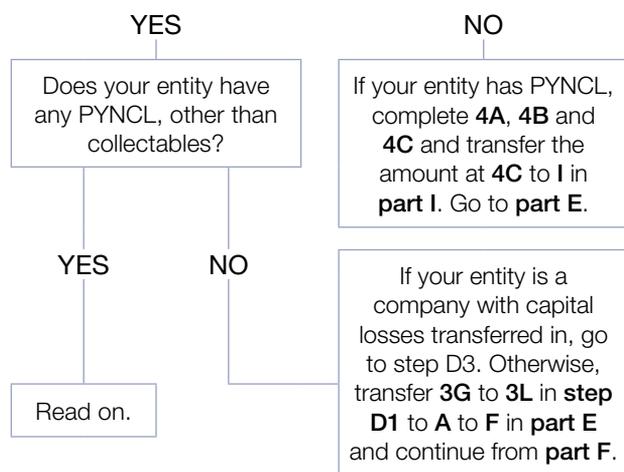
Step D2: Apply any prior year net capital losses, other than PYNCL from collectables

Prior year net capital losses are the unapplied net capital losses carried forward from earlier years.

If your entity has prior year net capital losses (other than prior year net capital losses from collectables) that can be deducted, they must be deducted here.

You cannot choose to defer to a later year any amount that can be deducted this year.

➤ Does your entity have any current year capital gain remaining?



Reduce the prior year net capital losses at **4A** by any adjustment for commercial debts forgiven at **4B**. For more information on commercial debts forgiven, see page 14 and refer to your entity's tax return instructions.

Again, you can deduct prior year net capital losses from any remaining capital gains in the way that produces the best result. See discussion for **step D1**. However, you must deduct them in the order in which they were made – for example, you must deduct a 1995–96 year capital loss before a 1998–99 year capital loss.

At **4D to 4I**, show the amounts of prior year net capital losses in the order you have chosen and the total at **L**. At **4J to 4O**, show the capital gains after you have applied the current year capital losses and prior year net capital losses.

You can carry forward any unapplied prior year net capital losses (**4C** minus **L**) to reduce the capital gains in later income years. There is no time limit on how long you can carry forward these losses.

When you have completed **step D2**, transfer the amount of unapplied prior year net capital losses (**4C** minus **L**) to **I UNCL from other CGT assets** in **part I** (together with any net capital losses at **step D1**).

➤ If your entity is a company with capital losses transferred in, go to **step D3**.

Otherwise, transfer the remaining capital gain amounts at **4J to 4O** to **A to F** in **part E**.

Step D3: Apply any capital losses transferred in

Only follow this step if your entity is a company with capital losses transferred in.

You need to apply the capital losses transferred in to your entity in the order they were received. Your entity must have enough capital gains to absorb the capital losses transferred in.

When you have completed **step D3**, transfer the amount of CYCG remaining after applying CYCL, PYNCL (**4J to 4O** in **step D2**) and capital losses transferred in to **A to F** in **part E**.

Part E: Current year capital gains after applying capital losses

In **part E**, show your entity's current year capital gains reduced by current year capital losses, prior year net capital losses and capital losses transferred in.

Part F: CGT discount on capital gains

In **part F**, apply the CGT discount.

➤ Does your entity have a capital gain at **Capital gains – discount method (B or E)** in **part E**?



! CGT DISCOUNT

Companies are not eligible for the CGT discount unless they are life insurance companies or friendly societies that carry on life insurance business. These companies may be entitled to the CGT discount for their complying superannuation business.

Next, calculate the CGT discount that applies to the capital gains at **B** and **E** in **part E**. The CGT discount percentage is:

- 33⅓% for complying superannuation entities, or
- 50% for individuals and trusts.

Show the amount of the CGT discount at **J** and **K** in **part F**.

Show the amount of your remaining capital gains at **6A to 6F** in **part F**.

Part G: Small business CGT concessions (other than the small business 15-year exemption)

In **part G**, apply the small business CGT concessions your entity is claiming. For more information about the small business CGT concessions, see the *Guide to capital gains tax concessions for small business*.

➤ Is your entity eligible for the small business CGT concessions?



Show:

- the amount of your entity's small business 50% active asset reduction (SBAAR) at **L** to **N**
- the amount of your entity's small business retirement exemption (SBRE) at **O** to **Q**, and
- the amount of your entity's small business rollover (SBRO) at **R** to **T**.

Show the total amount of the small business CGT concessions your entity is claiming at **7A** to **7D** of **part G**.

Part H: Net capital gain calculation

In **part H**, show the amount of your entity's net capital gain.

Your entity's net capital gain is the amount remaining after applying any current year capital losses, net capital losses from prior years, capital losses transferred in, the CGT discount and any applicable CGT small business concessions.

You include a net capital gain as assessable income on your entity's tax return at the relevant item. See step 3 on the next page.

Part I: Unapplied net capital losses carried forward to later income years

In **part I**, show any unapplied net capital losses your entity is carrying forward. These losses will be available to reduce any capital gains in later income years.

