Australian Government
Australian Taxation Office

Guide to capital gains tax 2025

A guide to capital gains tax (CGT) for individuals and entities with complex CGT obligations.

This publication was current at 29 May 2025

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About the guide to CGT

How CGT works, your obligations and when to use the CGT schedule and worksheets.

How CGT works and your obligations

The *Guide to capital gains tax 2025* explains how CGT works and will help you to meet your CGT obligations.

If you're an individual who has made a capital gain or loss from selling shares and units, or received a distribution of a capital gain from a managed fund, you may prefer to use Capital gains tax personal investors guide 2025.

If you have a small business, see Small business CGT concessions.

CGT positions not dealt with in this guide

This guide doesn't deal fully with the CGT position of the following:

- An individual or entity that isn't an Australian resident for tax purposes.
- Companies, trusts and funds – see, CGT schedule and instructions 2025.
- A company that is the head company of a consolidated group – see, Consolidation.

This guide doesn't cover individuals or entities whose gains or losses aren't subject to CGT but are covered under other tax law. For example, gains or losses from:

- carrying on a business of share trading
- net profit or loss from profit-making activity of renovating properties.

CGT schedule for individuals

Whether you need to lodge a CGT schedule will depend on how you lodge your tax return and the amount and type of your capital gains and capital losses.

Online tax return lodgments

If you lodge online using myTax as an individual or partner in a partnership, you'll need to complete a *Capital gains tax schedule 2025*, if:

- a CGT event happens in 2024–25 and your total current year capital gains or losses are more than $10,000
- you receive a distribution from a trust (including a managed fund) that includes receiving a net capital gain of more than $10,000
- you select the capital gains tax exemption, rollover or additional discount type code **W: Affordable housing discount**
- you entered into an earn-out arrangement, which requires an amendment to a prior year's assessment – see CGT schedule and instructions 2025, item **7** – step 4.

Paper tax return lodgments

Partnerships and individuals who lodge a paper tax return aren't required to lodge a CGT schedule. For information on the CGT schedule for individuals and partners in a partnership, see question 18 Capital gains.

If you're an individual who enters into an earn-out arrangement and need to make an amendment to a prior year's assessment, see item **7** – step **4** of Instructions to complete the CGT schedule and tax return 2025.

CGT worksheets

The 2 CGT worksheets will help you keep track of your records and work out any capital gains or capital losses you need to include in your tax return.

There is:

- a Capital gain or capital loss worksheet 2025 – work out your capital gain or capital loss for each CGT event
- a CGT summary worksheet for tax returns 2025 – summarise your capital gains, capital losses and produce the final net amount you need to include in your tax return.

You can print out these forms and complete them as you work through the guide.

Terms we use in the guide to CGT

While we have sometimes used the word 'bought' rather than 'acquired', you may have acquired an asset subject to CGT (a CGT asset) without paying for it. For example, as a gift or through an inheritance. Similarly, we refer to 'selling' when you may have disposed of it in some other way. For example, by giving it away or transferring it to someone else. Whether by sale or by any other means, these disposals are CGT events.

For more information on the terms we use, see Definitions.

What's new with CGT for individuals?

Find out what's new in legislation or other changes that need to be taken into consideration for 2025.

Trust income schedule

If you receive a capital gain distribution from a trust, you must complete *Trust income schedule 2025* and attach it to your tax return. The Trust income statement details each distribution that you receive from trusts.

For information to help you complete the trust income schedule and who must complete the schedule, see Trust income schedule instructions 2025.

About capital gains tax

Explains capital gains tax obligations including if it applies, how to work it out and what records you need to keep.

In this section

Does capital gains tax apply to you?

General background information about CGT and how it applies to you.

In this section

What is capital gains tax and what rate of tax do you pay?

CGT is the tax that you pay on any capital gain you include in your annual income tax return. It isn't a separate tax, merely a component of your income tax. You're taxed on your net capital gain at your marginal tax rate.

To work out your net capital gain:

- calculate your total capital gains for 2024–25
- subtract your total capital losses for 2024–25 and any unapplied capital losses from earlier income years
- subtract your entitlement to any CGT discount and small business CGT concessions.

If your total capital losses for 2024–25 are more than your total capital gains, the difference is your net capital loss for the year. You can carry it forward to later income years to be deducted from future capital gains. You can't deduct capital losses or a net capital loss from your other assessable income. There is no time limit on how long you can carry forward a net capital loss. You apply your net capital losses in the order that you make them.

There are special rules for capital losses made on collectables. You can't make a capital loss on a personal use asset.

If you're completing a tax return for an individual and want more information on how to apply your capital losses, see CGT worksheets in question 18 Capital gains 2025, steps 5 and 6. For more information for companies, trusts and funds or for completing the *CGT summary worksheet*, see Capital gains tax schedule and instructions 2025, step 2.

Capital gain or capital loss

You make a capital gain or capital loss if a CGT event happens. You can also make a capital gain if a managed fund or other trust distributes a capital gain to you.

For most CGT events your capital gain is the difference between your capital proceeds and the cost base of your CGT asset. For example, if you sell an asset for more than you paid for it, the difference is your capital gain. You make a capital loss if your reduced cost base of your CGT asset is greater than the capital proceeds.

Generally, you can disregard any capital gain or capital loss you make on an asset if you acquired it before 20 September 1985 (pre-CGT).

For more information, see Exemptions and rollovers.

There are special rules that apply when working out gains and losses from depreciating assets. A depreciating asset is a tangible asset (other than land or trading stock) that has a limited effective life. It can be expected to decline in value over the time it is used. Certain intangible assets are also depreciating assets.

If you use a depreciating asset for a taxable purpose (such as in a business) any gain you make on it is treated as ordinary income and any loss as a deduction. It is only when a depreciating asset is used for a non-taxable purpose (used privately) that you can make a capital gain or capital loss on it.

For more information, see CGT and depreciating assets.

To work out whether you have to pay tax on your capital gains, you need to know:

- whether a CGT event has happened
- the time of the CGT event
- what assets are subject to CGT
- how to calculate the capital gain or capital loss
  - how to determine your capital proceeds, cost base and reduced cost base
  - how to apply capital losses and the methods available to calculate a capital gain
- whether there is any exemption or rollover that allows you to reduce or disregard the capital gain or capital loss
- whether the CGT discount applies
- whether you're entitled to any of the small business CGT concessions.

What is a CGT event?

CGT events are the different types of transactions or events that may result in a capital gain or capital loss. Many CGT events involve a CGT asset; some relate directly to capital receipts (capital proceeds).

You need to know which type of CGT event applies in your situation. It affects how you calculate your capital gain or capital loss and when you include it in your net capital gain or net capital loss.

The range of CGT events is wide. Some happen often and affect many people while others are rare and affect only a few people. There is a summary of the various types of CGT events at Appendix 1.

The most common CGT event happens if you dispose of a CGT asset to someone else, such as if you sell it or give it away, including to a relative.

A CGT event also happens when:

- an asset you own is lost or destroyed (the destruction may be voluntary or involuntary)
- shares you own are cancelled, surrendered or redeemed
- you enter into an agreement not to work in a particular industry for a set period of time
- a trustee makes a non-assessable payment to you from a managed fund or other unit trusts (including a corporate collective investment vehicle (CCIV) sub-fund trust)
- you have an annual cost base reduction that exceeds the cost base of your interest in an attribution managed investment trust or attribution CCIV sub-fund trust
- a company makes a payment (not a dividend) to you as a shareholder
- a liquidator or administrator declares that shares or financial instruments you own are worthless
- you receive an amount from a local council for disruption to your business assets by roadworks
- you stop being an Australian resident
- you enter into a conservation covenant
- you dispose of a depreciating asset that you used for private purposes.

Subdividing land doesn't result in a CGT event if you retain ownership of the subdivided blocks. Therefore, you don't make a capital gain or a capital loss at the time of the subdivision.

Australian residents make a capital gain or capital loss if a CGT event happens to any of their assets anywhere in the world. As a general rule, foreign residents make a capital gain or capital loss only if a CGT event happens to a CGT asset that is taxable Australian property.

Order in which CGT events apply

If more than one CGT event happens, use the one that is most specific to your situation.

Time of the CGT event

The timing of a CGT event is important because it determines in which income year you report your capital gain or capital loss.

If you dispose of a CGT asset to someone else, the CGT event happens when you enter into the contract for disposal. If there is no contract, the CGT event generally happens when you stop being the asset's owner.

Example 1: contract

In June 2025, Sue enters into a contract to sell land. The contract settles in October 2025.

Sue makes the capital gain in 2024–25 (the income year in which she enters into the contract), not 2025–26 (the income year in which settlement takes place).

If a CGT asset you own is lost or destroyed, the CGT event happens when you first receive compensation for the loss or destruction. If you don't receive any compensation, the CGT event happens when the loss is discovered or the destruction occurred.

Example 2: insurance policy

Laurie owned a rental property that was destroyed by fire in June 2024. He received a payment under an insurance policy in October 2024. The CGT event happened in October 2024.

CGT events relating to shares and units, and the times of the events, are dealt with in Investments in shares and units.

What is a CGT asset?

Many CGT assets are easily recognisable, for example, land, shares in a company, and units in a unit trust. Other CGT assets aren't so well understood such as contractual rights, options, foreign currency, crypto assets and goodwill. All assets are subject to the CGT rules unless they are specifically excluded.

One example of a crypto asset is bitcoin. For more information on the tax treatment of crypto assets, see Crypto asset investments.

CGT assets fall into one of 3 categories:

- collectables
- personal use assets
- other assets.

Collectables

Collectables include the following items that you use or keep mainly for the personal use or enjoyment of yourself or your associates:

- paintings, sculptures, drawings, engravings or photographs, reproductions of these items or property of a similar description or use
- jewellery
- antiques
- coins or medallions
- rare folios, manuscripts or books
- postage stamps or first day covers.

A collectable is also:

- an interest in any of the items listed above
- a debt that arises from any of those items
- an option or right to acquire any of those items.

You can only use capital losses from collectables to reduce capital gains (including future capital gains) from collectables. You disregard **any** capital gain or capital loss you make from a collectable if any of the following apply:

- you acquired the collectable for $500 or less
- you acquired an interest in the collectable for $500 or less before 16 December 1995
- you acquired an interest in the collectable when the asset had a market value of $500 or less.

If you dispose of a number of collectables individually that you would usually dispose of as a set, you're exempt from paying CGT only if you acquired the set for $500 or less. This doesn't apply to an individual collectable you acquired before 16 December 1995, which is exempt from CGT if you acquired it for $500 or less. This is irrespective of whether or not it would usually be disposed of as part of a set.

Personal use assets

A personal use asset is:

- a CGT asset, other than a collectable, that you use or keep mainly for the personal use or enjoyment of yourself or your associates
- an option or a right to acquire a personal use asset
- a debt resulting from a CGT event involving a CGT asset kept mainly for your personal use or enjoyment
- a debt resulting from you doing something other than gaining or producing your assessable income or carrying on a business.

Personal use assets may include such items as:

- boats
- furniture
- electrical goods
- household items
- crypto assets (if they are acquired and used in a short period of time mainly to purchase items for personal use or consumption).

Land and buildings aren't personal use assets. Any capital loss you make from a personal use asset is disregarded.

If a CGT event happens to a personal use asset, disregard any capital gain you make if you acquire the asset for $10,000 or less. If you disposed of personal use assets individually that would usually be sold as a set, you get the exemption only if you acquire the set for $10,000 or less.

Other assets

Assets that aren't collectables or personal use assets include:

- land
- shares in a company
- rights and options
- leases
- units in a unit trust
- crypto assets (if they are acquired and held for some time before being used, or only a small proportion is used to buy items for personal use or consumption)
- goodwill
- licences
- convertible notes
- your home (see Exemptions)
- contractual rights
- foreign currency
- any major capital improvement made to certain land or pre-CGT assets.

Partnerships

It is the individual partners who make a capital gain or capital loss from a CGT event, not the partnership itself. For CGT purposes, each partner owns a proportion of each CGT asset. Each partner calculates a capital gain or capital loss on their share of each asset and claims their share of a credit for foreign resident capital gains withholding amounts.

Tenants in common

Individuals who own an asset as tenants in common may hold unequal interests in the asset. Each tenant in common makes a capital gain or capital loss from a CGT event in line with their interest in the asset. For example, a couple could own a rental property as tenants in common with one having a 20% interest and the other having an 80% interest. The capital gain or capital loss made when the rental property they dispose of (or another CGT event happens) is split between the individuals according to their legal interest in the property.

Joint tenants

For CGT purposes, individuals who own an asset as joint tenants are each treated as if they own an equal interest in the asset as a tenant in common. Each joint tenant makes a capital gain or capital loss from a CGT event in line with their interest in the asset. For example, a couple owning a rental property as joint tenants split the capital gain or capital loss equally between them.

When a joint tenant dies, their interest in the asset is taken to have been acquired in equal shares by the surviving joint tenants on the date of death.

Separate assets

For CGT purposes, there are exceptions to the rule that what is attached to the land is part of the land. In some circumstances, a building or structure is considered to be a CGT asset separate from the land.

Improvements to an asset (including land) acquired before 20 September 1985 may also be treated as a separate CGT asset.

This includes if you acquire land on or after 20 September 1985 which is adjacent to land you already own (purchased before 20 September 1985) and you amalgamate both pieces of land on one title.

Example 3: adjacent land

On 1 April 1984 Dani bought a block of land. On 1 June 2025, she bought an adjacent block. Dani amalgamated the titles to the 2 blocks into one title.

The second block is treated as a separate CGT asset distinct from the first block. Since the second block was acquired on or after 20 September 1985 it is subject to the CGT provisions. Therefore, Dani can make a capital gain or loss from the second block when the whole area of land is sold.

Buildings, structures and other capital improvements to land you acquired on or after 20 September 1985

A building, structure or other capital improvement on land that you acquired on or after 20 September 1985 is a separate CGT asset, not part of the land, if a balancing adjustment provision applies to it. For example, a timber mill building is subject to a balancing adjustment if it is sold or destroyed, so it is treated as an asset separate from the land it is on.

Buildings and structures on land acquired before 20 September 1985

A building or structure on land that you acquired before 20 September 1985 is a separate asset if either:

- you entered into a contract for the construction of the building or structure on or after that date
- there was no contract for its construction, and construction began on or after that date.

Other capital improvements to pre-CGT assets

If you make a capital improvement to a CGT asset you acquired before 20 September 1985, this improvement is treated as a separate asset. It is subject to CGT if, at the time a CGT event happens (except one that happens because of a death) to the original asset, the cost base of the capital improvement is both:

- more than the improvement threshold for the year in which the event happens (see Table 1)
- more than 5% of the amount of money and property you receive from the event.

If there is more than one capital improvement and they are related, they are treated as one separate CGT asset if the total of their cost bases is more than the threshold and more than 5% of the amount of money and property you receive from the event.

The improvement threshold is adjusted to take account of inflation. The thresholds for 1985–86 to 2024–25 are shown in **table 1**.

Table 1: Improvement thresholds for 2024–25 to 1985–86

Income year	Threshold $
2024–25	182,665
2023–24	174,465
2022–23	162,899
2021–22	156,784
2020–21	155,849
2019–20	153,093
2018–19	150,386
2017–18	147,582
2016–17	145,401
2015–16	143,392
2014–15	140,443
2013–14	136,884
2012–13	134,200
2011–12	130,418
2010–11	126,619
2009–10	124,258
2008–09	119,594
2007–08	116,337
2006–07	112,512
2005–06	109,447
2004–05	106,882
2003–04	104,377
2002–03	101,239

Income year	Threshold $
2001–02	97,721
2000–01	92,802
1999–2000	91,072
1998–99	89,992
1997–98	89,992
1996–97	88,227
1995–96	84,347
1994–95	82,290
1993–94	80,756
1992–93	80,036
1991–92	78,160
1990–91	73,459
1989–90	68,018
1988–89	63,450
1987–88	58,859
1986–87	53,950
1985–86	50,000

What are capital proceeds?

Whatever you receive as a result of a CGT event are your 'capital proceeds'. For most CGT events, your capital proceeds are an amount of money or the value of any property you either:

- receive
- are entitled to receive.

If you receive (or are entitled to receive) foreign currency, you work out the capital proceeds by converting it to Australian currency at the time of the relevant CGT event.

If you receive property (including shares) subject to a deed of escrow (which imposes a restriction on dealing in that property), you include the market value of the property at the time of the relevant CGT event in your capital proceeds.

You reduce your capital proceeds from a CGT event if:

- you're not likely to receive some or all of the proceeds
- the non-receipt of some or all of the proceeds isn't due to anything you have done or failed to do
- you took all reasonable steps to get payment.

Provided you're not entitled to a tax deduction for the amount you repaid, your capital proceeds are also reduced by either:

- any part of the proceeds that you repay
- any compensation you pay that can reasonably be regarded as a repayment of the proceeds.

If you're registered for GST and you receive payment when you dispose of a CGT asset, any GST payable isn't part of the capital proceeds.

Market value substitution rule

In some cases, if you receive nothing in exchange for a CGT asset (because you give it away as a gift), you're taken to have received the market value of the asset at the time of the CGT event. You may also be taken to have received the market value if both:

- your capital proceeds are more or less than the market value of the CGT asset
- you and the purchaser were not dealing with each other at arm's length in connection with the event.

This is known as the **market value substitution rule** for capital proceeds.

You're said to be dealing at arm's length with someone if each party acts independently and neither party exercises influence or control over the other in connection with the transaction. The law looks not only at the relationship between the parties but also at the quality of the bargaining between them.

Example 4: gifting an asset

On 7 May 2009, Martha and Stephen bought a block of land.

In November 2024, they complete a transfer form to have the block transferred to their adult son, Paul, as a gift.

Because they received nothing for it, Martha and Stephen are taken to have received the market value of the land at the time it was transferred to Paul.

The market value substitution rule for capital proceeds is subject to some exceptions. For example, the substitution rule for capital proceeds doesn't apply to the following examples of CGT event – C2 (about cancellation, surrender and similar endings):

- the expiry of a CGT asset that the taxpayer owns
- the cancellation of a statutory licence held by the taxpayer.

It also doesn't apply where CGT event C2 happens for interests held in companies and unit trusts that:

- have at least 300 members or unit holders
- don't have concentrated ownership.

It also doesn't apply if you're a complying super fund, a complying approved deposit fund or a pooled super trust if both of the following apply:

- the capital proceeds from the CGT event exceed the market value of the CGT asset
- assuming the capital proceeds were your statutory income, the proceeds would be non-arm's length income.

There are special rules for calculating the proceeds from a depreciating asset.

If the taxation of financial arrangements (TOFA) rules apply to you, there are special rules for calculating proceeds from a CGT asset, where you start or cease to have a financial arrangement as consideration for providing that CGT asset.

For more information, see:

- Transferring property to family or friends
- CGT and depreciating assets.

What is the cost base?

The cost base of a CGT asset is generally the cost of the asset when you bought it. It also includes certain other costs associated with acquiring, holding and disposing of the asset.

For most CGT events, you need the cost base of the CGT asset to work out whether you have made a capital gain. If you may have made a capital loss, you need the reduced cost base of the CGT asset for your calculation. The columns labelled ‘Capital gain’ and ‘Capital loss’ in the tables at Appendix 1 indicate whether the cost base and reduced cost base of an asset are relevant for a CGT event.

If they aren't relevant, the same columns in the tables explain how to work out your capital gain or loss. For example, if you enter into an agreement not to work in a particular industry for a set period of time, CGT event D1 specifies that you calculate your capital gain or capital loss by comparing the capital proceeds with the incidental costs.

Cost base isn't relevant when working out a capital gain from a depreciating asset. There are special rules for calculating the cost of a depreciating asset.

For more information, see:

- CGT and depreciating assets
- Guide to depreciating assets 2025

Elements of the cost base

The cost base of a CGT asset is made up of 5 elements:

1. money or property given for the asset
2. incidental costs of acquiring the CGT asset or that relate to the CGT event
3. costs of owning the asset
4. capital costs to increase or preserve the value of your asset or to install or move it
5. capital costs of preserving or defending your ownership of or rights to your asset.

You need to work out the amount for each element, then add them together to work out the cost base of your CGT asset.

If there is an amount paid in a foreign currency that is part of the cost base you should convert it to Australian currency at the time of the relevant transaction or event.

If you're registered for GST, reduce each element of the cost base of your asset by any related GST net input tax credits. If you're not registered for GST, you don't make any adjustments as the GST is included in the cost base.

First element: money or property given for the asset

Include in the first element:

- the money paid (or required to be paid) for the asset
- the market value of property given (or required to be given) to acquire the asset.

Second element: incidental costs of acquiring a CGT asset or relating to a CGT event

There are 10 incidental costs you may have incurred in acquiring the asset or for the CGT event that happens to it, including its disposal. They are:

1. remuneration for the services of a surveyor, valuer, auctioneer, accountant, broker, agent, consultant or legal adviser (you can include the cost of advice concerning the operation of the tax law as an incidental cost only if the advice was provided by a recognised tax adviser and you incurred the cost after 30 June 1989)
2. costs of transfer
3. stamp duty or other similar duty
4. costs of advertising or marketing (but not entertainment) to find a seller or buyer
5. costs relating to the making of any valuation or apportionment to determine your capital gain or capital loss
6. search fees relating to an asset (such as fees to check land titles and similar fees, but not travel costs to find an asset suitable for purchase)
7. the cost of a conveyancing kit (or a similar cost)
8. borrowing expenses (such as loan application fees and mortgage discharge fees)
9. expenditure that
   a. is incurred by the head company of a consolidated group to an entity that isn't a member of the group
   b. reasonably relates to a CGT asset held by the head company
   c. is incurred because of a transaction that is between members of the group
10. expenditure that is incurred as a direct result of your ownership of a CGT asset ending (also known as termination, exit or similar fees).

You don't include costs if you:

- have claimed a tax deduction for them in any year
- omitted to claim a deduction but can still claim it because the period for amending the relevant income tax assessment has not expired.

Third element: costs of owning the asset

The costs of owning an asset include rates, land taxes, repairs and insurance premiums. Non-deductible interest on borrowings to finance a loan used to acquire a CGT asset and on loans used to finance capital expenditure you incur to increase an asset's value are also third element costs.

You don't include such costs if you acquired the asset before 21 August 1991. Nor do you include them if you:

- have claimed a tax deduction for them in any income year
- omitted to claim a deduction but can still claim it because the period for amending the relevant income tax assessment has not expired.

You can't include them at all in the cost base of collectables or personal use assets. You can't index these costs or use them to work out a capital loss. For more information, see Indexation of the cost base.

Fourth element: capital costs to increase or preserve the value of your asset or to install or move it

The fourth element is capital costs you incurred for the purpose or the expected effect of increasing or preserving the asset's value. For example, costs incurred in applying (successfully or unsuccessfully) for zoning changes. It also includes capital costs you incurred that relate to installing or moving the asset. It doesn't include capital expenditure incurred for goodwill, which may be deductible as a business-related cost.

For more information, see Guide to depreciating assets 2025.

Fifth element: capital costs to preserve or defend ownership or rights to your asset

Capital expenses you incur to preserve or defend your ownership of, or rights to, the asset come under this element – for example, you paid a call on shares.

Other adjustments to the cost base

Other adjustments include:

- Assets acquired after 13 May 1997

  If you acquired a CGT asset after 13 May 1997, the cost base of the asset excludes

  - any expenditure in the first, fourth or fifth element for which you have claimed a tax deduction in any income year, or have omitted to claim but can still claim as a deduction because the period for amending the relevant income tax assessment has not expired
  - heritage conservation expenditure and Landcare and water facilities expenditure incurred after 12 November 1998 that give rise to a tax offset.

    Special rules apply for land and buildings. For more information, see Cost base adjustments for capital works deductions.

- Reversal of deduction: effect on cost base

  In some cases, a deduction you have claimed on a CGT asset can be partly or wholly 'reversed'. This means that part or all of the deduction may be included in your assessable income in the income year the CGT event happens. In this case, you increase the cost base of the CGT asset by the amount you have to include in your assessable income.

- Indexation of the cost base

  If a CGT event happened to a CGT asset you acquired at or before 11:45 am AEST on 21 September 1999, you can use either the indexation method or the discount method to calculate your capital gain.

  If you use the indexation method, some of the cost base expenditure you incurred up to this time may be indexed to account for inflation up to the September 1999 quarter. Only expenditure incurred before this time may be indexed because changes to the law mean indexation was frozen at that date.

For more information, see How to work out your capital gain or capital loss.

What is the reduced cost base?

When a CGT event happens to a CGT asset and you haven't made a capital gain, you need the asset's reduced cost base to work out whether you have made a capital loss. Remember, you can use a capital loss to reduce capital gains only, you can't use it to reduce other income.

Elements of the reduced cost base

The reduced cost base of a CGT asset has the same 5 elements as the cost base, except for the third element:

1. money or property given for the asset
2. incidental costs of acquiring the CGT asset or that relate to the CGT event
3. balancing adjustment amount (any amount that is assessable because of a balancing adjustment for the asset or that would be assessable if certain balancing adjustment relief were not available)
4. capital costs to increase or preserve the value of your asset or to install or move it
5. capital costs to preserve or defend ownership or rights to your asset.

These elements aren't indexed.

You need to work out the amount for each element, then add the amounts together to find out your reduced cost base for the relevant CGT asset.

If you're registered for GST, you reduce each element of the reduced cost base of the asset by the amount of any GST net input tax credits for that element. If you're not registered for GST you don't make any adjustment and the GST paid is included in the reduced cost base.

The reduced cost base doesn't include any costs you:

- have incurred for which you have claimed a tax deduction
- have omitted to claim, but can still claim, a deduction because the period for amending the relevant income tax assessment has not expired – for example, capital works deductions for capital expenditure.

Example 5: capital works deduction: effect on reduced cost base

Danuta acquired a new income-producing asset on 28 September 2007 for $100,000. She sold it for $90,000 in November 2024. During the period she owned it, she claimed capital works deductions of $7,500. Her capital loss is worked out as follows:

1. The cost base is $100,000.
2. *Subtract* capital works deductions of $7,500:
   $100,000 – $7,500 = $92,500
3. The **reduced cost base is $92,500.**
4. *Subtract* the capital proceeds of $90,000:
   $92,500 – $90,000 = $2,500

5. The **capital loss is $2,500**

Modifications to the cost base and reduced cost base

In some cases, the general rules for calculating the cost base and reduced cost base have to be modified. For example, you substitute the market value for the first element of the cost base and reduced cost base if:

- you didn't incur expenditure to acquire the asset
- some or all of the expenditure you incurred can't be valued
- you didn't deal at arm's length with the previous owner in acquiring the asset.

This is known as the market value substitution rule for cost base and reduced cost base.

There are exceptions to the market value substitution rule. One exception is where shares in a company, or units in a unit trust, are issued or allotted to you but you didn't pay anything for them.

You don't include expenditure you subsequently recoup (such as an insurance payout you receive or an amount paid for by someone else) in the cost base and reduced cost of a CGT asset, except to the extent the recouped amount is included in your assessable income.

Example 6: recouped expenditure

John bought a building in 2000 for $200,000 and incurred $10,000 in legal costs associated with the purchase. As part of a settlement, the vendor agreed to pay $4,000 of the legal costs. John didn't claim as a tax deduction any part of the $6,000 he paid in legal costs.

He later sells the building. As he received reimbursement of $4,000 of the legal costs, in working out his capital gain, he includes only the $6,000 he incurred in the cost base.

If you acquire a CGT asset and only part of the expenditure relates to the acquisition of the CGT asset, you can only include that part of the expenditure that is reasonably attributable to the acquisition of the asset in its cost base and reduced cost base.

Apportionment is also required if you incur expenditure and only part of that expenditure relates to another element of the cost base and reduced cost base.

Similarly, if a CGT event happens only to part of your CGT asset, you generally apportion the asset's cost base and reduced cost base to work out the capital gain or capital loss from the CGT event.

General value shifting regime

Value shifting generally occurs when a dealing or transaction between 2 parties isn't at market value. It results in the value of one asset decreasing and (usually) the value of another asset increasing. The general value shifting regime (GVSR) rules apply to value shifts that arise:

- because interests in a company or trust are issued or bought back at other than market value, or because their rights are varied so that the value of some interests increases while the value of others decreases (direct value shifts on interests)
- because 2 entities under the same control or ownership conduct dealings or transactions that are neither at market value nor arm's length, so that the value of interests in one entity decreases while (usually) the value of interests in the other entity increases (indirect value shifting)
- from the creation of a right over a non-depreciating asset in favour of an associate for less than market value (direct value shifts by creating rights).

The rules on direct value shifts on interests target only equity or loan interests held by an individual or entity that controls the company or trust, the controller's associates and, if the company or trust is closely held, any active participants in the arrangement. The indirect value shifting rules target only equity or loan interests held by an individual or entity that controls the 2 entities conducting the dealing or transaction and the controller's associates. But if the 2 entities are closely held, the rules also target equity or loan interests held by 2 or more common owners of those entities, the common owner's associates and any active participants in the arrangement.

There are also exclusions and safe harbours that limit the operation of the rules.

If the rules apply, you may need to adjust either:

- the cost base and reduced cost base of equity and loan interests affected by the value shift
- a realised loss or gain on the disposal of the relevant assets.

In some cases, there may also be an immediate capital gain. For more information, see General value shifting regime – who it affects.

Other special rules

There are other rules that may affect the cost base and reduced cost base of an asset – for example, they are calculated differently:

- if the asset is your main residence and you use it to produce income for the first time after 20 August 1996, see Real estate and main residence
- if you receive the asset as a beneficiary or as the legal personal representative of a deceased estate, see Deceased estates
- for bonus shares or units, rights and options and convertible notes, see Investments in shares and units
- under a demerger
- where you have been freed from paying a debt, see Debt forgiveness
- where you start or cease to have a financial arrangement as consideration for acquiring a CGT asset, see Guide to the taxation of financial arrangements (TOFA)
- for eligible shares in an early stage innovation company (ESIC) that have been continuously held for 10 years or the subject of certain CGT rollovers, see How does CGT apply to qualifying shares and How does the modified CGT treatment apply to a rollover?

Debt forgiveness

A debt is forgiven if you're freed from the obligation to pay it. Commercial debt forgiveness rules apply to debts forgiven after 27 June 1996. A debt is a commercial debt if part or all of the interest payable on the debt is, or would be, an allowable deduction. Under the commercial debt forgiveness rules, a forgiven amount may reduce (in the following order) your:

- prior income year revenue losses
- net capital losses from earlier years
- deductions for capital allowances and some similar deductions
- assets' cost base and reduced cost base.

These rules don't apply if the debt is forgiven either:

- as a result of an action under bankruptcy law
- in a deceased person's will
- for reasons of natural love and affection.

The rules also don't apply if:

- the debt is waived and the waiver constitutes a fringe benefit
- the amount of debt has been, or will be included in your assessable income in any income year
- the debt is a tax-related liability.

Example 7: applying a forgiven debt

On 1 July 2024, Josef had available net capital losses from earlier years of $9,000. On 3 January 2025, he sold shares he had owned for more than 12 months for $20,000. They had a cost base (no indexation) of $7,500. On 1 April 2025, a commercial debt of $15,000 that Josef owed to AZC Pty Ltd was forgiven. Josef had no prior income year revenue losses and no deductible capital expenditure. Josef must use part of the forgiven commercial debt amount to wipe out his net capital losses from earlier years and the rest to reduce the cost base of his shares. He works out the amount of net capital gain to include in his assessable income as follows.

Step 1: Adjust net capital losses from earlier years

- The available net capital losses from earlier years is $9,000.
- *Subtract* the debt forgiveness adjustment of $9,000:
  $9,000 – $9,000 = $0
- The adjusted net capital losses from earlier years is **$0** (Zero).

Step 2: Adjust cost base

- The cost base of shares (no indexation) is $7,500.
- *Subtract* the debt forgiveness adjustments of $6,000:
  $7,500 – $6,000 = $1,500
- The adjusted cost base (no indexation) is **$1,500.**

Step 3: Calculate net capital gain

- The sale of shares is $20,000.
- *Subtract* the adjusted cost base (no indexation) of $1,500:
  $20,000 – $1,500 = $18,500
- *Subtract* the adjusted net capital losses from earlier years of $0:
  $18,500 – $0 = $18,500
- The capital gain (eligible for discount) is $18,500.
- Subtract the discount percentage (50%) of $9,250:
  $18,500 – $9,250 = $9,250
- The net capital gain is **$9,250.**

Acquiring CGT assets

Generally, you acquire a CGT asset when you become its owner. You may acquire a CGT asset for the following reasons:

- Someone else has a CGT event (for example, the transfer of land to you under a contract of sale). If you acquired an asset because of a CGT event, you're generally taken to have acquired the asset at the time of the CGT event. For example, if you enter into a contract to purchase a CGT asset, the time of acquisition is when you enter into the contract. However, if you obtain an asset without entering into a contract, the time of acquisition is when you start being the asset's owner.
- Other events or transactions happen that aren't the result of someone else having a CGT event. For example, if a company issues or allots shares to you (which isn't a CGT event), you acquire the shares when you enter into a contract to acquire them or, if there is no contract, at the time of their issue or allotment.
- Other special CGT rules apply. For example, if a CGT asset passes to you as a beneficiary of someone who has died, you're taken to have acquired the asset on the date of the person's death. Also, if you start using your main residence to produce income for the first time after 20 August 1996, you're taken to have acquired it at its market value at the time it is first used to produce income.

Time of acquisition

The time at which a CGT asset is acquired is important for 5 reasons:

1. CGT generally doesn't apply to assets acquired before 20 September 1985 (pre-CGT assets).
2. Different cost base rules apply to assets acquired at different times – for example, the costs of owning an asset (see Third element: costs of owning the asset) aren't included in the cost base if you acquired it before 21 August 1991.
3. It determines whether the cost base can be indexed for inflation and the extent of that indexation, see How to work out your capital gain or capital loss.
4. It determines whether you're eligible for the CGT discount – for example, one requirement is that you need to have owned the CGT asset for at least 12 months, see How to work out your capital gain or capital loss.
5. It determines whether you're eligible for modified CGT treatment – for example, a capital gain on eligible shares in an ESIC is disregarded if the shares were held continuously for at least 12 months but less than 10 years, see Exemptions and rollovers.

Compensation

There can be CGT consequences when you receive compensation.

You disregard some capital gains made as a result of you receiving compensation, for example, compensation for personal injury or compensation payable under certain government programs. For details of other compensation you disregard, see Exemptions. You may defer a capital gain made as a result of compensation for the loss, destruction or compulsory acquisition of an asset.

A compensation payment may relate to the disposal of, or permanent damage to, an underlying asset. The underlying asset is the most relevant asset to which the compensation amount is most directly related. For example, if you receive compensation for damage to a rental property, the most relevant asset (the underlying asset) is the rental property.

If the payment:

- relates to the disposal (in whole or part) of an underlying asset, the compensation is treated as additional capital proceeds for the disposal of that asset
- relates to permanent damage to, or permanent reduction in the value of, an underlying asset, the compensation is treated as a recoupment of all or part of the acquisition cost of the asset (that is, you reduce the cost base and reduced cost base by the amount of the compensation)
- isn't for an underlying asset, it relates to the disposal of the right to seek compensation. The capital gain or capital loss will be the difference between the incidental costs and the compensation received.

For more information, see Taxation Ruling TR 95/35 *Income tax: capital gains: treatment of compensation receipts.*

Foreign residents, temporary residents and changing residency

There are special CGT rules that apply if you're a foreign resident or if you become or stop being an Australian resident. Unless otherwise specified, 'Australian resident' means a resident of Australia for tax purposes. There are also specific rules for Australian residents and foreign residents who are also temporary residents. These rules don't affect pre-CGT assets.

For periods when you're a foreign resident or temporary resident only certain assets are subject to CGT. When you become an Australian resident or stop being one, the range of assets on which you pay CGT in Australia changes.

You may no longer receive the full 50% discount on capital gains made on taxable Australian property if you're an individual, a beneficiary of a trust, or a partner in a partnership and either:

- a foreign or temporary resident
- an Australian resident with a period of foreign residency or temporary residency.

For more information, see CGT discount for foreign residents.

Foreign residents

If you're a foreign resident, you're subject to CGT if a CGT event happens to a CGT asset that is ‘taxable Australian property’.

There are specific rules where the CGT asset is a share or right acquired under an employee share scheme and you're or have been a temporary resident.

For more information, see ESS – Foreign income exemption for Australian residents and temporary residents.

Taxable Australian property

Taxable Australian property includes:

- a direct interest in real property situated in Australia or a mining, prospecting or quarrying right to minerals, petroleum and quarry materials situated in Australia
- a CGT asset that you have used at any time in carrying on a business through a permanent establishment in Australia
- an indirect Australian real property interest (which is an interest in an entity, including a foreign entity, where you and your associates hold 10% or more of the entity and the value of your interest is principally attributable to Australian real property).

Taxable Australian property also includes an option or right over one of the above.

For CGT events happening on or after 20 May 2009, a leasehold interest in land situated in Australia is 'real property situated in Australia'.

Certain CGT assets will also be taken to be taxable Australian property. See Choosing to disregard capital gains and capital losses when you cease being an Australian resident.

If you're a foreign resident, or the trustee of a trust that was not a resident trust for CGT purposes, and all of the following apply:

- you acquired a post-CGT indirect Australian real property interest before 11 May 2005
- that interest didn't have the necessary connection with Australia but is taxable Australian property
- you are taken to have acquired it on 10 May 2005 for its market value on that day.

If you're a foreign resident and have entered into a transaction on or after 1 July 2016 to dispose of a CGT asset of yours that is taxable Australian property, payments made to you in that transaction may be subject to withholding.

For more information, see Foreign residents and capital gains tax.

Temporary residents

Temporary residents are subject to the same CGT rules as foreign residents. However, there are specific rules where the CGT asset is a share or right acquired under an employee share scheme and you're, or have been, a temporary resident. For more information, see ESS – Foreign income exemption for Australian residents and temporary residents.

This means, if you're a temporary resident, you'll be subject to CGT on CGT events that happen to taxable Australian property.

You're a temporary resident, as well as an Australian or foreign resident, if you meet all of the following:

- hold a temporary visa granted under the *Migration Act 1958*
- aren't an Australian resident within the meaning of the *Social Security Act 1991*
- don't have a spouse who is an Australian resident within the meaning of the *Social Security Act 1991*.

The *Social Security Act 1991* defines an Australian resident as a person who resides in Australia and is an Australian citizen, the holder of a permanent visa, or a protected special category visa holder.

Anyone who is an Australian resident for tax purposes after 6 April 2006, but isn't a temporary resident, can't later become a temporary resident, even if they later hold a temporary visa.

Ceasing to be a temporary resident

If you cease being a temporary resident and remain an Australian resident, then you're taken to have acquired assets (other than assets you acquired before 20 September 1985) that aren't taxable Australian property for their market value at the time you ceased being a temporary resident. There is an exception to this rule for employee shares and rights.

Becoming a resident

When you become an Australian resident (other than a temporary resident), you're taken to have acquired certain assets at the time you became a resident, for their market value at that time.

This doesn't apply to assets you acquired before 20 September 1985 (pre-CGT assets) and assets that were taxable Australian property.

If you have become a resident, the general cost base rules apply to any CGT assets that are taxable Australian property.

Ceasing to be an Australian resident

If you cease being an Australian resident, or ceased being a resident trust for CGT purposes, you're taken to have disposed of each of your assets that aren't taxable Australian property for their market value at the time you ceased being a resident. In the case of any indirect Australian real property interests and options or rights to acquire such interests, you're taken to have immediately reacquired these assets for their market value.

For more information, see Taxable Australian property.

Exemption for a temporary resident

If you're a temporary resident when you cease to be an Australian resident, you're not taken to have disposed of any of your assets.

Choosing to disregard capital gains and capital losses

If you're an individual, you can choose to disregard all capital gains and capital losses you made when you stopped being a resident.

If you ceased being a resident and make this choice, the assets are taken to be taxable Australian property until the earlier of either:

- a CGT event happening to the assets that involves you ceasing to own the assets (for example, their sale or disposal)
- you again becoming an Australian resident.

The effect of making this choice is that the increase or decrease in value of the assets from the time you cease being a resident to the time of the next CGT event, or of you again becoming a resident, is also taken into account in working out your capital gains or capital losses on those assets.

Choices

There are a number of provisions in the CGT laws that allow you to make a choice.

Some of the provisions allow you to defer or roll over a capital gain you make when a CGT event happens (such as exchanging an asset for a replacement asset) until a later CGT event (such as selling the replacement asset).

When and how you make a choice

The general rule under CGT law is that you must make a choice by the day you lodge your income tax return for the income year in which the relevant CGT event happened.

The way you prepare your tax return is sufficient evidence of your choice. However, there are some exceptions:

- companies must make some decisions about replacement asset rollovers earlier
- choices relating to amounts disregarded under the small business retirement exemption must be made in writing
- choices relating to the assessment of capital gains of resident testamentary trusts must be made by a trustee within a specific period.

Once you make such a choice, it can't be changed. Your choice is binding.

However, there are some circumstances when we consider that you have not made a choice. These are if you lodge your tax return without being aware that either:

- events have happened that required you to make a choice
- a choice was available.

In these circumstances, we may allow you more time to make a choice.

Factors to be considered for an extension of time

To determine if more time should be allowed, we consider factors such as whether:

- you have an acceptable explanation for not making the choice by the time it should have been made
- it would be fair and equitable in the circumstances to allow you more time to make a choice
- prejudice to the Commissioner of Taxation (Commissioner) may result from additional time being allowed to you (note that the absence of prejudice by itself isn't enough to justify the granting of an extension)
- it would be fair and equitable to people in similar positions and the wider public interest
- any mischief is involved.

Each case is decided on its own merits.

How to request an extension of time to make a choice

If you have lodged a tax return without knowing a choice was available to you under CGT law and you want to find out how to make a request for more time to make the choice, see Applying for an extension on a capital gain rollover.

Examples of choices available under capital gains tax

CGT choices you can make include:

- You may use the indexation method rather than the CGT discount method if a CGT event happens to a CGT asset you acquired before 21 September 1999 (or are taken to have acquired before that date for the purpose of using those methods). See Choosing the indexation or discount method.
- You may make a capital loss for the income year in which a liquidator or administrator declares in writing that shares or securities held in a company are worthless. See Shares in a company in liquidation or administration.
- You may roll over a capital gain if a company in which you hold shares is taken over and you receive shares in the takeover company and the takeover meets certain conditions. This is known as a scrip for scrip rollover. It can also apply if a trust or fund in which you hold units is taken over and you receive units in the takeover trust or fund. The company, trust or fund will usually advise investors if the conditions for rollover are met. See Scrip for scrip rollover.
- You may roll over a capital gain if you hold shares in a company that demerges (or splits), you receive shares in the demerged company, and the demerger meets certain conditions. A rollover can also apply if you hold units in a trust or fund that demerges and you receive units in the demerged trust or fund. The head company or head trust or fund will usually advise investors if the conditions for a rollover are met. See Demergers.
- You may rollover a capital gain if you receive money or property (or both) as compensation for the loss or destruction of an asset or for the compulsory acquisition of property if certain conditions are met. See Loss, destruction or compulsory acquisition of an asset.
- You may treat a dwelling as your main residence even though
  - you no longer live in it (see Continuing main residence status after dwelling ceases to be your main residence)
  - you're yet to live in it but will do so as soon as practicable after it is constructed, repaired or renovated and will continue to live in it for at least 3 months (see Constructing, renovating or repairing a dwelling on land you already own).

You make the choice when you prepare your income tax return for the income year in which you enter into the contract to sell the dwelling. If you own both the dwelling that you can choose to treat as your main residence for one of the periods above and the dwelling you actually lived in during that period, then you make the choice for the income year in which you enter into the contract to sell the first of those dwellings.

Exemptions and rollovers

There are exemptions and rollovers that may allow you to reduce, defer or disregard your capital gain or capital loss.

If you have to complete a CGT schedule, you may need to provide information regarding the capital gains reduced or disregarded. For more information, see:

- for individuals – question 18 Capital gains.
- for companies, trusts and funds – Capital gains tax schedule and instructions 2025.

There is no general rollover or exemption for a capital gain you make when you sell an asset and:

- put the proceeds into a super fund
- use the proceeds to purchase an identical or similar asset
- transfer an asset into a super fund.

For example, if you sell a rental property and put the proceeds into a super fund, or use the proceeds to purchase another rental property, a rollover isn't available.

If you're a small business entity, there are concessions that allow you to reduce, defer or disregard your capital gain when you sell your business assets. These concessions are in addition to the CGT exemptions and rollovers available more widely.

For more information, see Small business CGT concessions.

Exemptions

Generally, capital gains and capital losses from pre-CGT assets (that is, an asset you acquired before 20 September 1985) are exempt. However, CGT event K6 can result in capital gains if certain CGT events happen to pre-CGT shares in a company or to pre-CGT interests in a trust. See Taxation ruling TR 2004/18 *Income tax: capital gains: application of CGT event K6 (about pre-CGT shares and pre-CGT trust interests) in section 104-230 of the Income Tax Assessment Act 1997*.

Another important exemption is for a capital gain or capital loss you make from a CGT event relating to a dwelling that was your main residence. This rule can change depending on how you came to own the dwelling and what you have done with it, for example, if you rented it out. For more information, see Real estate and main residence.

Capital gains and capital losses that are also disregarded include those you make from:

- a car (that is, a motor vehicle designed to carry a load of less than one tonne and fewer than 9 passengers) or motorcycle or similar vehicle
- a decoration awarded for valour or brave conduct, unless you paid money or gave any other property for it
- collectables acquired for $500 or less
- a capital gain from a personal use asset acquired for $10,000 or less
- any capital loss from a personal use asset
- CGT assets used solely to produce exempt income or some amounts of non-assessable non-exempt income (that is, tax-free income)
- a CGT asset that is your trading stock at the time of a CGT event
- certain profits, gains or losses resulting from the disposal of shares in a pooled development fund, see Appendix 7 of the *Company tax return instructions 2025*
- compensation or damages you receive for any
  - wrong or injury you suffer in your occupation
  - wrong, injury or illness you or your relatives suffer
- compensation you receive under the firearms surrender arrangements
- winnings or losses from gambling, a game or a competition with prizes
- transferring an asset into a Special Disability Trust for no consideration
- a reimbursement or payment of your expenses (but not for the loss, destruction or transfer of an asset) under a scheme established
  - by an Australian Government agency, a local government body or foreign government agency
  - under an Act or legislative instrument (for example, regulations or local government by-laws)
- a reimbursement or payment of expenses under the Unlawful Termination Assistance Scheme or the Alternative Dispute Resolution Assistance Scheme
- a reimbursement or payment of your expenses under the General Practice Rural Incentives Program or the Rural and Remote General Practice Program
- a reimbursement or payment made under the M4/M5 Cashback Scheme
- a right or entitlement to a tax offset, deduction or a similar benefit under an Australian law, under the law of a foreign country or part of a foreign country
- some types of testamentary gifts
- assignment of a right under, or for, a general insurance policy held with an HIH company, to the Commonwealth, the trustee of the HIH trust or a prescribed entity
- your rights being created or your rights ending for making a super agreement (as defined in the *Family Law Act 1975*), the termination or setting aside of such an agreement or such an agreement otherwise coming to an end
- the ending of rights that directly relate to the breakdown of your marriage or relationship, including cash you receive as part of your marriage or relationship breakdown settlement
- a CGT event happening for a segregated current pension asset (made by a complying super entity)
- in certain circumstances, a general insurance policy, a life insurance policy or an annuity instrument
- in certain circumstances, the disposal of eligible venture capital investments made by a venture capital limited partnership (VCLP), an early stage venture capital limited partnership (ESVCLP) or an Australian venture capital fund of funds (AFOF), see Venture capital and early stage venture capital limited partnerships
- eligible shares in an ESIC you have held continuously for less than 10 years and, in the case of capital gains, the shares were also held for at least 12 months, see How does CGT apply to qualifying shares
- a financial arrangement where gains and losses are calculated under the TOFA rules, see section 118-27 of the *Income Tax Assessment Act 1997* (ITAA 1997)
- certain CGT events happening to shares held by an Australian resident company that represents a non-portfolio interest in a foreign company to the extent the foreign company has an underlying active business (Subdivision 768-G of the ITAA 1997)
- ceasing to hold an eligible vessel to the extent it is used to produce certain exempt income, see subsection 104-235(1AA) of the ITAA 1997.

Other exemptions: capital gains

You may reduce your capital gain if, because of a CGT event, you have included an amount in your assessable income other than as a capital gain. For example, if you make a profit on the sale of land that is included in your assessable income as ordinary income, you don't also include that profit as a capital gain.

There is a range of concessions that allow you to disregard part or all of a capital gain made from an active asset you use in your small business.

For more information, see Small business CGT concessions.

Other exemptions: capital losses

You disregard any capital loss you make:

- from the expiry, forfeiture, surrender or assignment of a lease if the lease isn't used solely or mainly for the purpose of producing assessable income
- from a payment to any entity of personal services income that is included in an individual's assessable income under the alienation of personal services income provisions, or any other amount attributable to that income
- as an exempt entity.

Other exemptions: Norfolk Island residents

There are special rules for when CGT will apply to assets held by Norfolk Island residents. The references in this guide to 20 September 1985 apply in relation to the asset as if they were references to 24 October 2015, if both of the following apply:

- on or before 23 October 2015 you
  - were a Norfolk Island resident
  - acquired and held the CGT asset
- any capital gain or loss from a CGT event in relation to the asset would have been disregarded (because you were a Norfolk Island resident) if the CGT event in relation to the asset had instead happened immediately before 24 October 2015.

For more information, see Norfolk Island tax and super.

Other exemptions: granny flat arrangements

From 1 July 2021, no CGT event arises to eligible individuals on certain granny flat arrangements if the arrangement satisfies the requirements of the provisions. The CGT exemption will apply to the creation, variation or termination of a granny flat arrangement.

There are requirements that need to be satisfied for the CGT event not to happen:

- The individual is eligible for the granny flat interest if they have reached pension age or have a disability that means they require assistance for most day-to-day activities for at least 12 months.
- An individual owns the dwelling where the granny flat interest is held, or is to be held, at the time of entering into or varying the arrangement, or agrees to acquire such a dwelling under the arrangement.
- Both the individual who is to hold the granny flat interest, and the individual who owns or agrees to acquire the dwelling where the granny flat interest is to be held, are parties to the arrangement.
- The arrangement is in writing and indicates an intention for the parties to be legally bound by it.
- The arrangement isn't of a commercial nature.

Granny flat interest

A 'granny flat interest' in a dwelling is a right (put in place under a granny flat arrangement) to occupy that dwelling for life.

A granny flat interest doesn't have to relate to properties often referred to as 'granny flats' as it isn't a description of the type of property. An individual can have a granny flat interest in a wide range of properties, such as a family home, or a family's rental property or holiday home.

The property that an individual has the right to occupy for life will not change its CGT status as a result of the granny flat arrangement. For example, if the property is eligible for the main residence exemption, the granny flat arrangement will not change this. If the property isn't eligible for the main residence exemption, a granny flat arrangement will not make it eligible. This is because the asset arising from the granny flat arrangement is the right to occupy a property, not the property itself.

Dwelling

Under this measure, the term refers to the dwelling the individual has the right to occupy because of the granny flat interest.

'Dwelling' is a unit of accommodation, such as a residential home, and includes the land beneath the home.

For more information see Granny flat arrangements and CGT.

Rollovers

You may defer or disregard (that is, rollover) a capital gain or capital loss until a later CGT event happens. The types of rollovers available are listed below. Only the first 4 types are covered in detail in this guide. If you would like information on the others, contact us.