➤ Does your entity have any unapplied net capital losses?



At **H** and **I**, show details of any capital losses that are unapplied (that is, that have not been used).

At **H**, show the unapplied capital losses from collectables only. This is the sum of:

- any current year capital losses from collectables that you have not used to reduce capital gains from collectables this income year (that is, deduct **1D** in step A2.1 from **C4** in **part A2**), and
- any prior year net capital losses from collectables that you have not used to reduce capital gains from collectables this income year (that is, deduct **2G** in step A2.1 from **2C** in **step A2.2**).

At **I**, show all of the other capital losses – that is, the sum of:

- the current year capital losses that you have not used to reduce capital gains (that is, deduct **H** in step D1 from **D** in **part B**), and
- the prior year net capital losses that you have not used to reduce capital gains (that is, deduct **L** in step D2 from **4C** in **step D2**).

At **V**, show the total of the amounts at **H** and **I**.

The amounts at **H** and **I** are the unapplied net capital losses available to be carried forward and used to reduce your capital gains in later income years.

You can only use unapplied net capital losses from collectables to reduce capital gains from collectables in later income years.

STEP 3

How to complete the capital gains item on your entity's tax return

In the earlier steps, you calculated your capital gain or capital loss for each CGT event, then worked out your net capital gain or net capital loss.

If your entity made a capital gain or capital loss during the income year:

- print **Y** (for **yes**) at **G Did you have a capital gains tax event during the year?** at the capital gains item on your entity's tax return
- transfer the amount at **G** in **part H** of your entity's **CGT summary worksheet** to **A Net capital gain** on your entity's tax return, and
- add the amounts, if any, at **H** and **I** in **part I** of your entity's **CGT summary worksheet** and show the total amount at **Losses information, V Net capital losses carried forward to later income years** on your entity's tax return.

If you are an individual completing your *Tax return for individuals (supplementary section) 2005* or a tax agent completing a tax return on behalf of an individual:

- print **Y** (for **yes**) at **G Did you have a capital gains tax event during the year?** item **17 Capital gains** on your tax return (supplementary section)
- transfer the amount at **Total CYCG, part A3** of your **CGT summary worksheet** to **H Total current year capital gains** item **17 Capital gains** on your tax return (supplementary section)
- transfer the amount at **G, part H** of your **CGT summary worksheet** to **A Net capital gain** item **17 Capital gains** on your tax return (supplementary section), and
- add the amounts, if any, at **H** and **I** in **part I** of your **CGT summary worksheet** and show the total at **V Net capital losses carried forward to later income years** item **17 Capital gains** on your tax return (supplementary section).

STEP 4

How to complete the CGT schedule

Your entity must complete a CGT schedule for the 2004–05 income year if:

- the total current year capital gains are greater than \$10,000, or
- the total current year capital losses are greater than \$10,000.

! CONSOLIDATED GROUPS

If a group consolidates during the income year, the head company must lodge a CGT schedule if the total capital gains or total capital losses that it makes – as head company of the consolidated group and while not a member of a consolidated group – are greater than \$10,000.

An entity that has joined a consolidated group/s during the year of income as a subsidiary member must lodge a CGT schedule covering any periods of non-membership if the entity satisfies the requirements for lodgment of that schedule.

If your entity is required to complete a CGT schedule, attach it to your entity's 2005 tax return. You should lodge only one CGT schedule with your entity's tax return.

If you are lodging a paper tax return and CGT schedule, please use the preprinted *Capital gains tax (CGT) schedule 2005* provided at the back of this guide. To get extra copies of the preprinted schedule, phone our Publications Distribution Service on **1300 720 092**.

You need to follow these instructions carefully to make sure you complete your entity's CGT schedule correctly. You must complete all relevant parts of the CGT schedule, including **parts J to N**.

Print your entity's TFN, name and Australian business number in the boxes provided. The CGT schedule must be signed in the same way that the 2005 tax return is signed.

Take the following steps to transfer the relevant information from your **CGT summary worksheet**.

Part A

- 1 Transfer the amounts from **A** to **I** and from **M** to **U** on your **CGT summary worksheet** to the corresponding labels in **part A** of the CGT schedule.
- 2 Transfer the amounts at **J, K** and **L** on your **CGT summary worksheet** (after **step A2.2**) to the corresponding labels in **part A** of the CGT schedule.

Part B

Transfer the amounts at **A, B, C** and **D** on your **CGT summary worksheet** to the corresponding labels in **part B** of the CGT schedule.

Part C

There is no part C in the CGT schedule.

Part D

From **step D1** on page 4 of the **CGT summary worksheet**:

- 1 Add the amounts at columns **3A** and **3D** and transfer the total to **E** in **part D** of the CGT schedule.
- 2 Add the amounts at columns **3B** and **3E** and transfer the total to **F** in **part D** of the CGT schedule.
- 3 Add the amounts at columns **3C** and **3F** and transfer the total to **G** in **part D** of the CGT schedule.
- 4 Transfer the **Total CYCL applied** amount at **H** to **H** in **part D** of the CGT schedule.