Marriage or relationship breakdown

In certain cases where an asset or a share of an asset is transferred from one spouse to another after their marriage or relationship breaks down, any CGT is automatically deferred until a later CGT event happens. For example, until the former spouse sells the asset to someone else. For more examples of how CGT obligations are affected by marriage or relationship breakdown, see Marriage or relationship breakdown.

Loss, destruction or compulsory acquisition of an asset

You may defer a capital gain in some cases where a CGT asset has been lost, destroyed or is compulsorily acquired.

For more information, see Loss, destruction or compulsory acquisition of an asset.

Scrip for scrip

You may be able to defer a capital gain if you dispose of your shares in a company or interest in a trust as a result of a takeover, see Scrip for scrip rollover.

Demergers

You may be able to defer a capital gain or capital loss if a CGT event happens to your shares in a company or interest in a trust as a result of a demerger, see Demergers.

Other replacement asset rollovers

You may be able to defer a capital gain or capital loss when you replace an asset in the following circumstances:

- an individual or trustee disposes of assets to, or creates assets in, a wholly owned company
- partners dispose of assets to, or create assets in, a wholly owned company
- a CGT event happens to small business assets and you acquire replacement assets
- your statutory licence ends and is replaced with another statutory licence or licences which authorises substantially similar activity to the original licence or licences
- you're a financial service provider who had assets (for example, licences) replaced on transition to the financial services reform (FSR) regime
- your property is converted to strata title
- you exchange shares in the same company or units in the same unit trust
- you exchange rights or options to acquire shares in a company or units in a unit trust
- you exchange shares in one company for shares in an interposed company
- you exchange units in a unit trust for shares in a company
- a body is converted to an incorporated company
- you acquire a Crown lease
- you acquire a depreciating asset
- you acquire prospecting and mining entitlements
- you dispose of a security under a securities lending arrangement
- a trust restructure ends your ownership of units or interests
- a membership interest in a medical defence organisation (MDO) is replaced with a similar membership interest in another MDO and both MDOs are companies limited by guarantee
- you replace an entitlement to water with one or more different water entitlements.

If you would like information on these rollovers, contact us or your recognised tax adviser.

Other same asset rollovers

You may be able to defer a capital gain or capital loss when you transfer or dispose of assets in the following circumstances:

- an individual or trustee transfers a CGT asset to a wholly owned company
- a partner transfers their interest in a CGT asset to a wholly owned company
- a CGT asset is transferred between related companies
- a trust disposes of a CGT asset to a company under a trust restructure
- a CGT event happens because of a change to a trust deed of a complying approved deposit fund, a complying super fund or a fund that accepts worker entitlement contributions
- a CGT asset is transferred from one small super fund to another complying super fund because of a marriage or relationship breakdown
- a trustee of a trust creates a trust over a CGT asset or transfers a CGT asset to another trust where both the transferring and receiving trusts meet certain requirements.

If you would like information on these rollovers, contact us or your recognised tax agent.

CGT and foreign exchange gains and losses

A CGT asset can be denominated in a foreign currency and foreign currency cash itself can be a CGT asset. Gains or losses that you make during the period that you hold such assets will generally be taxed as a capital gain or capital loss respectively. However, if dealings with foreign currency denominated assets give rise to rights to receive or obligations to pay foreign currency, the rights or obligations may be subject to the foreign exchange (forex) provisions when a right or obligation ceases. For example, if a contract you enter into to sell an overseas rental property is denominated in foreign currency, you'll have a right to receive foreign currency (being the sale price of the rental property). The right ceases on payment of the foreign currency. Such rights and obligations will usually arise on the acquisition or disposal of a CGT asset.

A forex gain or loss commonly arises for the acquisition or disposal of a CGT asset denominated in foreign currency, where there is a currency exchange rate fluctuation between the date you entered into the contract and the date of settlement of the contract (when payment occurs). Currency fluctuations between the date of acquisition and date of disposal of a CGT asset are taken into account when the cost base and capital proceeds are translated into Australian currency.

It may be that the gain or loss you make on the ending of rights for foreign currency, a disposal of foreign currency or a right to receive foreign currency is taxable under both CGT and the forex measures. Generally, to the extent that both the forex measures and CGT bring to account a forex gain or loss, the forex measures take precedence. That is the forex gain or loss is brought to account only under the forex provisions.

In addition, if the TOFA rules apply to you, your foreign exchange gains and losses may be brought to account under those TOFA rules instead of the forex measures.

For more information, see Guide to the taxation of financial arrangements (TOFA).

Short-term foreign exchange gains and losses rules

Some short-term foreign exchange (forex) gains or losses will be treated as capital gains or capital losses. This arises under transactions for the acquisition or disposal of certain CGT assets. In such cases, CGT events K10 or K11 will happen, which will result in the forex gain or loss being integrated into the tax treatment of the CGT asset. Or they are matched to the character of the gain or loss that would arise from the disposal of the asset. For the short-term rules to apply, the due date for payment must be within 12 months of acquiring or disposing of the asset.

For more information, see Capital assets and the 12-month rule.

Translating (converting) CGT assets to Australian dollars

For information on what exchange rates to use in translating foreign currency amounts into Australian currency, see Translation (conversion) rules.

Examples of the application of forex rules to CGT assets

For examples of the application of the forex rules to acquisitions and disposals of foreign currency denominated CGT assets, see Common forex transactions.

CGT and depreciating assets

Under the uniform capital allowance (UCA) system, a capital gain or capital loss may arise from the disposal of a depreciating asset. It will only arise to the extent that you have used the asset for a non-taxable purpose (for example, for private purposes).

You calculate a capital gain or capital loss from a depreciating asset used for a non-taxable purpose using the UCA concepts of cost and termination value. You don't use the concepts of capital proceeds and cost base found in the CGT provisions.

If a balancing adjustment event occurs for a depreciating asset that you have at some time used for a non-taxable purpose, a CGT event happens. See CGT event K7 in Appendix 1. The most common balancing adjustment event for a depreciating asset occurs when you stop holding it (for example, you sell, lose or destroy it) or stop using it.

Calculating a capital gain or loss for a depreciating asset

You make a capital gain if the termination value of your depreciating asset is greater than its cost. You make a capital loss if the reverse is the case, that is, the asset's cost is more than its termination value.

You use different formulas to calculate a capital gain or capital loss depending on whether the asset is in a low-value pool or not.

Depreciating asset not in a low-value pool: capital gain

If your depreciating asset isn't a pooled asset, you calculate the capital gain as follows:

(termination value − cost) × (total of reductions note 1 ÷ total decline note 2)

Depreciating asset not in a low-value pool: capital loss

You calculate the capital loss from a depreciating asset that isn't a pooled asset as follows:

(cost – termination value) × (total of reductions (note 1 ÷ total decline note 2)

Example 8: capital gain on depreciating asset

Larry purchased a truck in August 2023 for $25,000 and sold it in June 2025 for $27,000. He used the truck 10% of the time for private purposes. The decline in value of the truck under the UCA system up to the date of sale was $2,000. Therefore, the total of his reductions relating to his private use is $200 (10% of $2,000). Larry calculates his capital gain from CGT event K7 as follows:

($27,000 – $25,000) × (200 ÷ 2,000)

Capital gain from CGT event K7 = $200 (before applying any discount).

Depreciating asset in a low-value pool: capital gain

You calculate the capital gain from a depreciating asset in a low-value pool as follows:

(termination value – cost) × (1 – taxable use fraction (note 3))

Depreciating asset in a low-value pool: capital loss

You calculate the capital loss from a depreciating asset in a low-value pool as follows:

(cost – termination value) × (1 – taxable use fraction (note 3))

Notes

1. The **total of the reductions** in your deductions for the asset's decline in value that is attributable to either
   - your use of the asset
   - having it installed ready for use, for a non-taxable purpose.
2. The **decline in the value** of the depreciating asset since you started to hold it.
3. **Taxable use fraction** is the percentage of the asset's use that is for producing your assessable income, expressed as a fraction. This is the percentage you reasonably estimate at the time you allocated the asset to the low-value pool.

Application of CGT concessions

A capital gain from a depreciating asset may qualify for the CGT discount if the relevant conditions are satisfied. If the CGT discount applies, there is no reduction of the capital gain under the indexation method.

The small business CGT concessions don't apply to a capital gain made from the disposal of a depreciating asset. This is because a capital gain can only arise out of such an asset's use for non-taxable purposes (for example, to the extent it is used for private purposes).

For more information, see How to work out your capital gain or capital loss.

Do any CGT exemptions apply to a depreciating asset?

Exemptions may apply to a capital gain or capital loss made from the disposal of a depreciating asset:

- pre-CGT assets – you disregard a capital gain or capital loss from a depreciating asset if the asset was acquired before 20 September 1985
- personal use asset
  - if a depreciating asset is a personal use asset (that is, one used or kept mainly for personal use and enjoyment), you disregard any capital loss from CGT event K7
  - you also disregard a capital gain under CGT event K7 from a personal use asset costing $10,000 or less
- collectables – you disregard a capital gain or a capital loss from a depreciating asset that is a collectable costing $500 or less
- balancing adjustment event and CGT event – you only include a balancing adjustment event that gives rise to a capital gain or capital loss under CGT event K7. However, capital proceeds received under other CGT events (for example, CGT event D1, see Appendix 1) may still be relevant for a depreciating asset as CGT events aren't the equivalent of balancing adjustment events.

Treatment of intellectual property

Under the capital allowance rules, intellectual property is a depreciating asset.

If you grant or assign an interest in an item of intellectual property, you're treated as if you had stopped holding part of the item. You're also treated as if, just before you stop holding that part, you had split the original item of intellectual property into 2 parts. That is, the part you stopped holding and the rest of the original item. You determine a first element of the cost for each part.

This treatment applies if a licence is granted over an item of intellectual property. To this extent, the treatment of intellectual property is different from other depreciating assets. The granting of a licence in respect of other depreciating assets would result in CGT event D1 (about creating contractual rights) happening. For more information, see Guide to depreciating assets 2025.

Where to now?

How to work out your capital gain or capital loss explains how to calculate a capital gain using one of the 3 methods:

- indexation
- discount
- 'other'.

Trust distributions and your CGT position explains how to calculate your capital gain if a managed fund or trust has distributed a capital gain to you. You must take into account capital gains included in trust distributions in working out your net capital gain or net capital loss.

For more specific directions on how to complete your tax return, see:

- for individuals –question 18 Capital gains 2025
- for companies, trusts and funds – Capital gains tax schedule and instructions 2025 (individuals who use the worksheets may find steps 1, 2 and 3 useful, ignore the word ‘entity’).

How to work out your capital gain or capital loss

How to work out each capital gain or capital loss you made during 2024–25.

In this section

Overview

The following information doesn't explain how to work out your net capital gain or net capital losses carried forward to later income years. If you're completing the *Tax return for individuals (supplementary section) 2025* and want more information on how to calculate your net capital gain for 2024–25 or net capital losses carried forward to later income years (including how to deduct any unapplied net capital losses from earlier years), see question 18 Capital gains. For more information on companies, trusts and funds or on completing the *CGT summary worksheet*, see Capital gains tax schedule and instructions 2025.

Methods of calculating capital gains

There are 3 methods that are used to calculate a capital gain:

- The 'other' method
- The indexation method
- The discount method.

There is only one way to calculate a capital loss.

The 3 methods of calculating capital gains are summarised and compared in Table 2 below. They are explained in more detail in the following pages. In some cases, you may be able to choose either the discount method or the indexation method to calculate your capital gain. In these cases, you can use the method that gives you the better result.

The CGT summary worksheet for tax returns 2025 shows the 3 methods of calculating a capital gain. You're not obliged to use this worksheet, but you may find it helps you calculate your capital gain or capital loss for each CGT event.

Table 2: Capital gain calculation methods

Method type	Indexation method	Discount method	'other' method
Description of method	Allows you to increase the cost base by applying an indexation factor based on CPI up to September 1999	Allows you to discount your capital gain	Basic method of subtracting the cost base from the capital proceeds
When can you use the method	For an asset owned for 12 months or more. Use only for assets acquired before 11:45 am AEST on 21 September 1999.	For an asset owned for 12 months or more	You must use when the indexation and discount methods don't apply (for example, if you have bought and sold an asset within 12 months).
How to calculate your capital gain using the method	Apply the relevant indexation factor, see CPI table at Appendix 2, then subtract the indexed cost base from the capital proceeds, see worked example 13.	Subtract the cost base from the capital proceeds, deduct any capital losses, then reduce by the relevant discount percentage, see worked example 13.	Subtract the cost base (or the amount specified by the relevant CGT event) from the capital proceeds, see worked example 9.

The 'other' method

This is the simplest of the 3 methods. You must use the 'other' method to calculate your capital gain if you have bought and sold your asset within 12 months or generally for CGT events that don't involve an asset. In these cases, the indexation and discount methods don't apply.

Generally, to use the 'other' method, you simply subtract your cost base (what the asset cost you) from your capital proceeds (how much you sold it for). The amount of proceeds left is your capital gain. For some types of CGT events, a cost base isn't relevant. See Appendix 1 for the amounts to use.

Example 9: calculating a capital gain using the 'other' method

Marie-Anne bought a property for $250,000 under a contract dated 23 June 2024. The contract provided for the payment of a deposit of $25,000 on that date, with the balance of $225,000 to be paid on settlement on 4 August 2024.

Marie-Anne paid stamp duty of $5,000 on 20 July 2024. On 4 August 2024, she received an account for solicitor's fees of $2,000 which she paid as part of the settlement process.

Marie-Anne sold the property on 16 October 2024 (the day the contracts were exchanged) for $315,000. She incurred costs of $1,500 in solicitor's fees and $4,000 in agent’s commission.

As she bought and sold her property within 12 months, Marie-Anne must use the 'other' method to calculate her capital gain.

1. The cost base is **$262,500**, made up of:
   - purchase cost of $225,000 + deposit of $25,000 + $5,000 stamp duty
   - solicitor's fees for purchase of property $2,000
   - solicitor's fees for sale of property $1,500
   - agent's commission $4,000.
2. Marie-Anne works out her capital gain as follows:
   - capital proceeds of $315,000
   - *subtract* cost base of $262,500:
     $315,000 – $262,500 = $52,500
   - the capital gain calculated using the 'other' method is **$52,500**.

Assuming Marie-Anne has not made any other capital losses or capital gains in 2024–25, and doesn't have any unapplied net capital losses from earlier years, the net capital gain to be included at question **18** in her *Tax return for individuals (supplementary section) 2025* is $52,500.

The indexation method

Use the indexation method to calculate your capital gain if:

- a CGT event happened to an asset you acquired before 11:45 am AEST on 21 September 1999
- you owned the asset for 12 months or more.

If you're not a company and you meet the 2 conditions above and you wish to use the indexation method, you must choose to do so, otherwise the discount method will apply. If you're a company (other than a listed investment company) and the capital gain meets the conditions listed above, you must use the indexation method to calculate the capital gain. Specific rules affect certain assets of a life insurance company.

Under the indexation method, you increase each amount included in an element of the cost base (other than those in the third element, costs of owning the asset) by an indexation factor.

The indexation factor is worked out using the consumer price index (CPI) at Appendix 2.

If the CGT event happened on or after 11:45 am AEST on 21 September 1999, you can only index the elements of your cost base up to 30 September 1999.

You use this formula:

$$A = B \div C$$

Where:

- A is the indexation factor
- B is CPI for the quarter ending September 1999 (68.7)
- C is CPI for the quarter in which expenditure was incurred.

If the CGT event happened before 11:45 am AEST on 21 September 1999, you use this formula:

$$A = B \div C$$

Where:

- A is the indexation factor
- B is CPI for the quarter when CGT event happened
- C is CPI for the quarter in which expenditure was incurred.

Work out the indexation factor to 3 decimal places, rounding up if the 4th decimal place is 5 or more.

For most assets, you index expenditure from the date you incur it, even if you don't pay some of the expenditure until a later time. However, there is an exception for partly paid shares or units acquired on or after 16 August 1989. If the company or trust later makes a call on the shares or units, you use the CPI for the quarter in which you made that later payment.

There are some exceptions to the requirement that you must have owned an asset for at least 12 months for indexation to apply. For example, you can use the indexation method if you acquire either:

- a CGT asset as a legal personal representative or a beneficiary of a deceased estate. The 12-month requirement is satisfied if the deceased acquired the asset 12 months or more before you disposed of it
- an asset as the result of a marriage or relationship breakdown. You'll satisfy the 12-month requirement if the combined period your spouse and you owned the asset is more than 12 months.

The discount method

Use the discount method to calculate your capital gain if:

- you're an individual, a trust or a complying super entity
- a CGT event happens to an asset you own
- the CGT event happened after 11:45 am AEST on 21 September 1999
- you acquired the asset at least 12 months before the CGT event
- you didn't choose to use the indexation method.

In determining whether you acquired the CGT asset at least 12 months before the CGT event, you exclude both the day of acquisition and the day of the CGT event.

You can use the discount method to work out your capital gain from the property if you:

- acquire a property and construct a building or make improvements to it that aren't separate assets, see Separate assets
- owned the property for at least 12 months (even if you didn't construct the new building or improvements more than 12 months before the CGT event happened).

Example 10: discount method

Sally acquired a CGT asset on 2 February 2024. She is entitled to apply the CGT discount if a CGT event happened to that asset on or after 3 February 2025.

In certain circumstances, you may be eligible for the CGT discount even if you have not owned the asset for at least 12 months. For example:

- You acquire a CGT asset as a legal personal representative or as a beneficiary of a deceased estate. The 12-month requirement is satisfied if the asset was acquired by the deceased either
  - before 20 September 1985 and you disposed of it 12 months or more after they died
  - on or after 20 September 1985 and you disposed of it 12 months or more after they acquired it.
- You acquired a CGT asset as the result of a marriage or relationship breakdown and rollover applies. You'll satisfy the 12-month requirement if the combined period your spouse and you owned the asset was more than 12 months.
- A CGT asset was compulsorily acquired, lost or destroyed and you acquired a rollover replacement asset, you'll satisfy the 12-month requirement for the replacement asset if the period of ownership of the original asset and the replacement asset was at least 12 months.

Certain capital gains are excluded

The CGT discount doesn't apply to capital gains from certain CGT events. The CGT discount doesn't apply to these CGT events:

- D1 Creating contractual or other rights
- D2 Granting an option
- D3 Granting a right to income from mining
- E9 Creating a trust over future property
- F1 Granting a lease
- F2 Granting a long-term lease
- F5 Lessor receives payment for changing a lease
- H2 Receipt for an event relating to a CGT asset
- J2 Change for replacement asset or improved asset after a rollover under Subdivision 152-E
- J5 Failure to acquire replacement asset and to incur 4th element expenditure after a rollover under Subdivision 152-E
- J6 Cost of acquisition of replacement asset or amount of 4th element expenditure, or both, not sufficient to cover disregarded capital gain
- K10 Forex realisation gain.

The full list of CGT events is shown at Appendix 1.

If you make a capital gain from a CGT event that creates a new asset (for example, receiving a payment for agreeing not to do something; that is, entering into a restrictive covenant) you can't satisfy the 12-month ownership rule, so your CGT event doesn't qualify for the CGT discount.

The CGT discount may be denied:

- if the CGT event that gave rise to the capital gain occurred under an agreement that was made within 12 months of the acquisition of the asset
- on the disposal of certain shares or trust interests in non-widely held companies and trusts, that is, those with fewer than 300 members
- if an arrangement was entered into for the purposes of claiming the CGT discount under which an ‘income’ asset was converted into a ‘capital’ asset (conversion of income to capital) (Part IVA of the *Income Tax Assessment Act 1936*).

If the home first used to produce income rule applies and the period between when you first used the dwelling to produce income and the CGT event happening isn't at least 12 months, the discount method isn't available.

Discount percentage

The discount percentage is the percentage by which you reduce your capital gain. You can reduce the capital gain only after you have applied all the capital losses for 2024–25 and any unapplied net capital losses from earlier years.

The discount percentage is 50% for individuals and trusts.

You may no longer receive the full 50% discount on capital gains made on taxable Australian property if you're an individual, a beneficiary of a trust, or a partner in a partnership and you're either:

- a foreign or temporary resident
- an Australian resident with a period of foreign residency or temporary residency.

An additional CGT discount of up to 10% may be available to Australian resident individuals who provide affordable rental housing to people earning low to moderate income. This increases the CGT discount percentage to up to 60% for qualifying owners of these residential rental properties. To qualify, you must have provided affordable housing:

- on or after 1 January 2018 for a period or periods totalling at least 3 years (1,095 days), which may be aggregate usage over different periods
- either directly, or from a trust including where there is an interposed entity between you and the trust. The trust that provides the affordable housing and any interposed entities may be a trust, a managed investment trust or partnership, but can't be a public unit trust or super fund.

The number of days you may have provided affordable housing before 1 January 2018 will not be counted. For more information, see CGT discount for foreign residents.

Choosing the indexation or discount method

For assets you acquired before 11:45 am AEST on 21 September 1999 and have held for 12 months or more, you can choose to use the indexation method or the discount method to calculate your capital gain.

There is no one factor to use as a basis to select the better option as it depends on:

- the type of asset you own
- how long you have owned it
- the dates you owned it
- past rates of inflation.

Because capital losses must be offset against capital gains before the discount is applied, your choice may also depend on the amount of capital losses that you have available.

For more information, see Choices.

Example 11: comparison of discount and indexation methods

Justin sold some land and has a $10,000 capital gain under the discount method (before applying the CGT discount) or a $7,000 capital gain under the indexation method. If Justin has no capital losses, the discount method will produce the smaller capital gain (that is, $5,000).

However, Justin also made a capital loss of $5,000 on the sale of some shares. He will be better off using the indexation method to work out the capital gain from the sale of his land. Under this method, his net capital gain is $2,000 (that is, $7,000 subtract $5,000). If he used the discount method, his net capital gain would be $2,500 (that is $10,000 subtract $5,000, multiplied by 50%).

Example 12 shows that applying one method to work out your capital gains on a whole parcel of shares you acquired before September 1999 may not be to your advantage if you have capital losses or net capital losses to apply. In this situation, you'll get a better result if you apply the indexation method to sufficient shares to absorb the capital loss (or as much of the capital loss as you can) and apply the discount method to any remaining shares.

Example 12: capital gains on shares where you also have capital losses

Clare sold a parcel of 500 shares in March 2025 for $12,500, that is, for $25 each. She had acquired the shares in March 1995 for $7,500, that is, for $15 each, including stamp duty and brokerage. There was no brokerage on the sale. Clare had no other capital gains or capital losses in 2024–25, although she has $3,500 net capital losses carried forward from previous income years. Because Clare owned the shares for more than 12 months she can use the discount method or the indexation method to work out her capital gains, whichever gives her a better result. Clare decides to work out her net capital gain by applying both the discount method and the indexation method to the whole parcel of shares:

Comparison of indexation and discount methods

Calculation element	Using indexation method $	Using discount method $
Capital proceeds	12,500	12,500
Cost base	8,077 (see note 1) (acquisition cost × indexation factor)	7,500
Capital gain	4,423	5,000
subtract capital losses	3,500	3,500
Subtotal	923	1,500
CGT discount	Nil	750
Net capital gain	923	750

Note 1: $7,500 × 1.077 (indexation factor is 68.7 ÷ 63.8 = 1.077)

However, because each share is a separate asset, Clare can use different methods to work out her capital gains for shares within the parcel. The lowest net capital gain would result from her applying the indexation method to the sale of 395 (see note 2 below) shares, and the discount method to the remaining 105 shares. She works out her net capital gain as follows.

1. Indexation method (395 shares), calculated as follows:
   - capital proceeds ($25 each) are $9,875
   - cost base (395 × $15 × 1.077 each) is $6,381
   - capital gain is $3,494 ($9,875 – $6,381 = $3,494)
   - *subtract* capital losses of $3,500
   - capital gain/(loss) is **-$6.**

2. Discount method (105 shares), calculated as follows:
   - capital proceeds ($25 each) are $2,625
   - cost base (105 × $15) is $1,575:
   - capital gain is $1,050 ($2,625 – $1,575 = $1,050)
   - *subtract* any remaining capital losses of $6 ($1,050 – $6 = $1,044)
   - *subtract* the CGT discount of $522
   - the Net capital gain is **$522.**

Note 2: To calculate this, Clare worked out the capital gain made on each share using the indexation method ($4,423 ÷ 500 = $8.85) and divided the capital loss by this amount ($3,500 ÷ 8.85 = $395).

You can choose to calculate your capital gain using both methods to find out which gives you the better result. This is shown for Val in **example 13** and in the completed Capital gain or capital loss worksheet 2025.

Example 13: choosing the indexation or discount method

Val bought a property for $150,000 under a contract dated 24 June 1991. The contract provided for the payment of a deposit of $15,000 on that date, with the balance of $135,000 to be paid on settlement on 5 August 1991.

She paid stamp duty of $5,000 on 20 July 1991. On 5 August 1991, she received an account for solicitor's fees of $2,000, which she paid as part of the settlement process.

She sold the property on 15 October 2024 (the day the contracts were exchanged) for $350,000. She incurred costs of $1,500 in solicitor's fees and $4,000 in agent's commission.

1. Val's capital gain calculated using the indexation method:
   - deposit × indexation factor
$15,000 × 1.164 = $17,460
(indexation factor is 68.7 ÷ 59.0 = 1.164)
   - balance × indexation factor
$135,000 × 1.164 = $157,140
   - stamp duty × indexation factor
$5,000 × 1.159 = $5,795
(indexation factor is 68.7 ÷ 59.3 = 1.159)
   - solicitor's fees for purchase of property × indexation factor
$2,000 × 1.159 = $2,318
   - solicitor's fees for sale of property
$1,500 (indexation doesn't apply)
   - agent's commission
$4,000 (indexation doesn't apply)
   - the cost base total is **$188,213.**
2. Val works out her capital gain as follows:
   - capital proceeds are $350,000
   - *subtract* cost base of $188,213
   - Val's total current year capital gain using this method is **$161,787**.