From **step D2** on page 5 of the **CGT summary worksheet**:

- 1 Add the amounts at columns **4D** and **4G** and transfer the total to **I** in **part D** of the CGT schedule.
- 2 Add the amounts at columns **4E** and **4H** and transfer the total to **J** in **part D** of the CGT schedule.
- 3 Add the amounts at columns **4F** and **4I** and transfer the total to **K** in **part D** of the CGT schedule.
- 4 Transfer the **Total PYNCL applied** amount at **L** to **L** in **part D** of the CGT schedule.

From **step D3** on page 5 of the **CGT summary worksheet**:

- 1 Add the amounts at columns **5A** and **5D** and transfer the total to **M** in **part D** of the CGT schedule.
- 2 Add the amounts at columns **5B** and **5E** and transfer the total to **N** in **part D** of the CGT schedule.
- 3 Add the amounts at columns **5C** and **5F** and transfer the total to **O** in **part D** of the CGT schedule.
- 4 Transfer the **Total capital losses transferred in** amount at **P** to **P** in **part D** of the CGT schedule.

Part E

Transfer the amounts at **A**, **B**, **C**, **D**, **E** and **F** of the **CGT summary worksheet** to the corresponding labels in **part E** of the CGT schedule.

Part F

Transfer the amounts at **J** and **K** of the **CGT summary worksheet** to the corresponding labels in **part F** of the CGT schedule.

Part G

Transfer the amounts at rows **L** to **N**, **O** to **Q** and **R** to **T** of the **CGT summary worksheet** to the corresponding labels in **part G** of the CGT schedule.

Part H

Transfer the amount at **G** of the **CGT summary worksheet** to **G** in **part H** of the CGT schedule.

Part I

Transfer the amounts at **H** and **I** of the **CGT summary worksheet** to the corresponding labels in **part I** of the CGT schedule.

Part J

Write the total amount of any capital gains disregarded by the small business 15-year exemption (do not apply the CGT discount) at **J** in **part J** of the CGT schedule.

Print in the box at **K** the code from the list below that best describes the CGT asset or CGT event from which your entity made the capital gain. If your entity made capital gains from more than one CGT asset or CGT event, select the code which best describes the type of CGT asset or CGT event that produced the largest amount of capital gain.

CGT asset or CGT event code

- S** shares
- U** units in unit trusts
- R** real estate
- G** goodwill
- O** other CGT assets or CGT events not listed above

Part K

During the income year, did your entity choose scrip-for-scrip rollover when an arrangement was made to exchange original interests for replacement interests?

Original interests are shares or units or other interests (or an option, right or similar interest in a company or trust), while replacement interests are similar interests in another company or trust.

Print **Y** for **yes** or **N** for **no** at **A**.

If you printed **Y** for **yes**:

Write at **B** the amount of the cost base for all of the original interests exchanged (regardless of whether or not full rollover was available).

Write at **C** the total of the market value of the replacement interests acquired.

Write at **D** the total of the amount of cash and other considerations received. Do not include any amount already included at **C**.

Part L (for companies and trusts only)

Was the company or trust an 'acquiring entity' during the income year under an arrangement for which original interest holders qualified for scrip-for-scrip rollover?

Print **Y** for **yes** or **N** for **no** at **E**.

If you printed **Y** for **yes**, provide the information requested below for the arrangement. If interests were acquired in more than one original entity, write at **F** the number of original entities subject to such arrangements and provide the information requested below for the arrangement involving the greatest cost base for the interests acquired.

Show at **G** the TFN for the original entity.

Show at **H** the number of shares, units or other interests issued in exchange for the shares or units or other interests acquired in the original entity.

Show at **I** the number of options, rights or similar interests issued in exchange for the options, rights or similar interests acquired in the other entity.

Show at **J** the amount of other considerations (including cash) given to acquire the shares, units or other interests, options, rights or similar interests in the original entity.

Show at **K** the total of the first element of the cost bases of the shares, units or other interests, options, rights or similar interests acquired in the original entity as a result of the arrangement.

Did the company that issued replacement interests or the trustee of the trust, jointly with a significant or common stakeholder, choose to receive a rollover?

Print **Y** for **yes** or **N** for **no** at **L**.

If the answer at **L** is **yes**, show at **M** the total of the first element of the cost bases of the shares, or units or other interests, or options, rights or similar interests in the original entity (original interests) acquired directly from significant and common stakeholders for the arrangement, or issued by the original entity to the company or trust and attributable to original interests of significant and common stakeholders that were cancelled under the arrangement.

Part M (for companies only)

Did the company have an employee share scheme in place at any time during the year?

Print **Y** for **yes** or **N** for **no** at **N**.

Part N (for companies only)

At the end of the income year, did the company still have any assets that were acquired before 20 September 1985 and that were not treated as post-CGT assets under Division 149?

Print **Y** for **yes** or **N** for **no** at **O**.

After following all these steps, you have completed your entity's CGT schedule.

Remember to lodge the CGT schedule with your entity's tax return.

Do **not** lodge your worksheets – keep these with your own records.