Assuming Val has not made any other capital losses or capital gains in 2024–25 and doesn't have any unapplied net capital losses from earlier years, her net capital gain using the **indexation method** is $161,787.

1. Val's capital gain calculated using the discount method:
   - deposit $15,000
   - balance $135,000
   - stamp duty $5,000
   - solicitor's fees for purchase of property $2,000
   - solicitor's fees for sale of property $1,500
   - agent's commission $4,000
   - total cost base is **$162,500.**
2. Val works out her capital gain as follows:
   - capital proceeds are $350,000
   - *subtract* cost base of $162,500
   - total current year capital gain using this method before applying discount is $187,500
   - *subtract* CGT discount (as Val has no capital losses) of $93,750
   - total net capital gain is **$93,750**.

Val considers the discount method gives her the better result. Val will write the amount worked out using the discount method on her tax return rather than the amount worked out using the indexation method.

The Capital gain or capital loss worksheet 2025 shows how Val might complete the worksheet using both methods.

How to calculate a capital loss

Example 14: calculating a capital loss

Antonio acquired a new income-producing asset on 28 September 2001 for $100,000, including stamp duty and legal costs. He sold it for $90,000 in November 2024. During the period he owned it, he was allowed capital works deductions of $7,500. Antonio works out his capital loss as follows.

1. Cost base of $100,000.
2. *Subtract* capital works deductions of $7,500.
3. The reduced cost base is $92,500.
4. *Subtract* the capital proceeds of $90,000.
5. The total capital loss is **$2,500**.

Example 15: calculating a reduced cost base and capital loss

In July 1998, Chandra bought 800 shares at $3 per share. He incurred brokerage and stamp duty of $100. In December 2024, Chandra sold all 800 shares for $2.50 per share. He incurred brokerage of $75. He made a capital loss, calculated as follows.

1. To calculate the reduced cost base:
   - purchase price in July 1998 of $2,400
   - *add* brokerage and stamp duty in July 1998 of $100
   - *add* brokerage in December 2024 of $75
   - the reduced cost base is **$2,575**.
2. To calculate the capital loss:
   - reduced cost base of $2,575
   - *subtract* capital proceeds (800 × $2.50) of $2,000
   - the total capital loss is **$575**.

However, the reduced cost base isn't relevant for some types of CGT events. In these cases, see Appendix 1 for the amounts to use for the particular CGT event.

Reduced cost base

You can't index a reduced cost base.

Keeping CGT records

Check what records will help you correctly work out the amount of capital gain or loss you have made from a CGT event.

What records do you need to keep?

You must keep records of everything that affects your capital gains and capital losses. Penalties can apply if you don't keep the records for at least 5 years after the relevant CGT event. If you use information from those records in a later tax return, you may have to keep records for longer. If you have applied a net capital loss, you should generally keep your records of the CGT event that resulted in the loss until the end of any period of review for the income year in which the net capital loss is fully applied.

Keeping good records can help your beneficiaries reduce the impact of CGT after you die. If you leave an asset to another person, the asset may be subject to CGT when a CGT event happens to that asset in the future. For example, if your daughter (the beneficiary) sells the shares (the asset) you have left her in your will.

For more information, see Taxation Determination TD 2007/2 *Income tax: should a taxpayer who has incurred a tax loss or made a net capital loss for an income year retain records relevant to the ascertainment of that loss only for the record retention period prescribed under income tax law?*

You must keep records of every act, transaction, event or circumstance that may be relevant to working out whether you have made a capital gain or capital loss from a CGT event. It doesn't matter whether the CGT event has already happened or whether it may happen.

The records must be in English (or be readily accessible or translatable into English) and must show:

- the nature of the act, transaction, event or circumstance
- the day it happened
- who did the act or who were the parties to the transaction
- how the act, transaction, event or circumstance is relevant to working out the capital gain or capital loss.

The following are examples of records you may need to keep:

- receipts of purchase or transfer
- details of interest on money you borrowed relating to this asset
- records of agent, accountant, legal and advertising costs

- receipts for insurance costs, rates and land taxes
- any market valuations
- receipts for the cost of maintenance, repairs and modifications
- accounts showing brokerage on shares.

You should also keep records to establish whether you have claimed an income tax deduction for an item of expenditure. In many cases, if you have claimed a deduction for an amount, the expenditure may not be included in the cost base or reduced cost base of a CGT asset.

Records relating to real estate

Real estate can include the family home, vacant blocks of land, business premises, rental properties, holiday houses and hobby farms.

Even though your family home is usually exempt, if you acquired it on or after 20 September 1985, try to keep all records relating to the home, just as you would for other items of real estate. If the home ceases to be fully exempt at some time in the future, you'll need to know the full cost of the home so that you don't pay more CGT than necessary. If you don't have sufficient records, reconstructing them later could be difficult. For details of when your home may not be fully exempt, see Real estate and main residence.

Keep a copy of the purchase contract and all receipts for expenses relating to the purchase of the property such as:

- stamp duty
- legal fees
- survey costs
- valuation fees.

Also keep all records relating to the CGT event and all relevant expenses, for example, the sale contract and records of legal fees and stamp duty.

Keep a record of the following that you incurred during your period of ownership:

- capital expenditure on improvements
- costs of owning the property
- capital expenditure on maintaining title or right to it.

These costs may form part of the cost base in working out whether you have made a capital gain or capital loss at the time the CGT event happens.

Capital expenditure on improvements may include building an extension, addition or improvement, including initial repairs.

Examples of costs of owning real estate include interest, rates and land taxes, insurance premiums and cost of repairs or replacing broken items. You only include such costs if you acquired the CGT asset on or after 21 August 1991 and if you have not claimed, and can't claim, a tax deduction for them.

If the property is your home and you use it to produce income (for example, by renting out part or all of it), you'll need to keep records of the period the home is producing income and the proportion of the home you have used to produce income.

If, after 20 August 1996, you use your home for income-producing purposes for the first time, you'll be taken to have acquired your home at that time for its market value. You'll use this as your acquisition cost for the purpose of calculating a capital gain or capital loss at the time the CGT event happens. You'll still need to keep details of expenses relating to your home after the date that it started producing income.

See Marriage or relationship breakdown about records you may need to obtain from your spouse if your marriage or relationship has broken down and a CGT rollover applies on the transfer of real estate.

Records relating to shares in companies and units in unit trusts

Most of the records you need to keep regarding your disposal of shares in companies or units in unit trusts (including managed funds), will be given to you by the company, the unit trust manager or your stockbroker. It is important for you to keep everything they give you on your shares and units.

These records will generally provide the following important information:

- the date of purchase of the shares or units
- the amount paid to purchase the shares or units
- details of any non-assessable payments made to you during the time you owned the shares or units
- the date and amount of any calls if shares were partly paid
- the sale price if you sell them
- any commissions paid to brokers when you buy or sell them.

There are special CGT rules for certain shares and units, which may affect the records you keep. For example, bonus shares and units, rights and options, employee shares and eligible shares in an ESIC.

For more information, see Investments in shares and units.

Records relating to bonus shares

To be safe, if you have received any bonus shares on or after 20 September 1985, keep all the documents the company gives you.

For any bonus shares issued before 1 July 1987, you need to know when the original shares were acquired. If you acquired them on or after 20 September 1985, you'll also need to know what they cost. Flowchart 3.1 in Appendix 3 summarises the different rules applying to the treatment of bonus shares.

Keep a record of any amounts you paid to acquire the bonus shares and any amounts taxed as a dividend when they were issued.

Records relating to shares in an ESIC

If you invested in an ESIC, you may be entitled to the early stage investor tax incentives, including the modified CGT treatment for your shares. You should keep records to:

- support your entitlement to the incentives, for example, that you're an eligible investor and the company qualifies as an ESIC at the relevant test time
- show when you acquired the shares and, if disposed of within 12 months or after 10 years, how you have calculated your capital gain or capital loss
- support the market value of the shares if you have continuously held them for 10 years
- support your claim in respect of the modified CGT treatment and CGT rollovers in relation to eligible shares.

For more information, see Shares in an early stage innovation company.

Records relating to inheriting an asset

If you inherited an asset as a beneficiary of the estate of a person who died on or after 20 September 1985, you may need to obtain information from the executor or trustee.

If the deceased person acquired the asset before 20 September 1985, or an asset passes to you as the trustee of a Special Disability Trust (irrespective of the date the deceased acquired the asset), you need to know:

- the market value of the asset at the date of the person's death
- the amount of any relevant costs incurred by the executor or trustee.

This is the amount that the asset is taken to have cost you. If the executor or trustee has a valuation of the asset, get a copy of that valuation report. Otherwise, you'll need to get your own valuation.

If the asset you inherit was acquired by the deceased person on or after 20 September 1985, you need to know full details of all relevant costs incurred by the deceased person and by the executor or trustee. Get those details from the executor or trustee.

Inheriting a main residence

If you inherit a dwelling that was the deceased's main residence (for example, a house), any capital gain on its subsequent disposal may be exempt. However, until the exemption is certain, you should keep records of relevant costs incurred by you, the deceased or their trustee or executor.

You'll not need to keep records of the deceased's costs if:

- you inherited the dwelling after 20 August 1996
- the dwelling was the deceased's main residence just before they died
- the dwelling was not being used to produce income at the time of death.

In these circumstances, you'll be taken to have acquired the dwelling at its market value at the date of death. If the executor or trustee has a valuation of the asset, get a copy of that valuation report. Otherwise you'll need to get your own valuation.

If you're a beneficiary of a deceased estate and a CGT event happens to your residential property in Australia that you inherited from an excluded foreign resident (that is, a person who was a foreign resident for a continuous period of more than 6 years), you may no longer be entitled to claim the main residence exemption for the deceased's ownership period. This doesn't apply to properties held before 7.30pm AEST on 9 May 2017 if both of the following apply:

- the CGT event occurred on or before 30 June 2020
- you, the deceased or their legal personal representative held an ownership interest in the asset at all times during the period immediately before 9 May 2017 until immediately before the CGT event.

For more information, see Inherited main residence.

Records relating to foreign resident capital gains withholding

When the foreign resident capital gains withholding amount has been paid, we'll issue confirmation to both the vendor and the purchaser. The vendor will be able to use this confirmation to help them complete their tax return to claim a credit for the foreign resident capital gains withholding amount.

Asset registers

You can choose to enter information from your CGT records into an asset register. If you keep an asset register, you may be able to discard records that you might otherwise need to keep for a long time.

If you choose to keep an asset register, transfer the following information to it from the records you generally need to keep for CGT purposes:

- the date the asset was acquired
- the cost of the asset
- a description, amount and date for each cost associated with the purchase of the asset, for example, stamp duty and legal fees
- the date the CGT event happened to the asset
- the capital proceeds received when the CGT event happened.

This information must be certified by a registered tax agent or a person approved by the Commissioner.

If you use an asset register, you must keep the documents from which you have transferred the information for 5 years from the date the relevant asset register entry is certified. You must keep the asset register entries for 5 years from the date the related CGT event happens. Keep the asset register for a longer period if you need to substantiate any carried forward net capital losses, for 5 years after any CGT event where you have applied any capital loss against capital gains.

For more information, see Taxation Ruling TR 2002/10 *Income tax: capital gains tax: asset register.*

Exceptions

You don't need to keep records if, for any CGT event, a capital gain or capital loss is disregarded in full. For example, you don't need to keep records for exempt assets such as cars and motorcycles as the capital gain or loss is disregarded in full.

It is never too late to keep records

If you acquired assets on or after 20 September 1985 and didn't keep records, or your records have inadvertently been destroyed, you can still do something about it.

If you bought real estate, your solicitor or real estate agent may have copies of most of the records you need. You should be able to get copies if you ask for them.

If you made improvements to an investment property, for example, if you built an extension, then ask for a copy of the builder's receipt for payment.

If you bought shares in a company or units in a unit trust, your stockbroker or investment adviser may be able to give you the information you need.

If you received an asset as a gift and you didn't get a market valuation at the time, a professional valuer can tell you what its market value was at the relevant date.

The main thing is to get as many details as soon as possible so you can reconstruct your records. Make sure you keep sufficient records in the future.

Trust distributions and your CGT position

Explains how distributions from trusts (including managed funds) can affect your CGT position.

In this section

Distributions from a trust

Distributions from a trust include managed funds, which are property trusts, share trusts, equity trusts, growth trusts, imputation trusts and balanced trusts.

Distributions from trusts can include different amounts, but only the following amounts are relevant for CGT purposes:

- distributions of all or a part of the trust's income where the trust’s net income for tax purposes includes a net capital gain
- distributions or other entitlements described as being referable to a specific capital gain or gains
- distributions of non-assessable amounts.

From 2024, if you have received a capital gain distribution from a trust, you'll also need to complete a Trust income schedule which details each distribution that you've received.

You're treated as having made a capital gain or gains if you're 'specifically entitled' to all or part of a trust's capital gain and that capital gain is reflected in the trust's net income for tax purposes.

Additionally, if there is an amount of a capital gain reflected in the net income of the trust for tax purposes to which no entity is specifically entitled, that amount will be proportionately assessed to beneficiaries in accordance with their 'adjusted Division 6 percentage' (which is based on their proportionate entitlement to certain income of the trust), or otherwise to the trustee.

In certain circumstances where you would be treated as having made a capital gain but are unable to benefit from the gain within a set period, an eligible trustee may elect to be assessed on the capital gain on your behalf.

In June 2011, amendments were enacted that enable the streaming of capital gains and franked dividends to beneficiaries, subject to relevant integrity provisions. For managed investment trusts (MITs) which have not previously made an election to apply the amendments, the amendments start to apply from 2017–18. For MITs which have previously made an election to apply the amendments, the amendments continue to apply in 2017–18 and later income years.

These amendments don't apply to MITs that are attribution managed investment trusts (AMITs). They are subject to the separate attribution rules that enable capital gains and franked distributions to be attributed to members for tax purposes.

Non-assessable payments mostly affect the cost base of units in a unit trust (including managed funds) but can in some cases create a capital gain. Non-assessable payments to beneficiaries of a discretionary trust will not give rise to capital gains.

Trustees, including fund managers, may use different terms to describe the methods of calculation and other terms used in this guide. For example, they may use the term 'non-discount gains' when they refer to capital gains worked out using the indexation and 'other' methods.

Attribution managed investment trusts

An eligible MIT may choose to apply the attribution rules in Division 276 of the *Income Tax Assessment Act 1997*. Where that choice is made, the MIT becomes known as an attribution managed investment trust (AMIT).

Generally, those rules apply to 'attribute' amounts to each member based on their interest in the AMIT, rather than a 'present entitlement' to the net income of the trust or the amount actually paid.

The attribution rules ensure that amounts from the trust retain their tax character as they flow through to you. This is so that for taxation purposes it is treated as if you had earned the income directly in your own right. In relation to capital gains, those rules mean you'll treat the capital gains component of your trust income as your own capital gain.

These rules also mean that the cost base of your units in an AMIT may have annual upward or downward adjustments.

Your share of trust amounts attributed to you is shown on your member statement, which for an AMIT is called an AMIT member annual statement (AMMA) (similar to the standard distribution statement provided by a managed fund).

Otherwise, for members (unit holders) of an AMIT, there will be little discernible difference to the way income is distributed to you.

For more information, see Cost base adjustments for AMIT members.

Corporate Collective Investment Vehicles

From 1 July 2022, a new form of collective investment vehicle is available for funds management activities – a corporate collective investment vehicle (CCIV).

From a regulatory perspective, a CCIV is a registered company that comprises one or more 'sub-funds' and is operated by a single corporate director. A sub-fund of a CCIV is all or part of the CCIV's business that is registered as a sub-fund of the CCIV by ASIC. However, the tax framework treats each CCIV sub-fund as a separate fixed unit trust. A CCIV sub-fund is subject to the existing rules for the taxation of trusts.

A CCIV sub-fund trust is taxed as an AMIT for an income year under the attribution regime in Division 276 of the *Income Tax Assessment Act 1997* if it meets certain AMIT eligibility criteria. We call this an 'attribution CCIV sub-fund trust'.

An attribution CCIV sub-fund trust, as a deemed AMIT, is required to provide an AMMA statement to each of its members within 3 months of the end of the income year. If a CCIV sub-fund trust doesn't meet the requirements to be an AMIT and is not a public trading trust, it will be taxed under Division 6 of the *Income Tax Assessment Act 1936* and will provide distribution information to beneficiaries through a standard distribution statement (SDS).

Capital gains made by a trust

The general trust taxation provisions in Division 6 of Part III of the *Income Tax Assessment Act 1936* (Division 6) give way to specific rules in Division 115-C of the *Income Tax Assessment Act 1997*. These rules ensure that, where permitted by the trust deed, the capital gains of a trust (other than an AMIT) can be effectively streamed to beneficiaries for tax purposes by making them 'specifically entitled' to those gains. Generally, a beneficiary will be considered specifically entitled to an amount of a capital gain if the beneficiary has received (or can reasonably be expected to receive) an amount referrable to that gain, and certain recording conditions are satisfied.

A beneficiary specifically entitled to a capital gain will generally be assessed in respect of that gain, regardless of whether the benefit they receive or are expected to receive is income or capital of the trust.

Capital gains to which no beneficiary is specifically entitled will be allocated proportionately to beneficiaries based on their present entitlement to income of the trust estate (excluding amounts of capital gains and franked distributions to which any entity is specifically entitled). This proportion is known as the beneficiary's 'adjusted Division 6 percentage'. If there is some income to which no beneficiary is entitled (apart from capital gains and/or franked distributions to which any entity is specifically entitled) the trustee may be assessed under section 99 or 99A of the ITAA 1936.

The trust provisions also allow the trustee of a resident trust to choose to be assessed on a capital gain, provided no beneficiary has received or benefited from any amount relating to the gain during 2024–25 or within 2 months of 30 June 2025.

Question 13 in the supplementary tax return for individuals

Question **13** in the *Tax return for individuals (supplementary section) 2025* tells you to exclude net capital gains from the amount of trust income you write at question **13** – label **U** in your supplementary tax return. In your statement of distribution or advice, the trust should state your share of the trust’s net capital gain. Exclude only so much of the trust's net capital gain that would otherwise form part of your share of the trust income.

For beneficiaries of trusts

Follow the steps below to answer question **13** for beneficiaries of trusts.

Step 1: Determine your share of the capital gain of the trust

You'll need to determine whether you have a share of each capital gain made by the trust that has been included in the trust's net income for tax purposes. For every capital gain you have a share of, your statement of distribution or advice from the trust should advise you of:

- your share of that gain
- how much of the net income of the trust for tax purposes relates to each gain (or what is the 'attributable gain' to which your share relates)
- the type of capital gain to which your share relates and the method used by the trustee to calculate it (including any CGT discount or small business CGT concessions applied)
- your share of any credit for a foreign resident capital gains withholding amount.

Your share of a capital gain is any amount of the capital gain to which you're specifically entitled plus your adjusted Division 6 percentage share of any amount of the capital gain to which no beneficiary is **specifically entitled**.

These rules don't apply to a distribution of a capital gain by an AMIT.

For more information, see Managed investment trusts.

Step 2: Divide by the total capital gain

That amount is then divided by the total capital gain to give you your 'fraction' of the total capital gain.

Step 3: Multiply your fraction of the capital gain by the trust's taxable income relating to the capital gain

Your fraction is then multiplied by the net income for tax purposes of the trust that relates to the capital gain. The result is your 'attributable gain'.

In certain circumstances where the trust's net capital gain and total net franked distributions exceed the net income of the trust for tax purposes, the amount of the trust's taxable income relating to the capital gain is rateably reduced. This ensures that beneficiaries and the trustee can't be assessed on more than the total net income of the trust.

Extra capital gains you're taken to have made

If you're a beneficiary who is taken to have an 'attributable gain' (your share of a trust's capital gain included in its net income for tax purposes), you're taken to have made extra capital gains in addition to any other capital gains you may have made from your own CGT events.

These extra capital gains are taken into account in working out your net capital gain for 2024–25. You include them at step 2 in:

- question 18 Capital gains 2025 – for individuals
- Capital gains tax schedule and instructions 2025 – for companies, trusts and funds.

In order to work out the amount of extra capital gains that are taken into account in working out your own net capital gain, you'll need to know the method used by the trustee in calculating the trust's capital gains that were included in the trust's net capital gain. Your statement of distribution or advice should show this information.

If you're a unit holder in a managed fund, the trustee or manager will generally advise you of your share of the trust's net capital gain, together with details of your share of any other income distributed to you.

In other cases, the trustee may have advised you what your share is or you may need to contact them to obtain details.

Trust distributions to which the CGT concessions apply

Your 'attributable gain' is then grossed-up as appropriate for any CGT concessions (the general CGT discount or the small business 50% reduction) applied by the trustee to that capital gain. You have an extra capital gain equal to the grossed-up amount.

Where the trustee reduced the capital gain by the CGT discount or the small business 50% active asset reduction, you need to gross up your 'attributable gain' by multiplying it by 2. This grossed-up amount is an extra capital gain.

You multiply by 4 your attributable gain that the trust has reduced by both the CGT discount and the small business 50% active asset reduction. This grossed-up amount is an extra capital gain.

If the capital gain has not been reduced by either the CGT discount or the small business 50% active asset reduction, then your 'attributable gain' is an extra capital gain.

You're then able to reduce your extra capital gains by any current or prior year capital losses that you have, and then apply any relevant discounts to work out your own net capital gain.

No double taxation

You're not taxed twice on these extra capital gains because you don't include your capital gains from trusts in your tax return.

Example 16: applying the trust provisions

Step 1: Determine the beneficiary's share of the capital gain of the trust

The Cropper Trust generated $100 of rent and a $500 capital gain (which was a discount capital gain). The trust also had a capital loss of $100. The trust deed doesn't define 'income' and therefore capital gains don't form part of the trust income. As a result, the income of the trust estate is $100 (being an amount equal to the rent), whereas the net income of the trust for tax purposes is $300. The $300 net income for tax purposes comprises the $200 net capital gain (which is the $500 capital gain less the $100 capital loss, reduced by the 50% CGT discount) plus the $100 rent income.

The trustee resolves to distribute $200 related to the capital gain (after absorbing the capital loss) to Shane and the $100 of rent to Andrea.

Shane is specifically entitled to 50% of the $500 capital gain because he can reasonably be expected to receive the economic benefit of 50% of the $400 capital gain remaining ($200) after accounting for the $100 capital loss. Shane's share of the capital gain equals the amount to which he is specifically entitled namely $250 (50% of the $500 capital gain).

Andrea's share of the capital gain is also $250 because, being entitled to all of the $100 income of the trust (none of the capital gain being treated as trust income), she has an adjusted Division 6 percentage of 100% and there is $250 of the $500 capital gain to which no one is specifically entitled.

Step 2: Divide by the total capital gain

Shane divides his share of the capital gain ($250) by the total capital gain ($500) and therefore has a fraction share of one-half of the capital gain.

Andrea divides her share of the capital gain ($250) by the total capital gain ($500) and therefore also has a fraction share of one-half of the capital gain.

Step 3: Multiply the beneficiary's fraction of the capital gain by the trust's taxable income relating to the capital gain

The net income of the trust for tax purposes relating to the capital gain is $200.

Shane's attributable gain is $100 ($200 × one-half).

Andrea's attributable gain is $100 ($200 × one-half).

Step 4: Gross up the amount for CGT discounts applied by the trustee

Shane is required to double his attributable gain of $100 to an extra capital gain of $200 because the trustee had applied the 50% CGT discount.

Andrea similarly doubles her attributable gain to $200 which is her extra capital gain.

Both Shane and Andrea will take their extra capital gain of $200 into account in working out their own net capital gain at question **18**. Shane and Andrea are individuals entitled to claim the 50% CGT discount. Neither have other capital gains or capital losses of their own to apply against their extra capital gains. Therefore, after applying the 50% CGT discount to their $200 extra capital gain, they will have made a net capital gain of $100 ($200 extra capital gain × 50% = $100). They will write $100 at question **18 Capital gains** – label **A** in their supplementary tax returns. They also write $200 (which is $100 grossed-up) at question **18** – label **H**.

Note that Shane and Andrea's statement of distribution or advice from the trust advised each of them that the trust had made a capital gain of $500, that only $200 of this had been included in the net income of the trust estate for tax purposes, that the 50% discount had been applied and that their share of the gain was $250. Alternatively, it could have advised them that they each had an extra capital gain of $200 that was a discount capital gain.

Applying the concessions

You must use the same method as the trust to calculate your capital gain.

This means you can't apply the CGT discount to capital gains distributed to you from the trust which were calculated using the indexation method or 'other' method.

You can only apply the small business 50% active asset reduction to grossed-up capital gains to which the trust applied that concession.

Example 17: distribution where the trust claimed concessions

Serge is the sole beneficiary in the Shadows Unit Trust. His statement of distribution or advice from the trust shows that his 100% share of the net income of the Shadows Unit Trust for income tax purposes was $2,000. The $2,000 includes a net capital gain of $250 (made of a $1,000 capital gain that was reduced by the CGT discount and the small business 50% active asset reduction).

His statement advises him that he has a 100% share of the capital gain which is $1,000.

Because he has a 100% share of the capital gain, Serge will have an 'attributable gain' of $250 (that is, the whole of the net income of the trust estate for tax purposes that relates to the gain).

Due to the application of the CGT discount and the small business 50% active asset reduction, Serge then grosses up his 'attributable gain' of $250 by multiplying it by 4 to $1,000 which is his extra capital gain.

Serge has also made a capital loss of $100 from the sale of shares.

He calculates his own net capital gain as follows.

1. Serge’s extra capital gain (that is, his $250 attributable gain × 4) is $1,000.
2. *Subtract* capital losses of $100.
3. The capital gains before applying discounts is $900.
4. Apply the CGT discount of 50% ($450).
5. Apply the 50% active asset reduction of $225.
6. The total net capital gain is **$225**.

Serge will write $1,000 at question **18** – label **H** in his supplementary tax return, which is his total current year capital gain. The net capital gain he will write at question **18** – label **A** in his supplementary tax return is $225. He will write a trust distribution of $1,750 ($2,000 – $250) at question **13** – label **U** in his supplementary tax return.

Investors in managed funds

If you're a unit holder in a managed fund and have received a distribution from a trust that includes a net capital gain, take your share of that net capital gain into account in working out your own net capital gain for the year, to the extent that it doesn't exceed the overall net amount of your distribution from the trust; see examples 18 and 19.

Your statement of distribution or advice should show your share of the trust net capital gain and other information relevant to that gain, including your share of any credit for a foreign resident capital gains withholding amount.

If your statement shows that your share of the trust's net capital gain is more than the overall net amount of your distribution, then there is a limit on the amount of the capital gain component you exclude from question **13 Partnerships and trusts** – label **L** in your supplementary tax return. In this situation, you can't exclude an amount greater than the overall net amount of your distribution from the trust; see examples 18 and 19. The amount of your share of the trust's net capital gain you exclude from the amount at question **13 Partnerships and trusts** – label **L** is used in working out your capital gain. If you receive a distribution from more than one trust, this applies to each distribution.

Trust distributions to which the CGT concessions apply

Your statement should show whether any discounts or reductions were applied by the trustee in determining the amount of the capital gain.

If you have a share of a trust's net capital gain you're taken to have made extra capital gains in addition to any other capital gains you may have made from your own CGT events.

These extra capital gains are taken into account in working out your net capital gain for 2024–25. You include them at step 2 in:

- question 18 Capital gains, CGT worksheets – for individuals
- Capital gains tax schedule and instructions 2025 – for companies, trusts and funds.

You need to know whether the trustee applied any discounts or reductions in calculating the capital gain to which your share relates in order to work out the correct amount to include in your own net capital gain calculation.

Where the trustee reduced one or more capital gains by the CGT discount or the small business 50% active asset reduction, you need to gross up your share of any such capital gain by multiplying it by 2. This grossed-up amount is your extra capital gain that you include in your own net capital gain calculation.

You multiply by 4 your share of any capital gain from a trust that the trustee has reduced by both the CGT discount and the small business 50% active asset reduction. This grossed-up amount is your extra capital gain that you include in your own net capital gain calculation.

If your share of a capital gain from a trust is attributable to a capital gain that the trustee has not reduced by one of these concessions, that amount is your extra capital gain. You include this amount in your own net capital gain calculation.

This calculation lets you reduce your extra capital gains by any current or prior year capital losses that you have, and then apply any relevant discounts to work out your own net capital gain; see example 19.

No double taxation

You're not taxed twice on these extra capital gains because you didn't include your capital gains from trusts at question **13** in your supplementary tax return.

Example 18: capital gain greater than share of trust net income and capital gain was discounted

Daniel's statement of distribution or advice from a managed fund (other than an AMIT) shows that his share of the net income of that trust for tax purposes was $7,000.

This is made up of his $3,000 proportionate share of the trust's non-primary production loss and his $10,000 proportionate share of the trust's net capital gain to which the trust applied the 50% CGT discount. Daniel also made a $2,000 capital loss during the year on the sale of some shares. He doesn't have any other trust distributions for the year.

Daniel writes zero at question **13 Partnerships and Trusts** in his supplementary tax return. He takes $14,000 (that is, the $7,000 remaining of his share of the capital gain from the trust grossed-up) into account in working out his net capital gain at question **18**. Therefore, after subtracting the capital losses from the grossed-up capital gain:

- he is taken to have made ($14,000 – $2,000 = $12,000)
- he applies the 50% CGT discount ($12,000 × 50% = $6,000)
- he writes $6,000 at question **18 Capital gains** – label **A** in his supplementary tax return
- he writes $14,000 ($7,000 grossed-up) at question **18** – label **H**.

Example 19: capital gain greater than share of trust net income and capital gain was not discounted

Debra's statement of distribution or advice from a Managed Fund (other than an AMIT) shows that her share of the net income of that trust for tax purposes was $2,000.

This is made up of her $5,000 proportionate share of the trust's primary production loss, her $2,000 proportionate share of the trust's non-primary production income and her $5,000 proportionate share of the trust's net capital gain. The trust's net capital gain doesn't include any discounted gains.

At question **13 Partnerships and Trusts** in her supplementary tax return, Debra will write $5,000 loss from primary production at label **L** and $5,000 non-primary production income at label **U** (that is, $2,000 non-primary production income plus sufficient net capital gain [$3,000] to offset the loss from primary production).

Assuming Debra has no other capital gains or capital losses, she will write $2,000 ($5,000 – $3,000) at question **18 Capital gains** – label **H** and **A** in her supplementary tax return.

Non-assessable payments from a trust

Trusts often make non-assessable payments to beneficiaries.

If a profit made by the trust isn't assessable, any part of that profit distributed to a beneficiary will also be non-assessable in most cases, for example, a share of a profit made on the sale of property acquired by the trust before 20 September 1985.

However, if you receive non-assessable payments from a trust, you may need to make cost base adjustments to your units or trust interest. Those adjustments will affect the amount of any capital gain or capital loss you make on the unit or interest, for example, when you sell it.

Non-assessable payments may be made over a number of years. If non-assessable payments exceed your cost base, you may also make a capital gain equal to the excess in the year the excess is paid to you.

Non-assessable payments from a managed fund to a unit holder are common and may be shown on your statement from the fund as:

- tax-free amounts
- CGT-concession amounts
- tax-exempted amounts
- tax-deferred amounts.

If you're a beneficiary in a trust which is subject to the trust provisions relating to 'streaming' of capital gains and franked distributions, even if you're distributed an amount that is described as a CGT concession amount, you may be taken to have made a capital gain. You'll need to include this in your own net capital gain calculation.

You may need to adjust the cost base and reduced cost base of your units depending on the kind of non-assessable payment you received. If you hold an interest in an AMIT, the adjustment may either increase or decrease your cost base and reduced cost base. For more information, see Cost-base adjustments for AMIT members.

Your statement of distribution or advice should show amounts and other information relevant to your cost base or reduced cost base.

Tax-free amounts relate to certain tax concessions received by the fund which enable it to pay greater distributions to its unit holders. If your statement shows any tax-free amounts, you adjust the reduced cost base (but not your cost base) of your units by these amounts. Payments of amounts associated with building allowances which were made before 1 July 2001 were treated as tax-free amounts.

CGT-concession amounts relate to the CGT discount component of any actual distribution. Such amounts don't affect your cost base and reduced cost base if they were received after 30 June 2001. A CGT-concession amount received before 1 July 2001 is taken off the cost base and reduced cost base.

Tax-exempted amounts are generally made up of:

- exempt income of the fund
- amounts on which the fund has already paid tax
- income you had to repay to the fund.

Such amounts don't affect your cost base and reduced cost base.

Tax-deferred amounts are other non-assessable amounts, including indexation received by the fund on its capital gains and accounting differences in income. You adjust the cost base and reduced cost base of your units by these amounts. Payments associated with building allowances which are made on or after 1 July 2001 are treated as tax-deferred amounts.

If the tax-deferred amount is greater than the cost base of your units, you include the excess as a capital gain. You can use the indexation method if you bought your units before 11:45 am AEST on 21 September 1999. However, if you do so, you can't use the discount method to work out your capital gain when you later sell the units or trust interest.

Capital loss

You can't make a capital loss from a non-assessable payment.

As a result of certain stapling arrangements, some investors in managed funds have received units which have a very low cost base. The payment of certain non-assessable amounts in excess of the cost base of the units will result in these investors making a capital gain.

Non-assessable payments under a demerger

If you receive a non-assessable payment under an eligible demerger, you don't deduct the payment from the cost base and the reduced cost base of your units or trust interest. Instead, you adjust your cost base and reduced cost base according to the demerger rules.

You may make a capital gain on the non-assessable payment if it exceeds the cost base of your original unit or trust interest, although you'll be able to choose a CGT rollover.

An eligible demerger is one that happens on or after 1 July 2002 and satisfies certain tests. The trust making the non-assessable payment will normally advise unit or trust interest holders if this is the case.

For more information, see Investments in shares and units.

Cost base adjustments

Generally, you make any adjustment to the cost base and reduced cost base of your unit or trust interest at the end of the income year. However, if some other CGT event happens to the unit or trust interest during the year (for example, you sell your units), you must adjust the cost base and reduced cost base just before the time of that CGT event. The amount of the adjustment is based on the amount of non-assessable payments paid to you up to the date of sale. You use the adjusted cost base and reduced cost base to work out your capital gain or capital loss.

The cost base and reduced cost base adjustments are more complex if you deducted capital losses from a grossed-up capital gain where a capital gain made by the trust was reduced by the small business 50% active asset reduction. If this applies to you, you may need to seek advice from us on how to make the adjustments.

Example 20: receiving a non-assessable amount

Bob owns units in OZ Investments Fund (a managed fund that isn't an AMIT and has not elected to apply the 2011 changes to the rules relating to capital gains made by trusts) which distributed income to him for the 2024–25 income year. The fund gave him a statement showing his distribution and that his share of the trust's net capital gain included:

- $100 calculated using the discount method (grossed-up amount $200)
- $75 calculated using the indexation method
- $28 calculated using the 'other' method.

These capital gains add up to $203.

The statement shows Bob's distribution didn't include a tax-free amount, but it did include a $105 tax-deferred amount.

From his records, Bob knows that the cost base and reduced cost base of his units are $1,200 and $1,050 respectively.

Bob has no other capital gains or capital losses for the 2024–25 income year and no unapplied net capital losses from earlier years.

The following steps show how Bob works out the amounts to write on his tax return.

Step 1
As Bob has a share of a capital gain which the fund reduced using the CGT discount of 50% (so that his share was $100), he includes the grossed-up amount of his share ($200) in his total current year capital gains.

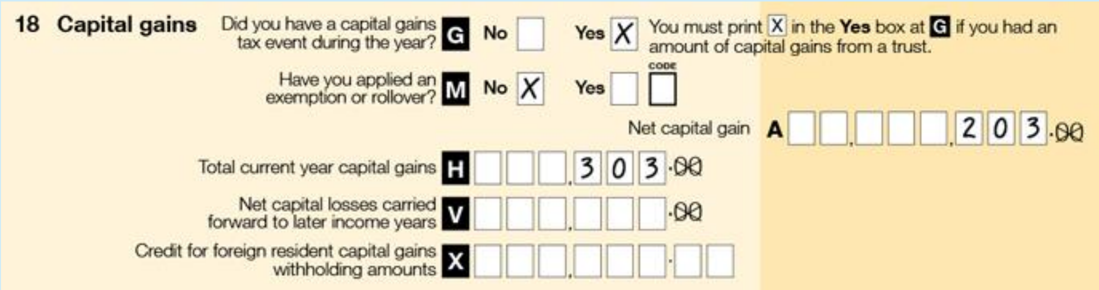
Step 2
Bob adds the grossed-up amount to his share of the trust's capital gains calculated using the indexation method and 'other' method to work out his total current year capital gains:

$200 + $75 + $28 = $303

Step 3
As Bob has no other capital gains or capital losses, and he must use the discount method for the capital gains calculated using the discount method from the trust, his net capital gain is equal to his share of the trust's net capital gain for tax purposes ($203).

Step 4

Bob completes question 18 in his supplementary tax return as follows:



18 Capital gains

Did you have a capital gains tax event during the year? **G** No [ ] Yes [X] You must print [X] in the **Yes** box at **G** if you had an amount of capital gains from a trust.

Have you applied an exemption or rollover? **M** No [X] Yes [ ] CODE [ ]

Net capital gain **A** 203.00

Total current year capital gains **H** 303.00

Net capital losses carried forward to later income years **V** .00

Credit for foreign resident capital gains withholding amounts **X** .

Bob must print **X** in the No box at label **M** and leave the code blank because he didn't apply an exemption or rollover.

Records Bob needs to keep

The tax-deferred amount Bob received isn't included in his income or his capital gains, but it affects the cost base and reduced cost base of his units in OZ Investments Fund for future income years.

1. Cost base of $1,200.
2. *Subtract* tax-deferred amount of $105.
3. **New cost base is $1,095**.
4. Reduced cost base is $1,050.
5. *Subtract* tax-deferred amount of $105.
6. **The new reduced cost base is $945**.

Example 21: capital loss is greater than the non-discounted capital gain

Ilena invested in XYZ Managed Fund (a managed fund that isn't an AMIT and has not elected to apply the 2011 changes to the rules relating to capital gains made by trusts). The fund made a distribution to Ilena for the year ending 30 June 2025 and gave her a statement that shows her distribution meant that her share of the trust's net capital gain included:

- $65 discounted capital gain
- $90 non-discounted capital gain.

The statement shows Ilena's distribution also included:

- $30 tax-deferred amount
- $35 tax-free amount.

Ilena has no other capital gains but made a capital loss of $100 on some shares she sold during the year. Ilena has no unapplied net capital losses from earlier years. From her records, Ilena knows the cost base and reduced cost base of her units are $5,000 and $4,700 respectively.

Ilena has to treat the capital gain component of her share of the fund's net income for tax purposes as if she made the capital gain. To complete her tax return, Ilena must identify this capital gain component and work out her net capital gain.

The following steps show how Ilena works out the amount to write at question **18** – label **H** in her supplementary tax return.

Step 1:

As Ilena has a share of a capital gain which the fund reduced by the CGT discount of 50% (her discounted share being $65), she must gross up her share of this capital gain. She does this by multiplying the amount of her share of the discounted capital gain by 2:

$65 × 2 = $130

Step 2:

Ilena adds her share of the trust's grossed-up and non-discounted capital gains to work out her total current year capital gains:

$130 + $90 = $220

She writes her total current year capital gains ($220) at question **18** – label **H** in her supplementary tax return.

Step 3:

After Ilena has grossed-up her share of the fund's discounted capital gain, she subtracts her capital losses from her capital gains.

Ilena can choose which capital gains she subtracts the capital losses from first. In her case, she gets the better result if she:

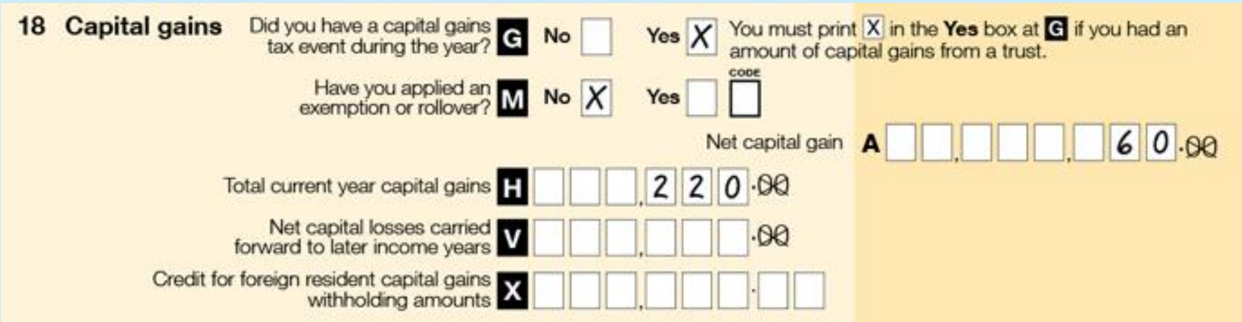
- subtracts as much as possible of her capital losses (which were $100) from her non-discounted capital gains ($90).
  $90 – $90 = $0 (non-discounted capital gains)
- subtracts her remaining capital losses after step 1 ($10) from her discounted capital gains ($130).
  $130 – $10 = $120 (discounted capital gains)
- applies the CGT discount to her remaining discounted capital gains:
  ($120 × 50%) = $60 (discounted capital gains)

Step 4:

Finally, Ilena adds up the capital gains remaining to arrive at her net capital gain:

$0 (non-discounted) + $60 (discounted) = $60 net capital gain.

Ilena completes question **18** in her supplementary tax return as follows:


18 Capital gains

Did you have a capital gains tax event during the year? **G** No [ ] Yes [X] You must print X in the **Yes** box at **G** if you had an amount of capital gains from a trust.

Have you applied an exemption or rollover? **M** No [X] Yes [ ] CODE [ ]

Net capital gain **A** 60.00

Total current year capital gains **H** 220.00

Net capital losses carried forward to later income years **V** .00

Credit for foreign resident capital gains withholding amounts **X** .

Ilena must print **X** in the No box at label **M** and leave the code blank. The trust applied the exemption or rollover and will need to report that on its trust return.

Records Ilena needs to keep

The tax-deferred and tax-free amounts Ilena received aren't included in her income or her capital gain, but the tax-deferred amount affects the cost base and reduced cost base of her units in XYZ Managed Fund for future income years. The tax-free amount affects her reduced cost base.

Ilena reduces the cost base and reduced cost base of her units as follows:

- cost base of $5,000
- *subtract* tax-deferred amount of $30
- new cost base is $4,970
- reduced cost base is $4,700
- *subtract* (tax-deferred amount + tax-free amount)
  $30 + $35 = $65
- the new reduced cost base is $4,635.

Cost base adjustments for AMIT members

If any non-assessable amounts from an AMIT are attributed to you, these may affect the cost base of your units in the AMIT.

Non-assessable payments are any part of the profit of the trust that is non-assessable and aren't included in your assessable income. Tax-free and tax-deferred amounts may reduce the cost base of your units, while tax-exempt amounts don't affect the cost base; see Trust non-assessable payments (CGT event E4).

Under the new tax system for managed investment trusts, the cost base of your units can be adjusted both upwards and downwards (upwards adjustments were not previously allowed).

Your statement of distribution or advice or AMIT Member Annual statement (AMMA) should show amounts and other information relevant to your cost base or reduced cost base.

The AMIT will calculate a cost base net amount. The cost base net amount is the balance of your cost base reduction amount and your cost base increase amount.

Example 21A: AMIT cost base net adjustment

Miriam owns units in the Exponential Growth Fund, which has elected into the new tax system for managed investment trusts in 2024–25 and is therefore an AMIT.

The fund **attributes** $13 per unit to Miriam for 2024–25 but pays a cash amount of $3 per unit. The balance of $10 is retained by Exponential Growth Fund for reinvestment, rather than paid as a cash distribution. Miriam includes the $13 attributed amount in her assessable income as 'Share of net income from trusts' at question **13 Partnerships and trusts**.

Cost base consequences

The $13 attributed to Miriam is added to her cost base of $55, while the actual payment of $3 is subtracted from her cost base. In this way, the cost base increase is netted off against the cost base reduction, resulting in a cost base net increase of $10 per unit. The cost base increase and cost base reduction are shown in Miriam's AMMA statement, along with a cost base net amount of $10.

The $10 cost base net amount isn't included in Miriam's assessable income or capital gains, because it represents amounts that have already been taxed to her on attribution. However, it is used to increase the cost base of her units in the Exponential Growth Fund for future years.

Miriam works it out as follows:

- cost base per unit is $55
- *add* taxable income **attributed** in 2024–25 of $13
- *subtract* cash dividend for 2024–25 of $3
- new cost base per unit is **$65**.

The amounts attributed to you to be included in your assessable income, as well as any non-assessable non-exempt income related to your CGT asset, are added to the cost base amount of your units in the AMIT. Cash payments you receive in relation to your units are subtracted from their cost base. Any reductions and increases are netted off against each other to arrive at your cost base net amount.

Any excess cost base net amount is used to reduce your unit's cost base. If the excess is greater than your cost base it will reduce your cost base to nil. Any remaining excess will result in a capital gain. If the excess is less than your cost base your cost base amount will be decreased, which may result in a greater capital gain or reduced capital loss on the disposal of your membership interests in the AMIT.

Any shortfall in the cost base net amount is used to increase your asset's cost base and reduced cost base. This may result in a reduced capital gain or increased capital loss on disposal of your assets.

For more information, see Law Companion Ruling LCR 2015/11 *Attribution Managed Investment Trusts: annual cost base adjustments for units in an AMIT and associated transitional rules.*

Investments in shares and units

Explains your CGT obligations if you sold or disposed of any shares or units in a unit trust in the 2024–25 income year.

In this section

Managed fund

A managed fund is a unit trust. Where we refer to a unit trust in this guide we are also referring to a managed fund.

How capital gains tax affects shares and units

For CGT purposes, shares in a company or units in a unit trust are treated in the same way as any other assets.

As a general rule, if you acquired any shares or units on or after 20 September 1985, you may have to pay tax on any capital gain you make when a CGT event happens to them. This would usually be when you sell or otherwise dispose of them. It also includes where you redeem units in a managed fund by switching them from one fund to another. In these cases, CGT event A1 happens. There is a list of all CGT events at Appendix 1.

Profits on the sale of shares held in carrying on a business of share trading are included as ordinary income rather than as capital gains. In addition, if the TOFA rules apply to you and you have elected to have certain tax-timing methods apply, gains and losses from trading of shares and units will be brought to account under those rules rather than as capital gains or capital losses.

Capital gains or losses made in respect of certain CGT events happening to shares held by an Australian resident company, that represents a non-portfolio interest in foreign companies may be reduced under Subdivision 768-G of the ITAA 1997 depending on the active foreign business asset percentage of the foreign company, see Foreign income return form guide.

A CGT event might happen to shares even if a change in their ownership is involuntary, for example, if the company in which you hold shares is taken over or merges with another company. This may result in a capital gain or capital loss.

This section also deals with the receipt of non-assessable payments from a company (CGT event G1) while Trust distributions and your CGT position deals with non-assessable payments from a trust (CGT event E4 or E10).

If you own shares in a company that has been placed in liquidation or administration, CGT event G3 lets you choose to make a capital loss when the liquidator or administrator declares the shares (or other financial instruments) worthless.

There are a number of special CGT rules if you receive such things as bonus shares, bonus units, rights, options or non-assessable payments from a company or trust. Special rules also apply if you buy convertible notes or participate in an employee share scheme or a dividend reinvestment plan.

The rest of this section explains these rules and has examples showing how they work in practice. The flowcharts at Appendix 3 will also help you work out whether the special rules apply to you.

For more information, see:

- Share investing versus share trading
- You and your shares 2025

Identifying shares or units sold

Sometimes taxpayers own shares or units that they may have acquired at different times. This can happen as people decide to increase their investment in a particular company or unit trust. A common question people ask when they dispose of only part of their investment is how to identify the particular shares or units they have disposed of.

This can be very important because shares or units bought at different times may have different amounts included in their cost base. In calculating the capital gain or capital loss when disposing of only part of an investment, you need to be able to identify which shares or units you have disposed of. Also, when you dispose of any shares or units you acquired before 20 September 1985, any capital gain or capital loss you make is generally disregarded.

If you have the relevant records (for example, share certificates), you may be able to identify which particular shares or units you have disposed of. In other cases, the Commissioner will accept your selection of the identity of shares disposed of.

Alternatively, you may wish to use a 'first in, first out' basis where you treat the first shares or units you bought as being the first you disposed of.

In limited circumstances, we'll also accept an average cost method to determine the cost of the shares disposed of. You can only use this average cost method when all of the following apply:

- the shares are in the same company
- the shares are acquired on the same day
- the shares have identical rights and obligations
- you're not required to use market value for cost base purposes.

Example 22: identifying when shares or units were acquired

Boris bought 1,000 shares in WOA Ltd on 1 July 1999. He bought another 3,000 shares in the company on 1 July 2004.

In December 2004, WOA Ltd issued Boris with a CHESS statement for his 4,000 shares. When he sold 1,500 of the shares on 1 January 2025, he was not sure whether they were the shares he bought in 2003 or whether they included the shares bought in 1999.

Because Boris could not identify when he bought the particular shares he sold, he decided to use the 'first in, first out' method and nominated the 1,000 shares bought in 1999 plus 500 of the shares bought in 2004.

Demutualisation of life insurance and general insurance companies

If you hold a policy in a life insurance company or a general insurance company that demutualises, you may be subject to CGT. This may be either at the time of the demutualisation or when you sell your shares (or another CGT event happens).

A company demutualises when it changes its membership interests to shares, for example, AMP, IOOF and NRMA. (There are similar rules for non-insurance organisations that demutualise).

The insurance company may give you the choice to either keep your share entitlement or to take cash by selling the shares under contract through an entity set up by the company ('share sale facility').

If it is an Australian insurance company and you chose to keep the shares, you'll not be subject to CGT until you eventually sell them or another CGT event happens. However, if you elect to sell your share entitlement through a share sale facility and take cash, you need to include any capital gain in your tax return in the income year in which you entered into the contract to sell the shares, even though you may not receive the cash until a later income year.

The demutualising company will write to all potential 'shareholders' and advise them of the acquisition cost in each instance, sometimes referred to as the 'embedded value'. Even though you didn't pay anything to acquire the shares, they have a value that is used as the cost base and reduced cost base for CGT purposes.

If you sell your shares before the insurance company is listed on the stock exchange and you make a capital loss, you disregard the loss.

If you hold a policy in an overseas insurance company that demutualises, you may be subject to CGT at the time of the demutualisation. Contact us for advice if this applies to you.

Demutualisation of private health insurers

If you hold or held a policy of a private health insurer that converts from a not-for-profit insurer to a profit insurer by demutualising, you disregard capital gains and capital losses you make from a CGT event happening to your interest or other right you have or had in the insurer.

If you receive shares or rights to acquire shares as a result of the demutualisation of your private health insurer you'll be taken for CGT purposes to have acquired each share or right at the time it is issued. The first element of the cost base or reduced cost base is equal to the market value of that share or right on the day they are issued.

Any sale of the shares or rights will be a CGT event that may give rise to a capital gain or capital loss in the income year in which you enter into the contract of sale. This includes when the shares are sold through the sale facility.

If you receive a cash payment under the demutualisation that isn't as a result of the sale of the shares or rights you'll not make a capital gain or loss.

Demutualisation of friendly societies

If you hold or held a policy of a friendly society that demutualised from a not-for-profit friendly society to a profit friendly society, you may be able to disregard your capital gain or loss from the CGT event. You can disregard capital gains and capital losses you make from a CGT event happening to your interest or other right you have or had in the friendly society except where you receive an amount of money. Your friendly society should advise you whether you realised a capital gain or capital loss.

If you received only shares, or rights to acquire shares, as a result of the demutualisation of your friendly society, we consider for CGT purposes that you acquired each share or right at the time it was issued.

Your friendly society should advise you of the cost base of the shares or rights to acquire shares. The cost base, or reduced cost base, will be a proportion of the total of both the:

- market value of the health insurance business
- embedded value of the life insurance business and any other business of the friendly society.

Selling the shares or rights (through the sale facility or otherwise) will be a CGT event that may give rise to a capital gain or capital loss in the income year in which you enter into the contract of sale.

Share buy-backs

As a shareholder, you may have received an offer from a company to buy back some or all of your shares in the company. If you disposed of shares back to the company under a share buy-back arrangement, you may have made a capital gain or capital loss from that CGT event.

You compare the capital proceeds with your cost base and reduced cost base to work out whether you have made a capital gain or capital loss.

The time you make the capital gain or capital loss will depend on the conditions of the particular buy-back offer. It may be the time you lodge your application to participate in the buy-back or, if it is a conditional offer of buy-back, the time you accept the offer.

For an off-market share buy-back undertaken by a listed public company, no part of the buy-back price is a dividend. Instead, the entire buy-back price is treated as capital proceeds. For more information, see Capital proceeds from an off-market share buy-back.

Under other off-market buy-backs, where a dividend is paid as part of the buy-back price, the amount paid excluding the dividend is generally your capital proceeds for the share.

Example 23: buy-back

Sam bought 4,500 shares in Company A in January 1994 at a cost of $5 per share. In February 2025, Sam applied to participate in a buy-back offer to dispose of 675 shares (15%). Company A approved a buy-back of 10% (450) of the shares on 15 June 2025. The company sent Sam a cheque on 5 July 2025 for $4,050 (450 shares × $9). No part of the payment is a dividend.

When Sam works out his capital gain for 2024–25, if he chooses:

- Indexation method, he works out his capital gain as
  - capital proceeds of $4,050
  - cost base 450 shares × $5
    $2,250 × 1.117 including indexation = $2,513
  - capital gain is **$1,537**.
- Discount method, he works out his capital gain as
  - capital proceeds of $4,050
  - cost base of $2,250
  - capital gain (before applying any discount) is **$1,800**.

Sam has no capital losses to apply against this capital gain and decides that the discount method will provide him with the better result. He takes $900 ($1,800 × 50%) into account in working out his net capital gain for the year.

Example 24: off-market buy-back of shares held in a private company including dividend

Ranjini bought 10,000 shares in Company M, a private company, in January 2004 at a cost of $6 per share, including brokerage. The shares in Company M aren't listed on a stock exchange.

In January 2025, the company wrote to its shareholders advising them it was offering to buy back 10% of their shares for $9.60 each. The buy-back price was to include a franked dividend of $1.40 per share (and each dividend was to carry a franking credit of $0.60).

Ranjini applied to participate in the buy-back to sell 1,000 of her shares.

Company M approved the buy-back on 1 May 2025 on the terms anticipated in its earlier letter to shareholders.

The market value of Company M shares at the time of the buy-back (if the buy-back didn't occur and was never proposed) was $10.20.

Ranjini received a cheque for $9,600 (1,000 shares × $9.60) on 8 June 2025.

Because it was an off-market share buy-back, the shares were not held in a listed public company, and the buy-back price was less than what the market value of the share would have been if the buy-back hadn’t occurred. Ranjini works out her capital gain for the 2024–25 year as follows.

Capital proceeds:

Market value ($10.20) **less** dividend ($1.40) = $8.80
$8.80 × 1,000 shares = $8,800
Cost base: $6 × 1,000 shares = $6,000
Capital gain (before applying any discount) = $2,800

Ranjini takes her capital gain into account when completing question **18** in her supplementary tax return. She also includes her dividend at question **11** in her tax return ($1,400 at label **T** and $600 at label **U**).

Shares in a company in liquidation or administration

If a company is placed in liquidation or administration, company law restricts the transfer of shares in the company. This means that, in the absence of special CGT rules, you may not be able to realise a capital loss on shares that have become worthless unless you declare a trust over them.

In certain circumstances, you can choose to realise a capital loss on worthless shares before dissolution (if you acquired the shares on or after 20 September 1985). This applies if you own shares in a company and a liquidator or administrator declares in writing that there is no likelihood you'll receive any further distribution in the course of winding up the company. A liquidator’s declaration can be made after you receive a distribution during the winding up.

Financial instruments relating to a company (not just shares) can also be declared worthless by a liquidator or administrator.

Financial instruments include (but aren't limited to):

- convertible notes
- debentures, bonds or promissory notes issued by the company
- loans to the company
- futures contracts, forward contracts or currency swap contracts relating to the company
- rights or options to acquire shares in a company and any of the financial instruments in the list above.

Many financial instruments may be referred to as securities.

If you make this choice, you'll make a capital loss equal to the reduced cost base of the shares (or financial instruments) at the time of the liquidator's or administrator's declaration. The cost base and reduced cost base of the shares (or financial instruments) are reduced to nil just after the liquidator or administrator makes the declaration. This cost base or reduced cost base will be used for the purposes of working out any capital gain or loss you may make from a future CGT event in relation to those shares (or financial instruments).

These rules don't apply to:

- shares or financial instruments you acquired before 20 September 1985
- a financial instrument where any profit made on the disposal or redemption of it would be included in your assessable income or any loss would be deductible, such as a traditional security or qualifying security
- shares that are revenue assets at the time when the declaration is made
- a right acquired prior to 1 July 2009 under an employee share scheme
- an ESS interest or an ESS interest that is a beneficial interest in a right that is forfeited and is taken to have been acquired
- units in unit trusts or financial instruments relating to trusts.

For more information, see:

- Investments in a company in liquidation or administration
- Employee share schemes

Example 25: liquidator's declaration that shares are worthless

The administrators of XYZ Company Ltd made a written declaration on 31 March 2025 that they had reasonable grounds to believe that there was no likelihood that the shareholders of XYZ Company Ltd would receive any distribution from their shares.

Hillary purchased shares in XYZ Company Ltd in March 2010 for $1.70, including brokerage. Following the administrators' declaration, Hillary can choose to make capital losses equal to the reduced cost bases of her shares as at 31 March 2025. She claims the capital losses in her 2025 tax return.

If no declaration is made by a liquidator or administrator, or you have not chosen to make a capital loss following a declaration by a liquidator or administrator, you may make a capital loss on your shares or financial instruments when a court order is given to dissolve the company.

For information on when and how you make a choice, see Choices.

Also, if a company is wound up voluntarily, shareholders may realise a capital loss either 3 months after a liquidator lodges a tax return showing that the final meeting of the company has been held, or on another date declared by a court. The cancellation of shares as a result of the dissolution of the company is an example of CGT event C2, see Appendix 1.

Takeovers and mergers

If a company in which you own shares is taken over or merges with another company, you may have a CGT obligation if you're required to dispose of your existing shares or they are cancelled.

In certain circumstances, if you acquire new shares in the takeover or merged company, you may be able to defer paying CGT until a later CGT event happens.

Some takeover or merger arrangements involve an exchange of shares. In these cases, when you calculate your capital gain or capital loss, your capital proceeds will be the market value of the shares received in the takeover or merged company at the time of disposal of your original shares.

If you receive a combination of money and shares in the takeover or merged company, your capital proceeds are the total of the money and the market value of the shares you received at the time of disposal of the original shares.

The cost of acquiring the shares in the takeover or merged company is the market value of your original shares at the time you acquire the other shares, reduced by any cash proceeds.

To correctly calculate the capital gain or capital loss for your original shares, you'll need to keep records (in addition to the usual records) showing the parties to the arrangement, the conditions of the arrangement and the capital proceeds.

As each takeover or merger arrangement will vary according to its own particular circumstances, you need to get full details of the arrangement from the parties involved.

We are assuming in the following example that the scrip for scrip rollover doesn't apply.

Example 26: takeover

In October 2002, Desiree bought 500 shares in DEF Ltd. These shares are currently worth $2 each. Their cost base is $1.50.

XYZ Ltd offers to acquire each share in DEF Ltd for one share in XYZ Ltd and 75 cents cash. The shares in XYZ Ltd are valued at $1.25 each. Accepting the offer, Desiree receives 500 shares in XYZ Ltd and $375 cash.

The capital proceeds received for each share in DEF Ltd is $2 ($1.25 market value of each XYZ Ltd share plus 75 cents cash). Therefore, as the cost base of each DEF Ltd share is $1.50, Desiree will make a capital gain of 50 cents ($2 – $1.50) on each share, a total of $250.

The cost base of the newly acquired XYZ Ltd shares is the market value of the shares in DEF Ltd ($2) less the cash amount received ($0.75) which equals $1.25 each or a total of $625 (500 × $1.25).

Scrip for scrip rollover

If a company in which you owned shares was taken over and you received new shares in the takeover company, you may be entitled to a scrip for scrip rollover. You may also be eligible for this rollover if you exchange a unit or other interest in a fixed trust, for a similar interest in another fixed trust.

A scrip for scrip rollover isn't available if a share is exchanged for a unit or other interest in a fixed trust, or if a unit or other interest in a fixed trust is exchanged for a share.

You can only choose the rollover if you have made a capital gain from such an exchange on or after 10 December 1999. A rollover doesn't apply to a capital loss.

A rollover is only available if the exchange is in consequence of an arrangement that results in the acquiring entity (or the wholly owned group of which it is a member) becoming the owner of 80% or more of the original company or trust.

For companies, the arrangement may qualify for the scrip for scrip rollover if one of the following applies:

- holders of voting interests in the target entity can participate in the merger or takeover on substantially the same terms
- it includes a takeover bid that doesn't contravene key provisions in Chapter 6 of the *Corporations Act 2001* (Corporations Act)
- if the target entity is a company, it includes a scheme of arrangement approved by a court under Part 5.1 of the Corporations Act.

For trusts, an arrangement may qualify if either:

- all owners of trust voting interests in the original entity or, where there are no voting interests, all owners of units or other fixed interests can participate
- it includes a takeover bid that doesn't contravene the Corporations Act.

There are special rules if a company or trust has a small number of shareholders or beneficiaries and there is a significant or common stakeholder. If the company or trust doesn't let you know, you'll need to seek information from them about whether these conditions have been satisfied.

The rollover allows you to disregard the capital gain made from the original shares, units or other interest. You're taken to have acquired the replacement shares, units or other interest for the cost base of the original interest.

You can apply the CGT discount when you dispose of new shares providing the combined period that you owned the original shares and the new shares is at least 12 months. The same applies to units in a trust. Note that you have to deduct any capital losses (including unapplied net capital losses from earlier years) from your capital gains before applying the CGT discount.

You may only be eligible for a partial rollover if you exchange shares, units or interests for similar interests in another entity (replacement interest) plus something else, usually cash.

This is because the rollover applies only to the replacement interest. You'll need to apportion the cost base of the original interest between the replacement interest and the cash (or other proceeds not eligible for the rollover).

If your original shares, units or other interests were acquired before 20 September 1985 (pre-CGT), you're not eligible for a scrip for scrip rollover. Instead, you acquire the replacement interest at the time of the exchange and the replacement interest is no longer a pre-CGT asset. However, if the arrangement is one that would otherwise qualify for a scrip for scrip rollover, the cost base of the replacement interest is its market value just after the acquisition.

Example 27: partial scrip for scrip rollover

Gunther owns 100 shares in Windsor Ltd, each with a cost base of $9. He accepts a takeover offer from Regal Ltd, which provides for Gunther to receive one Regal share plus $10 cash for each share in Windsor. Gunther receives 100 shares in Regal and $1,000 cash. Just after Gunther is issued shares in Regal, each share is worth $20.

Gunther receives $10 cash for each of his Windsor shares and so has $1,000 to which a rollover doesn't apply.

In this case, it is reasonable to allocate a portion of the cost base of the original shares having regard to the proportion that the cash bears to the total proceeds. That is:

A ÷ B × C = D

Where:

- A is cash
- B is total proceeds (cash and value of shares received)
- C is cost base of original share
- D is proportion of cost base for which cash was received.

Following on from the formula above, Gunther's calculations are:

$1,000 ÷ $3,000 × $900 = $300

Gunther’s capital gain is as follows:

$1,000 (cash) – $300 (cost base) = $700 (capital gain)

Gunther calculates the cost base of each of his Regal shares as follows:

($900 – $300) ÷ 100 = $6

Example 28: scrip for scrip rollover

Stephanie owns ordinary shares in Reef Ltd. On 28 February 2025, she accepted a takeover offer from Starfish Ltd, under which she received one ordinary share, and one preference share for each Reef share. The market value of the Starfish shares just after Stephanie acquired them was $20 for each ordinary share and $10 for each preference share.

The cost base of each Reef share just before Stephanie ceased to own them was $15.

The offer made by Starfish Ltd satisfied all the requirements for a scrip for scrip rollover.

If the rollover didn't apply, Stephanie would have made a capital gain per share of:

$30 (capital proceeds) − $15 (cost base) = $15 (capital gain)

Scrip for scrip rollover allows Stephanie to disregard the capital gain. The cost base of the Starfish shares is the cost base of the Reef Ltd shares.

Apportioning the cost base

As the exchange is one share in Reef Ltd for 2 shares in Starfish Ltd, Stephanie needs to apportion the cost base of the Reef Ltd share between the ordinary share and the preference share.

Cost base of ordinary share:

$20 ÷ 30 × $15 = $10

Cost base of preference share:

$10 ÷ 30 × $15 = $5

Demergers

A demerger involves the restructuring of a corporate or fixed trust group by splitting its operations into 2 or more entities or groups.

Under a demerger, the owners of the head entity of the group (that is, the shareholders of the company or unit holders of the trust) acquire a direct interest (shares or units) in an entity that was formerly part of the group (the demerged entity).

Example 29: demerger

Peter owns shares (his original interest) in Company A. Company B is a wholly owned subsidiary of Company A. Company A undertakes a demerger by transferring all its shares in Company B to its shareholders. Following the demerger, all the shareholders in Company A, including Peter, will own all the shares in Company B (their new interests) in the same proportion that they hold their shares in Company A.

Demergers on or after 1 July 2002

Certain rules apply to eligible demergers that happened on or after 1 July 2002.

Demerger rollover

If you received new interests in a demerged entity under an eligible demerger that happened on or after 1 July 2002, you need to be aware of the following CGT consequences:

- you may be entitled to choose a rollover for any capital gain or capital loss you make under the demerger
- you must calculate the cost base and reduced cost base of your interests in the head entity and your new interests in the demerged entity immediately after the demerger.

The head entity will normally advise you whether it has undertaken an eligible demerger. We may have provided advice to the head entity in the form of a class ruling.

Rollover available

To choose a rollover, the demerger must be an eligible demerger.

If you choose a rollover both of the following apply:

- you disregard any capital gain or capital loss made under the demerger
- your new interests in the demerged entity are acquired on the date of the demerger. However, if a proportion of your original interests was acquired before 20 September 1985 (pre-CGT), the same proportion of your new interests in the demerged entity is treated as pre-CGT assets.

If you don't choose a rollover both of the following apply:

- you can't disregard any capital gain or capital loss made under the demerger
- all your new interests in the demerged entity are acquired on the date of the demerger.

Demerger exemption

This exemption applies to disregard certain capital gains or capital losses made by a demerging entity in a demerger group. A demerger group comprises the head entity of a group of companies or trusts and at least one demerger subsidiary. Discretionary trusts and super funds can't be members of a demerger group.

Cost base calculations

You must recalculate the first element of the cost base and reduced cost base of your remaining original interests in the head entity and of your new interests in the demerged entity. You must make these calculations whether you choose a rollover or not, or if no CGT event happens to your original interests under the demerger.

The calculation will depend on whether you have pre-CGT original interests in the head entity.

Cost base calculations where you don't have pre-CGT interests

You work out the cost base and reduced cost base of your remaining post-CGT original interests and your post-CGT new interests immediately after the demerger. You do this by spreading the total cost base of your post-CGT original interests (immediately before the demerger) over both your remaining post-CGT original interests and your post-CGT new interests. The following steps explain how to do this. The steps and **example 30** work out new cost bases using a method referred to as the 'relative market value method', which is sometimes also referred to as the 'averaging method'. You may be able to use other methods if they are reasonable. For more information, see Demergers CGT rollover for shareholders and unit holders.

Step 1

Add the cost bases of your post-CGT original interests immediately before the demerger. Don't reduce your total cost base by any capital amounts returned to you under the demerger and don't include indexation.

Step 2

Use the relevant percentages to apportion the step 1 amount between both your post-GST:

- original interests in the head entity
- new interests in the demerged entity.

The head entity should generally advise you of the relevant percentages to use.

Step 3

Divide the cost base apportioned to the head entity interests (from step 2) by the number of remaining post-CGT original interests you own.

Step 4

Divide the cost base apportioned to the demerged entity interests (from step 2) by the number of post-CGT new interests you own. These amounts will form the first element of the cost base and reduced cost base of your post-CGT original interests and post-CGT new interests.

Example 30: no pre-CGT interests

Under the BHP Billiton Ltd demerger of BHP Steel Ltd, shareholders received one BHP Steel share for every 5 BHP Billiton shares they owned at the date of the demerger.

Anita owned 280 BHP Billiton shares (all post-CGT) with a cost base of $2,500 immediately before the demerger. Under the demerger, Anita received 56 BHP Steel shares. Anita works out the cost base and reduced cost base of her BHP Billiton shares and BHP Steel shares as follows:

1. BHP Billiton advised shareholders to apportion 94.937% of the total cost base from step 1 to BHP Billiton shares and 5.063% to BHP Steel shares
   a. BHP Billiton: 94.937% × $2,500 = $2,373.43
   b. BHP Steel: 5.063% × $2,500 = $126.58.
2. Divide the step 2(a) amount by the 280 BHP Billiton shares
   $2,373.43 ÷ 280 = $8.48 per share
3. Divide the step 2(b) amount by the 56 BHP Steel shares
   $126.58 ÷ 56 = $2.26 per share.

Cost base calculations where you have pre-CGT interests

Working out the cost base where you have pre-CGT interests and you choose, can't choose or don't choose a rollover.

If you choose a rollover

If you choose a rollover and a proportion of your original interests are pre-CGT, the same proportion of your new interests will be treated as pre-CGT interests. It isn't necessary to calculate the cost base and reduced cost base for your pre-CGT interests.

You calculate the cost base and reduced cost base of your remaining post-CGT original interests and your post-CGT new interests in the same way as shown in the example above.

There is no change to the acquisition date of your original interests.

If you don't or can't choose a rollover

If you don't or you can't choose a rollover (for example, because a CGT event didn't happen to your original interests), the new interests that you receive for your pre-CGT original interests are treated as post-CGT interests. You work out the cost base of these new interests under the ordinary cost base rules. This will generally be equal to the capital return and dividend distributed from the head entity that is applied to acquire those new interests.

It may be to your advantage not to choose a rollover for the new interests you receive for your pre-CGT original interests. For example, where the reduced cost bases of those new interests calculated under the ordinary cost base rules mean you'll make a capital loss when you dispose of them.

You calculate the cost base and reduced cost base of your remaining post-CGT original interests and your post-CGT new interests (other than those received for pre-CGT original interests) in the same way as shown in Example 30, except that you ignore the new interests received for pre-CGT original interests in the calculation.

There is no change to the acquisition date of your original interests.

Example 31: with pre-CGT interests

Anita owned 400 BHP Billiton shares immediately before the demerger:

- 120 pre-CGT shares
- 280 post-CGT shares (the cost base of which, immediately before the demerger, was $2,500).

Either
Anita chooses a rollover. The 24 BHP Steel shares she received for the 120 pre-CGT BHP Billiton shares are pre-CGT. It isn't necessary for Anita to work out the cost base and reduced cost base for her pre-CGT interests. Immediately after the demerger, she calculates the cost base and reduced cost base of her 280 post-CGT BHP Billiton shares and the 56 BHP Steel shares she received for those BHP Billiton shares in the same way as shown in Example 30.

Or
Anita doesn't choose a rollover. The 24 BHP Steel shares she received for the 120 pre-CGT BHP shares are post-CGT shares acquired on the date of the demerger. Immediately after the demerger, the cost base and reduced cost base of the 24 BHP Steel shares are $3.45 per share (the capital return of $0.69 per share × 5). Immediately after the demerger, she calculates the cost base and reduced cost base of her 280 post-CGT BHP Billiton shares and the 56 BHP Steel shares she received for those BHP Billiton shares in the same way as shown in Example 30.

In either case there is no change to the pre-CGT status of Anita’s 120 BHP Billiton shares.

Using the discount method if you sell your shares after the demerger

If you sell your new interests in the demerged entity after the demerger, you must have owned those interests for at least 12 months from the date you acquired the corresponding original interests in the head entity in order to use the discount method.

> *Example 32: using the discount method after a demerger (1)*
>
> You received BHP Steel Ltd shares under the demerger on 22 July 2002. They related to shares you acquired in BHP Billiton Ltd on 15 August 2001. You can only use the discount method to work out your capital gain on these shares if you dispose of them after 15 August 2002; that is, more than 12 months after the date you acquired the BHP Billiton shares.

However, you calculate the 12 months from the date of demerger if you either:

- didn't choose the rollover and you received new interests in the demerged entity which relate to pre-CGT interests in the head entity
- acquired your new interests without a CGT event happening to your original interests.

> *Example 33: using the discount method after a demerger (2)*
>
> You received BHP Steel Ltd shares under the demerger where you calculated the cost base as $3.45 per share (because they related to pre-CGT shares you owned in BHP Billiton Ltd and you didn't choose a rollover). You can only use the discount method to work out your capital gain on these shares if you disposed of them after 22 July 2003; that is, more than 12 months after the demerger.

Demergers calculator and other products and information

You can use our Demergers calculator to help you make these calculations.

We also have other products to help you, such as question-and-answer sheets for some demergers undertaken by major listed entities; see Demergers CGT rollover for shareholders and unit holders.

Dividend reinvestment plans

Some companies ask their shareholders whether they would like to participate in a dividend reinvestment plan. Under these plans, shareholders can choose to use their dividend to acquire additional shares in the company instead of receiving a cash payment. These shares are usually issued at a discount on the current market price of the shares in the company.

For CGT purposes, if you participate in a dividend reinvestment plan you're treated as if you had received a cash dividend and then used the cash to buy additional shares.

Each share (or parcel of shares) acquired in this way, on or after 20 September 1985, is subject to CGT. The cost base of the new shares includes the price you paid to acquire them, that is, the amount of the dividend.

Example 34: dividend reinvestment plans

Natalie owns 1,440 shares in PHB Ltd. The shares are currently worth $8 each. In November 2024, the company declared a dividend of 25 cents per share.

Natalie could either take the $360 dividend as cash (1,440 × 25 cents) or receive 45 additional shares in the company (360 ÷ 8).

Natalie decided to participate in the dividend reinvestment plan and received 45 new shares on 20 December 2024. She included the $360 dividend in her 2024–25 assessable income.

For CGT purposes, she acquired the 45 new shares for $360 on 20 December 2024.

Bonus shares

Bonus shares are additional shares a shareholder receives for an existing holding of shares in a company. If you dispose of bonus shares received on or after 20 September 1985, you may make a capital gain. You may also have to modify the cost base and reduced cost base of your existing shares in the company if you receive bonus shares.

The cost base and reduced cost base of bonus shares depend on whether the bonus shares are assessable as a dividend.

As a result of changes to company and taxation laws, the paid-up value of bonus shares is now generally not assessable as a dividend. An exception to this rule is where you have the choice of being paid a cash dividend or of being issued shares under a dividend reinvestment plan. These shares are treated as dividends and the amount of the dividend is included in your assessable income.

Table 3 explains how the time of issue of your bonus shares affects whether the paid-up value of the bonus shares is assessed as a dividend.

Date	Implications of timing of bonus shares
From 20 September 1985 to 30 June 1987 inclusive	Many bonus shares issued were paid out of a company's asset revaluation reserve or from a share premium account. These bonus shares aren't usually assessable dividends.
From 1 July 1987 to 30 June 1998 inclusive	The paid-up value of bonus shares issued is assessed as a dividend unless paid from a share premium account.
From 1 July 1998	The paid-up value of bonus shares issued is generally not assessed as a dividend unless you have the choice of being paid a dividend or being issued shares and you chose to be issued with shares.

There are other, less common, circumstances where bonus shares will be assessed as a dividend, for example, where:

- the bonus shares are being substituted for a dividend to give a tax advantage
- the company directs bonus shares to some shareholders and dividends to others to give them a tax benefit.

Flowchart 3.1 in Appendix 3 summarises the different rules applying to different bonus shares issued on or after 20 September 1985.

Bonus shares issued where no amount is assessed as a dividend

This will depend on when the shares were acquired.

Original shares acquired on or after 20 September 1985

If your bonus shares relate to other shares that you acquired on or after 20 September 1985 (referred to as your original shares) your bonus shares are taken to have been acquired on the date you acquired your original shares. If you acquired your original shares at different times, you'll have to work out how many of your bonus shares are taken to have been acquired at each of those times.

Calculate the cost base and reduced cost base of the bonus shares by apportioning the cost base and reduced cost base of the original shares over both the original and the bonus shares. Effectively, this results in a reduction of the cost base and reduced cost base of the original shares. You also include any calls paid on partly paid bonus shares as part of the cost base and reduced cost base that is apportioned between the original and the bonus shares.

Original shares acquired before 20 September 1985

Your CGT obligations depend on when the bonus shares were issued and whether they are fully paid or partly paid.

For more information, see Flowchart 3.1 in Appendix 3.

Example 35: fully paid bonus shares

Chris bought 100 shares in MAC Ltd for $1 each on 1 June 1985. He bought 300 more shares for $1 each on 27 May 1986. On 15 November 1986, MAC Ltd issued Chris with 400 bonus shares from its capital profits reserve, fully paid to $1. Chris didn't pay anything to acquire the bonus shares and no part of the value of the bonus shares was assessed as a dividend.

For CGT purposes, the acquisition date of 100 of the bonus shares is 1 June 1985 (pre-CGT). Therefore, those bonus shares aren't subject to CGT.

The acquisition date of the other 300 bonus shares is 27 May 1986. Their cost base is worked out by spreading the cost of the 300 shares Chris bought on that date over both those original shares and the remaining 300 bonus shares. As the 300 original shares cost $300, the cost base of each share will now be 50 cents.

Example 36: partly paid bonus shares

Klaus owns 200 shares in MAC Ltd, which he bought on 31 October 1984, and 200 shares in PUP Ltd, which he bought on 31 January 1985.

On 1 January 1987, both MAC Ltd and PUP Ltd made their shareholders a one-for-one bonus share offer of $1 shares partly paid to 50 cents. Klaus elected to accept the offer and acquired 200 new partly paid shares in each company. No part of the value of the bonus shares was taxed as a dividend.

On 1 April 1989, PUP Ltd made a call for the balance of 50 cents outstanding on the partly paid shares, payable on 30 June 1989. Klaus paid the call payment on that date. MAC Ltd has not yet made any calls on its partly paid shares.

For CGT purposes, Klaus is treated as having acquired his bonus PUP Ltd shares on the date he became liable to pay the call (1 April 1989). The cost base of the bonus shares in PUP Ltd includes the amount of the call payment (50 cents) plus the market value of the shares immediately before the call was made.

The MAC Ltd bonus shares will continue to have the same acquisition date as the original shares (31 October 1984) and are therefore not subject to CGT. However, this will not be the case if Klaus makes any more payments to the company on calls made by the company for any part of the unpaid amount on the bonus shares. In this case, the acquisition date of the bonus shares will be when the liability to pay the call arises and the bonus shares will then be subject to CGT.

Bonus shares issued where the paid-up value is assessed as a dividend

If the paid-up value of bonus shares is assessed as a dividend, you may have to pay CGT when you dispose of the bonus shares, regardless of when you acquired the original shares.

Original shares acquired on or after 20 September 1985

If your bonus shares relate to original shares that you acquired on or after 20 September 1985, the acquisition date of the bonus shares is the date they were issued. Their cost base and reduced cost base includes the amount of the dividend, plus any call payments you made to the company if they were only partly paid.

Exception – bonus shares received before 1 July 1987

The exception to this rule is bonus shares you received before 1 July 1987. They are taken to be acquired on the date you acquired your original shares. Their cost base is calculated as if the amount was not taxed as a dividend.

For more information, see Bonus shares issued where no amount is assessed as a dividend.

Original shares acquired before 20 September 1985

The rules that apply where you acquired your original shares before 20 September 1985 depend on when the bonus shares were issued and whether they were partly paid or fully paid.

For more information, see Flowchart 3.1 in Appendix 3.

Example 37: cost base of bonus shares

Mark owns 1,000 shares in RIM Ltd, which he bought on 30 September 1984 for $1 each.

On 1 February 1997, the company issued him with 500 bonus shares partly paid to 50 cents. The paid-up value of bonus shares ($250) is an assessable dividend to Mark.

On 1 May 1997, the company made a call for the 50 cents outstanding on each bonus share, which Mark paid on 1 July 1997.

The total cost base of the bonus shares is $500, consisting of the $250 dividend received on the issue of the bonus shares on 1 February 1997 plus the $250 call payment made on 1 July 1997.

The bonus shares were acquired on 1 February 1997.

If Mark held the bonus shares for more than 12 months when he sold them, he can use the indexation method to calculate his capital gain.

Amounts payable to a company on shares in the company can be indexed only from the date of actual payment. In Mark's case, he can only index the $250 call payment from the date he paid it (1 July 1997).

However, indexation on the $250 dividend included in his assessable income on the issue of the bonus shares was available from 1 February 1997. This is different from the indexation treatment of amounts paid to acquire assets in other circumstances where indexation is available from the time the liability to make the payment arises. The indexation rules are explained in more detail in How to work out your capital gain or capital loss.

If Mark disposes of the shares after 11:45 am AEST on 21 September 1999, he can calculate his capital gain using either the indexation method or the discount method.

Bonus units

If you have received bonus units on or after 20 September 1985, you may make a capital gain when you dispose of them.

The CGT rules for bonus units are similar to those for bonus shares. However, the rules don't apply if the bonus units are issued by a corporate unit trust or a public trading trust.

When the unit trust issues the bonus units, they will generally tell you what amount (if any) you have to include in your assessable income. You need to keep a record of that information to work out your CGT obligation when you dispose of them.

Flowchart 3.2 in Appendix 3 summarises the rules applying to bonus units issued on or after 20 September 1985.

Bonus units issued where no amount is included in assessable income

This will depend on when the original units were acquired.

Original units acquired on or after 20 September 1985

If your bonus units relate to other units that you acquired on or after 20 September 1985, your bonus units are taken to have been acquired on the date you acquired your original units. If you have original units that you acquired at different times, you'll have to work out how many of your bonus units are taken to have been acquired at each of those times.

Calculate the cost base and reduced cost base of the bonus units by apportioning the cost base and reduced cost base of the original units over the original units and the bonus units. Effectively, this results in a reduction of the cost base and reduced cost base of the original units. You also apportion any calls paid on partly paid bonus units between the cost bases (and reduced cost bases) of the original units and the bonus units.

Original units acquired before 20 September 1985

The rules that apply if you acquired your original units before 20 September 1985 depend on when the bonus units were issued and whether they were partly paid or fully paid.

For more information, see Flowchart 3.2 in Appendix 3.

Example 38: unit trusts

Sarah is a unit holder in the CPA Unit Trust. She bought 1,000 units on 1 September 1985 for $1 each and 1,000 units on 1 July 1996 for $2 each. On 1 March 1997, the unit trust made a one-for-one bonus unit issue to all unit holders. Sarah received 2,000 new units. She didn't include any amount in her assessable income as a result.

The 1,000 new units issued for the original units she acquired on 1 September 1985 are also treated as having been acquired on that date and are therefore not subject to CGT.

However, the 1,000 new units issued for the original units she acquired on 1 July 1996 are subject to CGT. Their cost base is worked out by spreading the cost of the original units ($2,000) acquired on that date over both the original units and the bonus units. Each of the units therefore has a cost base of $1.

Bonus units issued where an amount is included in assessable income

If you include any amount in your assessable income as a result of the issue of bonus units, their acquisition date is the date they were issued, regardless of when you acquired the original units.

The cost base and reduced cost base of the bonus units is the amount included in your assessable income as a result of the issue of those units, plus any calls you made if they were only partly paid.

If the bonus units were issued before 20 September 1985, any capital gain or capital loss is disregarded, as they are pre-CGT assets.

Rights or options to acquire shares or units

If you own shares or units, the company or trust may issue you rights or options to acquire additional shares or units at a specified price. The market value of these rights, at the time the rights or options are issued to you, is non-assessable non-exempt income, provided all of the following apply:

- you already own shares or units
- the right was issued to you because of your ownership of the shares or units
- your shares or units, and the rights, must not be revenue assets or trading stock at the time they are issued
- those rights were not acquired under an employee share scheme
- your shares or units, and the rights, aren't traditional securities
- your shares or units aren't convertible interests.

You'll make a capital gain or capital loss when a CGT event happens to:

- the rights or options, other than as a result of exercising those rights or options
- the shares or units acquired as a result of exercising those rights or options.

The calculation of the capital gain arising from a subsequent CGT event will not be affected by any non-assessable non-exempt income amount.

Rights and options issued directly to you from a company or trust for no cost

You're taken to have acquired the rights and options at the same time as you acquired the original shares or units. Therefore, if you acquired the original shares or units before 20 September 1985, you disregard any capital gain or capital loss you make when the rights or options expire or are sold, as they are pre-CGT assets.

If you acquired the original shares or units on or after 20 September 1985, you make a capital gain if the capital proceeds on the sale or expiry of the rights or options are more than their cost base. You make a capital loss if the reduced cost base of the rights or options is more than those capital proceeds.

Rights and options you bought from a company, trust or another person If you acquired your rights or options on or after 20 September 1985, they are treated much like any other CGT asset and are subject to CGT.

Flowchart 3.3, Flowchart 3.4 and Flowchart 3.5 in Appendix 3 summarise the different rules applying to the treatment of rights or options to acquire shares or units.

Exercising rights or options to acquire shares or units

Many people decide to exercise their rights or options to acquire new shares or units rather than sell them. In most cases, no CGT is payable at the time you exercise the rights or options.

The acquisition date of the shares or units is the date of exercise of the rights or options to acquire the shares or units.

If you exercise the rights or options on or after 20 September 1985, some special rules apply for calculating the cost base and reduced cost base of shares or units acquired as a result. Exercising the option or right may be subject to the foreign resident capital gains withholding, regardless of when the option or right was originally acquired.

The rules outlined below don't apply to rights or options to acquire shares under an employee share scheme.

Rights or options issued for no cost as a share or unit holder

The amount included in the cost base and reduced cost base of the shares or units you acquire on exercise of the rights or options depends on when you acquired your original shares or units. The following rules don't apply to rights or options to acquire units issued before 29 January 1988.

Original shares or units acquired before 20 September 1985

The first element of the cost base and reduced cost base for the shares or units you acquire on exercising your rights or options is the sum of:

- the market value of the rights or options at the time you exercised them
- the amount you paid to exercise the rights or options
- any amount that was included in your assessable income as a result of you exercising your rights or options on or after 1 July 2001.

Original shares or units acquired on or after 20 September 1985

The first element of the cost base and reduced cost base for the shares or units you acquire on exercising your rights or options is the sum of:

- the cost base of the rights or options at the time you exercised them
- the amount you paid to exercise the rights or options (except to the extent that the amount is represented in the cost base of the rights or options at the time of exercise)
- any amount that was included in your assessable income as a result of you exercising your rights or options on or after 1 July 2001.

Flowchart 3.3 in Appendix 3 summarises the rules relating to the treatment of such options and rights.

Rights or options you acquire from a share or unit holder

The amount included in the cost base and reduced cost base of the shares or units you acquire depends on when you acquired your rights or options. The following rules don't apply to rights or options to acquire units issued before 29 January 1988.

Rights or options acquired before 20 September 1985

If the rights or options were exercised on or after 20 September 1985, the first element of the cost base and reduced cost base for the shares is the sum of:

- the market value of the rights or options at the time you exercised them
- the amount you paid to exercise the rights or options
- any amount that was included in your assessable income as a result of you exercising your rights or options on or after 1 July 2001.

Rights or options acquired on or after 20 September 1985

The first element of the cost base and reduced cost base for the shares or units you acquire on exercising your rights or options is the sum of:

- the cost base for the rights or options (including any amount you paid for them)
- the amount you paid for the shares or units on exercising the rights or options (except to the extent that the amount is represented in the cost base of the rights or options at the time of exercise)
- any amount that was included in your assessable income as a result of you exercising your rights or options on or after 1 July 2001.

Flowchart 3.4 in Appendix 3 summarises the rules relating to the treatment of such options and rights.

Rights or options you pay for, receive directly or acquire

Rights or options you pay for that are issued directly to you from the company or trust or that you acquire from an individual or entity that are not a shareholder or unit holder.

For rights or options to acquire units, these rules apply to rights or options exercised on or after 27 May 2005.

The amount included in the cost base and reduced cost base of the shares or units you acquire depends on when you acquired your rights or options.

Rights or options acquired before 20 September 1985

This includes rights or options last renewed or extended after that date if they were exercised before 27 May 2005.

If the rights or options were exercised on or after 20 September 1985 the first element of the cost base and reduced cost base for the shares or units is the sum of:

- the market value of the rights or options at the time you exercised them
- the amount you paid for the shares or units on exercising the rights or options.

Rights or options acquired on or after 20 September 1985

This includes rights or options you acquired before 20 September 1985 which were last renewed or extended after that date and were exercised before 27 May 2005.

The first element of the cost base and reduced cost base for the shares or units you acquire on exercising your rights or options is the sum of:

- the amount you paid for the rights or options
- the amount you paid for the shares or units on exercising the rights or options.

Flowchart 3.5 in Appendix 3 summarises the rules relating to the treatment of such options and rights.

Example 39: sale of rights

Shanti owns 2,000 shares in ZAC Ltd. She bought 1,000 shares on 1 June 1985 and 1,000 shares on 1 December 1996.

On 1 July 1998, ZAC Ltd granted each of its shareholders one right for each 4 shares owned to acquire shares in the company for $1.80 each. Shanti therefore received 500 rights in total. At that time, shares in ZAC Ltd were worth $2. Each right was therefore worth 20 cents.

Shanti decided that she didn't want to buy any more shares in ZAC Ltd, so she sold all her rights for 20 cents each, a total amount of $100. Only those rights issued for the shares she bought on 1 December 1996 are subject to CGT. As Shanti didn't pay anything for the rights, she has made a $50 taxable capital gain on their sale.

The $50 Shanti received on the sale of her rights for the shares she bought on 1 June 1985 isn't subject to CGT, as those rights are taken to have been acquired at the same time as the shares, that is, before 20 September 1985.

Example 40: rights exercised

Assume that, in **example 39**, Shanti wanted to acquire more shares in ZAC Ltd. She therefore exercised all 500 rights on 1 August 1998 when they were still worth 20 cents each.

There are no CGT consequences arising from the exercise of the rights.

However, the 500 shares Shanti acquired on 1 August 1998 when she exercised the rights are subject to CGT and are acquired at the time of the exercise.

- When Shanti exercised the rights issued for the shares she bought on 1 December 1996, the cost base of the 250 shares she acquired is the amount she paid to exercise each right ($1.80 for each share).
- When Shanti exercised the rights for the shares she bought before 20 September 1985, Shanti’s cost base for each of the 250 shares she acquired includes not only the exercise price of the right ($1.80) but also the market value of the right at that time (20 cents). The cost base of each share is therefore $2.

CGT discount on shares or units acquired from exercise of rights or options

You can use the discount method to calculate your capital gain from an asset only if you own it for at least 12 months. In calculating any capital gain on shares or units you acquire from the exercise of a right or option, the 12-month period applies from the date you acquire the shares or units (not the date you acquired the right or option).

Retail premiums

Some or all of a payment may be a retail premium if you receive it because either:

- you didn't exercise some or all of your right or entitlement, either by choice or otherwise
- you were not eligible to exercise some or all of your right or entitlement
- you didn't receive some or all of your right or entitlement.

You receive a retail premium if:

- you own shares in a company which offers shareholders a right or entitlement to subscribe for additional shares in proportion to their existing shareholding at a set amount, often called 'the offer price'
- you don't participate; that is, one of the following applies
  - you choose not to take up some or all of your right or entitlement
  - you're ineligible to receive some or all of a right or entitlement
  - you're not permitted to take up some or all of your right or entitlement
- the company that issued the right or entitlement arranges to issue a number of shares, equivalent to those which would have been issued to you had you exercised the right or entitlement for which you didn't participate, to other subscribers such as institutional investors – the amount offered by the subscribers for the equivalent shares is often called 'the clearing price'
- the clearing price is the basis of a payment to you, generally because it is more than the offer price.

The retail premium will be the amount paid to you, generally worked out on a pro rata basis by the company because you're a shareholder or unit holder and you don't participate. The retail premium the company pays will generally be a share of all or part of the difference between the clearing price of the shares and the offer price.

A retail premium payment you receive is taxed in different ways, depending on whether it is renounceable or non-renounceable.

If it is a renounceable right, the retail premium will constitute a capital gain.

For non-renounceable rights, retail premiums are unfranked dividends, or alternatively ordinary income, and should not be treated as capital gains. Shareholders who receive the premiums aren't eligible to claim the CGT discount.

For more information, see Taxing retail premiums.

Convertible notes

A convertible note (which is one type of convertible interest) is another type of investment you can make in a company or unit trust. A convertible note earns interest on the amount you pay to acquire the note until the note's expiry date. On expiry of the note, you can either ask for the return of the money paid or convert the note to new shares or units.

Convertible notes you acquired after 10 May 1989 will generally not be subject to CGT if you sold or disposed of them before they were converted into shares. Instead, you include any gain you make in your tax return as ordinary income and any loss you make is included as a deduction.

If the TOFA rules apply to you, gains and losses from your convertible notes may be brought to account under those TOFA rules. For more information, see You and your shares 2025.

If you have sold or disposed of a convertible note that you acquired before 11 May 1989, contact us. When you phone, have the date you acquired the convertible note as this may affect the tax treatment.

Conversion of notes to shares

The tax treatment that applies when your convertible notes are converted to shares depends on all of the following:

- when you acquired the convertible notes
- the type of convertible note
- when the conversion occurred
- when the convertible note was issued.

Shares acquired by the conversion of convertible notes on or after 20 September 1985 will be subject to CGT when they are sold or disposed of, as the shares are taken to be acquired when the conversion happens.

You may have acquired the convertible notes on or after 20 September 1985 and, as a traditional security or qualifying security, you have already included the gain you made on the conversion of the notes in your tax return as income (or as a deduction if you made a loss). The way you calculate the cost base of the shares varies depending on whether the notes converted to shares before 1 July 2001 or on or after that date. Table 4 provides a summary.

Convertible notes issued after 14 May 2002

If your convertible notes are traditional securities and were issued by a company after 14 May 2002:

- any gains you make when these notes are converted or exchanged for ordinary shares in a company will not be ordinary income at the time of conversion or exchange, and any losses you make will not be deductible
- instead, any gains or losses you make on the later sale or disposal of the shares (incorporating any gain or loss that would have been made on the conversion or exchange of the notes) will be either
  - subject to CGT if you're an ordinary investor
  - ordinary income (or deductible, in the case of a loss) if you're in the business of trading in shares and other securities.

If you're an individual who is an ordinary investor, this means you'll be able to get the benefit of the CGT discount if you own the shares for more than 12 months.

Table 4 sets out how you calculate the cost base.

Table 4: Treatment of convertible notes acquired after 10 May 1989, converted to shares

Convertible note	Converted before 1 July 2001	Converted on or after 1 July 2001
The note is a traditional security (see note 1) that was issued before 15 May 2002.	You include gain on conversion as income (or loss on conversion is deducted). Cost base of shares includes their market value at the date the convertible notes were converted.	You include gain on conversion as income (or loss on conversion is deducted). Cost base of shares includes cost base of the convertible note, any amount paid on conversion and any amount included in your assessable income on conversion.
The note is a traditional security (see note 1) that was issued after 14 May 2002.	Not applicable.	You disregard gain (or loss) on conversion. Cost base of shares includes cost base of the convertible note and any amount paid on conversion.
The note is a qualifying security (see note 2).	You include accrued gains as income and include any gain on conversion as income (or deduct any loss on conversion). Cost base of shares includes amounts paid to acquire the note and any amount paid on conversion.	You include accrued gains as income and include any gain on conversion as income (or deduct any loss on conversion). Cost base of shares includes cost base of the convertible note, any amount paid on conversion and any amount included in your assessable income on conversion.

Note 1: A traditional security is one that isn't issued at a discount of more than 1.5%, doesn't bear deferred interest and isn't capital indexed. It may be, for example, a bond, a deposit with a financial institution, or a secured or unsecured loan.

Note 2: A qualifying security is one that has a deferred income element, that is, it is issued under terms such that the investor's return on investment (other than periodic interest) will be greater than 1.5% per annum.

Conversion of notes to units

This will depend on when the conversion of notes to units occurred.

Convertible notes, converted before 1 July 2001

If your convertible notes are traditional securities, the first element of the cost base and reduced cost base of the units is their market value at the time of conversion. You disregard any capital gain or capital loss made on their conversion to units in the unit trust.

If your convertible notes aren't traditional securities and were issued by the unit trust after 28 January 1988, the first element of the cost base and reduced cost base of the units includes both the cost of the convertible notes and any further amount payable on their conversion. You disregard any capital gain or capital loss made on their conversion to units in the unit trust.

Convertible notes, converted on or after 1 July 2001

If your convertible notes are traditional securities the first element of the cost base and reduced cost base of the units includes the sum of:

- the cost base of the convertible notes
- any amount paid on conversion
- any amount included in your assessable income on conversion.

You disregard any capital gain or capital loss made on their conversion to units in the unit trust.

Similarly, if the convertible notes aren't traditional securities and were issued by the unit trust after 28 January 1988, the first element of the cost base and reduced cost base of the units includes the sum of:

- the cost base of the convertible notes
- any amount paid on conversion
- any amount included in your assessable income on conversion.

You disregard any capital gain or capital loss made on their conversion to units in the unit trust.

Example 41: converting notes to shares

David bought 1,000 convertible notes in DCS Ltd on 1 July 1997 (that is, notes that were issued before 15 May 2002). The notes cost $5 each. Each convertible note is convertible into one DCS Ltd share. On expiry of the notes on 1 July 2000, shares in the company were worth $7 each. David converted the notes to shares, which are subject to CGT. No further amount was payable on conversion of the notes. David sold the shares on 4 December 2024 for $10 each.

The $2 ($7 – $5) gain David made on the conversion of each of the notes to shares was assessable to David as ordinary income at the time of conversion, that is, in 2000-01. As such, David has no capital gain in that year.

The $3 ($10 – $7) gain David made on the sale of each of the shares is subject to CGT. The $7 cost base is the market value per share on the date the notes converted to shares. Because he sold the shares after 11:45 am AEST on 21 September 1999 and owned them for at least 12 months, David can claim the CGT discount. David calculates his capital gain as follows:

$3 per share × 1,000 shares = $3,000

subtract CGT discount of 50% = $1,500

Net capital gain = $1,500

David includes the capital gain on his 2025 tax return.

Stapled securities

Stapled securities are created when 2 or more different securities are legally bound together so that they can't be sold separately. Many different types of securities can be stapled together. For example, many property trusts have their units stapled to the shares of companies with which they are closely associated.

The effect of stapling depends on the specific terms of the stapling arrangement. The issuer of the stapled security will be able to provide you with detailed information on their particular stapling arrangement. However, in general, the effect of stapling is that each individual security retains its character and there is no variation to the rights or obligations attaching to the individual securities.

Although a stapled security must be dealt with as a whole, the individual securities that are stapled are treated separately for tax purposes. For example, if a share in a company and a unit in a unit trust are stapled, you:

- continue to include separately in your tax return dividends from the company and trust distributions from the trust
- work out any capital gain or capital loss separately for the unit and the share.

Because each security that makes up your stapled security is a separate CGT asset, you must work out a cost base and reduced cost base for each separately.

If you acquired the securities after they were stapled (for example, you bought the stapled securities on the ASX), you do this by apportioning, on a reasonable basis, the amount you paid to acquire the stapled security (and any other relevant costs) between the various securities that are stapled. One reasonable basis of apportionment is to have regard to the portion of the value of the stapled security that each security represented. The issuer of the stapled security may provide assistance in determining these amounts.

Example 42: apportionment of cost base and reduced cost base to the separate securities

On 1 September 2004, Cathy acquired 100 JKL stapled securities, which comprised a share in JKL Ltd and a unit in the JKL Unit Trust. She paid $4.00 for each stapled security, and on the basis of the information provided to her by the issuer of the stapled securities, she determined that 60% of the amount paid was attributable to the value of the share and 40% to the value of the unit. On this basis, the first element of the cost base and reduced cost base of each of Cathy's shares in JKL Ltd will be $2.40 ($4.00 × 60%). The first element of the cost base and reduced cost base of each of Cathy's units in JKL Unit Trust will be $1.60 ($4.00 × 40%).

If you acquired your stapled securities as part of a corporate restructure you'll, during the restructure, have owned individual securities that were not stapled. The way you work out the cost base and reduced cost base of each security depends on the terms of the stapling arrangement.

The stapling doesn't result in any CGT consequences for you, because the individual securities are always treated as separate securities. However, there may be other aspects of the whole restructure arrangement which will result in CGT consequences for you.

Example 43: CGT consequences associated with the stapling of securities

Jamie acquired 100 units in the Westfield America Trust (WFA) in January 2003. Immediately before the merger of Westfield America Trust with Westfield Holdings Ltd and Westfield Trust (July 2004), the cost base of each of his units was $2.12 (total cost base = $212 ($2.12 × 100)).

Under the arrangement, Jamie's original units in WFA were firstly consolidated in the ratio of 0.15 consolidated WFA unit for each original WFA unit. After the consolidation, Jamie held 15 consolidated WFA units with a cost base of $14.13 ($212 ÷ 15) each. There were no CGT consequences for Jamie as a result of the consolidation of his units in WFA.

Jamie then received a capital distribution of $1.01 for each consolidated unit he held.

CGT event E4 happens as a result of the capital distribution, see Appendix 1. Consequently, Jamie must reduce the cost base of each of his consolidated WFA units by $1.01 to $13.12.

The capital distribution was compulsorily applied to acquire a share in Westfield Holdings Ltd (WSF) for $0.01 and a unit in the Westfield Trust (WFT) for $1.00. The first element of the cost base and reduced cost base of each of Jamie's new shares in WSF will be $0.01 and, for each new WFT unit, $1.00.

The units and shares were then stapled to form a Westfield Group Security. There were no CGT consequences for Jamie as a result of the stapling of each consolidated WFA unit to each new WFT unit and WSF share.

Following the arrangement, Jamie holds 15 Westfield Group Securities with the following CGT attributes:

- **Element:** Cost base (initial)
- **WFA unit:** $13.12
- **WFT unit:** $1.00
- **WSF share:** $0.01
- **Total:** $14.13

When you dispose of your stapled securities, you must:

- divide the capital proceeds (on a reasonable basis) between the securities that make up the stapled security
- then work out whether you have made a capital gain or capital loss on each security.

Other tax provisions may apply upon disposal of some securities. For example, you include a gain made on a traditional security in your assessable income under other tax provisions.

Example 44: apportioning the capital proceeds between the separate securities

On 1 August 1985, Kelley purchased 100 shares in XYZ Ltd for $4.00 per share. In August 2004, Kelley was allocated 100 units in XYZ Unit Trust under a corporate reorganisation of the XYZ Group. The units were acquired for $1.00 each, with the funds to acquire the units coming from a capital reduction made in respect of her shares. At that same time, Kelley's shares in XYZ Ltd and units in XYZ Unit Trust were stapled and became known as XYZ stapled securities.

Kelley disposed of all of her XYZ stapled securities on 1 March 2025 for $8.00 per security. On the basis of the information provided by the issuer of the stapled securities, Kelley determined that of this amount, 70% or $5.60 per share ($8.00 × 70%) was attributable to the value of her XYZ Ltd shares, and 30% or $2.40 per unit ($8.00 × 30%) was attributable to the value of her units in the XYZ Unit Trust.

Kelley must account for the sale of each share and unit (that make up the stapled security) separately.

As Kelley acquired her XYZ Ltd shares before 20 September 1985, she disregards any capital gain or capital loss she makes on the disposal of these shares.

Kelley will make a capital gain of $1.40 per unit ($2.40 – $1.00) on the disposal of her units in the XYZ Unit Trust. As Kelley owned those units for more than 12 months, she can reduce her capital gain by the 50% CGT discount after applying any capital losses.

Employee share schemes

Employee share schemes (ESS) give employees benefits such as shares or the opportunity to buy shares or rights (including options) in the company they work for at a discounted price. These benefits are known as ESS interests. In most cases, ESS interests are exempt from CGT implications until the discount on the ESS interest has been taxed. When you sell your ESS interests (or resulting shares), they are taxed under the CGT rules (or if you're a share trader, the trading stock rules).

CGT implications for employee shares and rights under a corporate restructure

If employee shares or rights are exchanged for replacement shares or rights in a new company under a corporate restructure that happened on or after 1 July 2004, a rollover may be available so that there is no taxing point under the ESS tax rules. Corporate restructures affected include mergers, demergers (in limited circumstances) and 100% takeovers. Any capital gain or capital loss made on the employee shares or rights because of the restructure will be disregarded where this rollover applies. For more information, see ESS – Rollover relief.

Changing residence or working in multiple countries

There are specific CGT rules relating to ESS shares or rights held by employees who become, or cease to be, Australian residents. There are also specific rules for temporary residents.

Shares in an early stage innovation company

Modified CGT treatment applies to your shares in an ESIC, depending on how long you hold the shares before a CGT event happens to them (such as the sale of the shares) and whether you make a capital gain or capital loss from the CGT event.

However, if you invest more than $50,000 in ESICs in an income year and don't meet the sophisticated investor requirements, you'll not be eligible for modified CGT treatment on any of the shares acquired in that income year.

The general rules for modified CGT treatment are summarised below:

Shares held for	Modified CGT treatment
Less than 12 months	Any capital gain you make from a CGT event isn't disregarded. You must disregard any capital loss you make from a CGT event that happens to the shares during this period.
12 months or more but less than 10 years	A capital gain or capital loss that you made from a CGT event happening to the shares is disregarded.
10 years or more	The first element of the cost base and reduced cost base for the share will become its market value on the tenth anniversary of the share being issued to you. This means that you'll recognise any capital gains or losses that happen from this point in time.

For more information, see:

- Qualifying as an early stage innovation company
- Tax incentives for early stage investors.

If a CGT roll-over applies

Generally, special rules apply to preserve the modified CGT treatment for eligible shares in an ESIC that are subject to a CGT roll-over. However, the modified CGT treatment doesn't apply if the scrip for scrip rollover or wholly-owned company rollover applies to your ESIC shares.

For more information, see How does the modified CGT treatment apply to a roll over.

Venture capital investment

Venture capital investors typically invest in a VCLP, an ESVCLP or an AFOF to diversify their portfolio of venture capital assets. A VCLP, ESVCLP or an AFOF is an intermediary that invests in shares and units and it is taxed on a 'flow through' basis.

The partners of a VCLP, an ESVCLP or an AFOF make a capital gain or capital loss from a CGT event relating to those shares and units, not the VCLP, the ESVCLP or the AFOF itself. For CGT purposes, each partner owns a proportion of each share or unit and calculates a capital gain or capital loss on their share of each share or unit. A capital gain or capital loss on your share of each share or unit may be disregarded.

For more information, see Venture capital and early stage venture capital limited partnerships.

Carried interest (CGT event K9)

The carried interest of a general partner is the partner's entitlement to a distribution from the VCLP, the ESVCLP or the AFOF, normally contingent on profits attained for the limited partners in a VCLP, the ESVCLP or the AFOF. You have a capital gain when you become entitled to receive a payment of a carried interest under CGT event K9.

Non-assessable payments

You may need to adjust the cost base of shares or units for CGT calculations if you receive a non-assessable payment without disposing of your shares or units. A payment or distribution can include money and property.

The amount of the non-assessable payment is adjusted to exclude certain amounts relating to a VCLP, an ESVCLP, an AFOF and an ESIC.

You need to keep accurate records of the amount and date of any non-assessable payments on your shares and units.

Non-assessable payments after a recent restructure

As a result of some stapling arrangements, some investors in managed funds have received units which have a very low cost base. The payment of certain non-assessable amounts in excess of the cost base of the units will result in these investors making a capital gain.

Non-assessable payments from a company (CGT event G1)

Non-assessable payments to shareholders aren't very common and would generally be made only if a company has shareholder approval to reduce its share capital. If you receive a non-assessable payment from a company (that is, a payment that isn't a dividend or an amount that is taken to be a dividend for tax purposes), you need to adjust the cost base of the shares at the time of the payment. These payments will often be referred to as a return of capital. If the amount of the non-assessable payment isn't more than the cost base of the shares at the time of payment, you reduce the cost base and reduced cost base by the amount of the payment.

You make a capital gain if the amount of the non-assessable payment is more than the cost base of the shares. The amount of the capital gain is equal to the excess. If you make a capital gain, you reduce the cost base and reduced cost base of the shares to nil. You can't make a capital loss from the receipt of a non-assessable payment.

Interim liquidation distributions that aren't dividends can be treated in the same way as other non-assessable payments under CGT event G1, see Appendix 1.

The exception is if the payment is made to you by a liquidator after the declaration and the company is dissolved within 18 months of such a payment. In this case, you include the payment as capital proceeds on the cancellation of your shares (rather than you making a capital gain at the time of the payment). In preparing your tax return, you may delay declaring any capital gain until your shares are cancelled unless you're advised by the liquidator in writing that the company will not cease to exist within 18 months of you receiving the payment.

Example 45: non-assessable payments

Rob bought 1,500 shares in RAP Ltd on 1 July 1996 for $5 each, including brokerage and stamp duty. On 30 November 2009, as part of a shareholder-approved scheme for the reduction of RAP Ltd’s share capital, he received a non-assessable payment of 50 cents per share. Just before Rob received the payment, the cost base of each share (without indexation) was $5.

As the amount of the payment isn't more than the cost base (without indexation), he reduces the cost base of each share at 30 November 2009 by the amount of the payment to $4.50 ($5.00 – 50 cents). As Rob has chosen not to index the cost base, he can claim the CGT discount if he disposes of the shares in the future.

Non-assessable payments from a unit trust (CGT event E4 or E10)

Unit trusts often make non-assessable payments to unit holders. Depending on whether that non-assessable payment is greater than or less than the cost base of your units in respect of which your payment is received, you'll either make a capital gain or have the cost base and reduced cost base of your units reduced. Your CGT obligations in this situation are explained in Trust non-assessable payments (CGT event E4).

For units you sold during the 2024–25 income year and with respect to which you received a non-assessable payment prior to selling, you must determine your CGT event E4 (or E10) position separate to the calculation of any CGT event A1 position that happens on the sale of the units. This may necessarily include adjusting the cost base and reduced cost base of the units for the non-assessable payments you received during 2024–25 up to the date of sale. You then use the adjusted cost base and reduced cost base to work out your A1 capital gain or capital loss.

If the unit or interest isn't in an AMIT, the CGT event is E4, and if the unit or interest is in an AMIT, the CGT event is E10.

Non-assessable payments under a demerger

If you received a non-assessable payment under an eligible demerger, you don't adjust the cost base and the reduced cost base of your shares or units. Instead, you adjust your cost base and reduced cost base under the demerger rules. You may have made a capital gain on the non-assessable payment if it exceeded the cost base of your original shares or units, although you're able to choose a CGT rollover.

An eligible demerger is one that happened on or after 1 July 2002 and satisfies certain tests. The head entity will normally advise shareholders or unit holders if this is the case.

Investments in foreign hybrids

A foreign hybrid is an entity that is taxed in Australia as a company but taxed overseas as a partnership. This can include a limited partnership, a limited liability partnership and a US limited liability company.

If you have an investment in a foreign hybrid (referred to as being a member of a foreign hybrid), you're treated for Australian tax purposes as having an interest in each asset of the partnership.

As a consequence, any capital gain or capital loss made in relation to the assets of a foreign hybrid is taken to be made by the member.

General value shifting regime (GVSR)

If you own shares in a company or units (or other fixed interests) in a trust, you may be affected by value shifting rules. These rules may apply to you if:

- you have interests in a company or trust in which equity or loan interests have been issued or bought back at other than market value, or varied such that the values of some interests have increased while others have decreased (direct value shifts on interests)
- you have interests in an entity whose dealings (such as providing loans or other services, or transferring assets) with another entity are neither at market value nor arm’s length and both entities are under the same control or ownership (indirect value shifting).

For more information, see Guide to the general value shifting regime.

Using the capital gain or capital loss worksheet for shares

In example 46, Tony uses the indexation method, the discount method and the 'other' method to calculate his capital gain so he can decide which method gives him the best result. To calculate your capital gain when you acquire or dispose of shares, see how to complete the Capital gain or capital loss worksheet 2025.

For a description of each method and when you can use each one, see How to work out your capital gain or capital loss. Remember that if you bought and sold your shares within 12 months, you must use the 'other' method to calculate your capital gain. If you owned your shares for 12 months or more, you may be able to use either the discount method or the indexation method, whichever gives you the better result. Because each share in a parcel of shares is a separate CGT asset, you can use different methods to work out the amount of any capital gain for shares within a parcel. This may be to your advantage if you have capital losses to apply. See Example 12.

Example 46: using all 3 methods to calculate a capital gain

On 1 July 1994, Tony bought 10,000 shares in Kimbin Ltd for $2 each. He paid brokerage of $250 and stamp duty of $50. On 1 July 2024, Kimbin Ltd offered each of its shareholders one right for each 4 shares owned to acquire shares in the company for $1.80 each. The market value of the shares at the time was $2.50. On 1 August 2024, Tony exercised all rights and paid $1.80 per share. On 1 December 2024, Tony sold all his shares in Kimbin Ltd for $3.00 each. He incurs a brokerage of $500 and stamp duty of $50.

Separate records

Tony has 2 parcels of shares, those he acquired on 1 July 1994 (10,000 shares) and those he acquired at the time he exercised all rights, 1 August 2024 (2,500 shares). He needs to keep separate records for each parcel and apportion the sale brokerage of $500 and stamp duty of $50. The completed Capital gain or capital loss worksheet – Tony (PDF 107KB) shows how Tony can evaluate which method gives him the best result.

He uses the 'other' method for the 2,500 shares he owned for less than 12 months, as he has no choice:

$7,500 capital proceeds – $4,610 cost base = **$2,890 capital gain**

For the 10,000 shares he has owned for more than 12 months, his capital gain using the indexation method would be:

$30,000 capital proceeds – $22,831 cost base = $7,169 capital gain

This means his net capital gain would be: $2,890 'other' method + $7,169 indexation method = $10,059 net capital gain

For the 10,000 shares if Tony uses the discount method instead (assuming he has no capital losses), his capital gain would be:

$30,000 – $20,740 = $9,260

He applies the CGT discount of 50%:

$9,260 × 50% = $4,630

This means his net capital gain would be:

$2,890 'other' method + $4,630 discount method = $7,520 net capital gain

In this case, for the parcel of 10,000 shares he would choose the discount method rather than the indexation method, as it gives him the better result (a lower net capital gain).

Dividend paid by a listed investment company (LIC) including LIC capital gain

If an LIC pays a dividend to you that includes an LIC capital gain amount, you may be entitled to an income tax deduction.

You can claim a deduction if:

- you're an individual
- you were an Australian resident when an LIC paid you a dividend
- the dividend included an LIC capital gain amount.

The amount of the deduction is 50% of the LIC capital gain amount. The LIC capital gain amount will be shown separately on your dividend statement.

You don't show the LIC capital gain amount at question **18** in your supplementary tax return.

Example 47: LIC capital gain

Ben, an Australian resident, is a shareholder in XYZ Ltd, a LIC. For 2024–25, Ben received a fully franked dividend from XYZ Ltd of $70,000 including an LIC capital gain amount of $50,000. Ben includes the following amounts on his tax return:

1. Franked dividend (written at question **11** – label **T** in his tax return) – $70,000.
2. *Add* franking credit (written at question **11** – label **U** in his tax return) – $30,000.
3. The total is **$100,000**.
4. *Subtract* 50% deduction for LIC capital gain (shown as a deduction at question **D8** in his tax return) – $25,000.
5. The **net amount included in taxable income is $75,000**.

Forestry managed investment scheme interests

Explains your CGT obligations if you sold or otherwise disposed of your forestry interests in 2024–25.

In this section

Subsequent participant

You're a subsequent participant if you're not an initial participant. In most cases, this means that you bought your forestry interest from an initial participant.

You're an initial participant if:

- you obtained your forestry interest from the forestry manager of the scheme
- your payment to obtain the forestry interest is used to establish trees.

How CGT affects FMIS interests of subsequent participants

You can hold your forestry interest in one of 2 ways:

- on revenue account (for example, if you're in the business of trading forestry interests)
- on capital account.

If you hold your forestry interest on revenue account, there will be no CGT implications for the purchase and sale of your interest.

If you hold your forestry interest on capital account, then the CGT treatment of your forestry interest is discussed below.

Subsequent participant in an FMIS and forestry interest held on capital account

Treatment of costs for acquiring a forestry interest in an FMIS

If you're a subsequent participant in an FMIS and hold your forestry interest on capital account, you're not able to claim a deduction for the costs of acquiring the forestry interest. Instead, you include these costs in the cost base or reduced cost base of your forestry interest for CGT purposes when the interest is subsequently disposed of prior to harvest or when the harvest proceeds are received.

Example 48: acquiring a forestry interest in a forestry managed investment scheme

Julian acquires a forestry interest in Australian Forests Limited (AFL), an FMIS, from Caroline in August 2024 for $14,000 (at market value). As Julian didn't purchase the interest from the forestry manager of the scheme, he is a subsequent participant and also holds the interest on capital account as he doesn't trade in securities.

Julian isn't entitled to a deduction for the $14,000 paid to Caroline for the acquisition of the interest. Instead, this amount will form part of the cost base or reduced cost base of the interest when Julian later sells the interest or receives harvest proceeds.

Ongoing costs of ownership

You can claim a deduction for the ongoing costs of holding your forestry interest if the amounts would have been deductible were they paid by an initial participant. That is, you don't include these costs in your cost base or reduced cost base.

Treatment of thinning receipts

Amounts you receive for thinning are excluded from the CGT treatment of your forestry interest. These amounts are included in your assessable income. Include this amount at question **23 Forestry managed investment scheme income** – label **A** in your supplementary tax return.

Example 49: treatment of ongoing fees and thinning receipts

Julian pays $1,000 to AFL in annual management and services fees in each year of income after acquiring the interest from Caroline. These amounts aren't included in the cost base or reduced cost base of the forestry interest and Julian can claim a deduction for these amounts. This is because Julian would have been able to deduct these amounts if he was an initial participant.

Julian receives $1,500 for thinning in December 2024 from AFL. This amount isn't subject to CGT and is instead included in his assessable income for the income year ended 30 June 2025.

Treatment of sale and harvest proceeds

Amounts you receive from a CGT event that happens to your forestry interest, for example the sale of your forestry interest or as harvest proceeds, are capital proceeds for CGT purposes; see What are capital proceeds?

Sale and harvest receipts: forestry interest no longer held

If a CGT event happens when you cease to hold your forestry interest (because you sell your interest or receive the harvest proceeds), you'll also need to include at question **23 Forestry managed investment scheme income** – label **A** in your supplementary tax return the lesser of the following 2 amounts:

- the market value of your forestry interest (at the time of the CGT event)
- the amount (if any) by which the total forestry scheme deductions (ongoing costs of ownership) exceeds the incidental forestry scheme receipts (for example, thinning).

To work out any capital gain or capital loss, the cost base or reduced cost base of your forestry interest increases by this amount.

Example 50: sale of a forestry interest in an FMIS

Julian is a subsequent participant who sold his forestry interest on 30 May 2025 at the market value of $20,000. He purchased the forestry interest for $14,000 on 1 August 2024. A CGT event happens when he sells the forestry interest. The original cost base of his forestry interest is $14,000.

While holding his forestry interest, he has claimed $4,000 in deductions (total forestry scheme deductions). This amount relates to lease fees, annual management fees, and the cost of felling that he has paid to the forestry manager. Julian has also received $1,500 as thinning proceeds (incidental forestry scheme receipts) during the same period. This amount was shown at question **23 Forestry managed investment scheme income** – label **A** in his supplementary tax return for that income year.

In 2024–25 Julian will also need to include $2,500 ($4,000 – $1,500) as income at question **23** – label **A** in his supplementary tax return, as this amount is less than the market value of the interest at the time of the sale ($20,000).

Julian's cost base increased from $14,000 to $16,500 ($14,000 + $2,500).

Julian calculated the capital gain as follows:

- capital proceeds of $20,000
- *subtract* cost base of $16,500
- capital gain is $3,500.

Julian may apply capital losses (if any) to the capital gain in determining the net capital gain to be included in his assessable income at question **18 Capital gains** in his supplementary tax return. See, Capital gain or capital loss worksheet – Julian (PDF 102KB).

If you still hold your forestry interest after the CGT event, for example you sold part of your interest or you received partial harvest proceeds over 2 or more income years, you'll need to apportion your income as follows:

Step 1: Work out the following 2 amounts:

- the market value of the forestry interest (at the time of the CGT event)
- the amount (if any) by which the total forestry scheme deductions exceeds the incidental forestry scheme receipts.

Step 2: Use the lesser of the 2 amounts above in the following formula:

- amount worked out from step 1 **multiplied by**
- the decrease (if any) in the market value of the forestry interest (as a result of the CGT event divided by the market value of the forestry interest just before the CGT event.

Step 3: Include the resulting amount at question **23 Forestry managed investment scheme income** – label **A** in your supplementary tax return.

Step 4: For CGT purposes, to calculate the new cost base or reduced cost base of your forestry interest:

- apportion the original cost base and reduced cost base of your forestry interest by the change in market value of your forestry interest, and then
- add the amount from step 3.

This apportioned cost base or reduced cost base should then be used to calculate your capital gain or capital loss.

Example 51: harvest proceeds over 2 income years

John is a subsequent participant who receives harvest proceeds over 2 income years. He received his first harvest payment of $5,000 in 2023–24.

The market value of John's forestry interest was $20,000 just before he received his first harvest payment (which is a CGT event). After John received this first harvest payment, the market value of his forestry interest was reduced to $15,000. His original cost base was $14,000.

In the time that he has held his interest, he has claimed $4,000 in deductions (his total forestry scheme deductions). This relates to lease fees, annual management fees and the cost of felling that he has paid to the forestry manager. John also received $1,500 from thinning proceeds (his incidental forestry scheme receipts) in the same period.

Step 1

- The market value of the forestry interest (at the time of the CGT event) = $20,000.
- The amount by which the total forestry scheme deductions exceed the incidental forestry scheme receipts: $4,000 – $1,500 = $2,500.

The amount to use in step 2 of the calculation is $2,500.

Step 2

$2,500 × $5,000 ÷ $20,000 = $625

Step 3

John includes $625 at question **23 Forestry managed investment scheme income** – label **A** in his supplementary tax return.

Step 4

The market value of John's forestry interest has been reduced by 25%
(5,000 ÷ 20,000 × 100).

John's adjusted cost base is:
(25% × $14,000) + $625 = $4,125.

Accordingly, John works out his capital gain to be $5,000 – $4,125 = $875. He includes $875 in calculation of his net capital gain or loss at question **18 Capital gains** in his tax return.

In 2024–25, John received his final harvest payment (which is a CGT event) of $15,000. He has not paid other fees in 2024–25.

John includes the following amounts in his 2024–25 tax return:

- the remainder of $1,875 (that is, $2,500 – $625) from step 2 at question **23 Forestry managed investment scheme income** – label **A**
- his capital gain of $2,625 (see below) in the calculation of his net capital gain or loss at question **18**
  - **Adjusted cost base:**
    (75% × 14,000) + $1,875 = $12,375
  - **capital gain:**
    capital proceeds of $15,000
  - *subtract* adjusted cost base of $12,375
  - Net capital gain is $2,625.

CGT and the TOFA rules

Explains the key provisions of the TOFA rules found in Division 230 of the ITAA 1997.

In this section

When will the TOFA and debt deduction creation rules affect an entity's tax return?

The TOFA rules apply to financial arrangements that an affected entity starts to have in its first income year commencing on or after 1 July 2010 (unless it elected for the rules to apply a year earlier).

The debt deduction creation rules will apply to all debt deductions for income years starting on or after 1 July 2024. These rules operate to disallow related party debt deductions for certain related party arrangements and may have an impact. For more information, see Company tax return instructions 2025.

Which entities are affected?

The TOFA rules will apply to you if you're:

- an authorised deposit-taking institution, securitisation vehicle or financial sector entity with an aggregated annual turnover of $20 million or more
- a super entity, approved deposit fund, pooled super trust, managed investment scheme or entity with a similar status under foreign law relating to foreign regulation, with assets of $100 million or more
- any other entity (other than an individual) which satisfies one or more of the following
  - an aggregated turnover of $100 million or more
  - assets of $300 million or more
  - financial assets of $100 million or more.

If you don't meet these requirements you can elect to have the TOFA rules apply to you.

Key impacts on CGT

Where the TOFA rules apply, they will have the following key impacts on CGT:

- They may operate to modify the cost base of, or capital proceeds from, a CGT asset.
- A capital gain or capital loss made from a CGT asset that is a financial arrangement may be disregarded.
- Certain gains and losses from hedging financial arrangements may be taxed under the CGT rules.

TOFA and capital proceeds and cost base rules

If the TOFA rules apply to you and you start or cease to have a financial arrangement as consideration for the disposal of a CGT asset, the TOFA rules will operate to determine the capital proceeds from the CGT asset. In general, the rules operate to ensure your capital proceeds are the market value of the CGT asset at the time of its disposal.

In the same way, the TOFA rules may determine that the first element of the cost base and reduced cost base of your CGT asset is the market value of the CGT asset at the time of its acquisition.

The TOFA rules can also affect other elements of the cost base and reduced cost base if the financial arrangement represents consideration for something obtained which is relevant to the other elements of the cost base and reduced cost base.

Example 52: TOFA and capital proceeds and cost base rules

Both ABC Co and Aus Co are subject to the TOFA rules.

On 1 July 2024, ABC Co enters into a contract to sell land to Aus Co for $250,000. Under the terms of the contract, title to the land passes in 6 months' time on 1 January 2025, and payment is to be made on 1 July 2026 (that is, 18 months after title to the land passes). The market value of the land on 1 January 2025 is $200,000.

On 1 January 2025 when ABC Co passes the title to the land to Aus Co it will start to have a financial arrangement as consideration for the disposal of its land. The TOFA rules will operate so that ABC Co is taken to have received an amount equal to the market value of the land when it is provided. Therefore, ABC Co’s capital proceeds are $200,000. Similarly, Aus Co’s first element of its cost base is $200,000. For both ABC Co and Aus Co, the additional $50,000 relates to a financial arrangement which is taxed under the TOFA rules and isn't subject to the CGT rules.

TOFA rules apply instead of CGT rules

Where the application of the TOFA rules results in you making a gain or loss from your financial arrangement that is a CGT asset, a capital gain or capital loss that is made from a CGT event that happens to the CGT asset is disregarded. In general, this doesn't apply for super entities, where CGT remains the primary code for calculating gains and losses from financial arrangements.

Hedging financial arrangements

The TOFA rules provide for a hedging tax-timing method that allows gains and losses from certain hedging financial arrangements to be characterised and taxed in accordance with the tax treatment of the underlying item being hedged. For example, if a valid hedging tax-timing method election is in effect, gains or losses from a hedging financial arrangement used to hedge against risks associated with a CGT asset will be treated as a capital gain or capital loss on the same basis as the capital gain or capital loss on the underlying CGT asset that is being hedged. If this applies to you, specify the amount of the gains or losses from the relevant hedging financial arrangements in your Capital gains tax schedule 2025.

Real estate and main residence

Explains your CGT obligations for real estate. The CGT exemption for a main residence is also explained.

In this section

CGT and real estate

Real estate includes vacant blocks of land, business premises, rental properties, holiday houses and hobby farms. Apart from the main residence rules, capital gains and capital losses on real estate are worked out under the rules set out earlier in this guide.

Land is a CGT asset. In some cases, improvements made to land are treated as separate CGT assets, see Separate assets. A depreciating asset that is found in a building (for example, carpet or a hot-water system) is also taken to be a separate CGT asset from the building. When a CGT event happens to your property, you must work out a capital gain or capital loss for each CGT asset it comprises (or balancing adjustment in the case of depreciating assets sold with the property).

The most common CGT event that happens to real estate is its sale or disposal, CGT event A1. The time of the event is:

- when you enter into the contract for the disposal
- if there is no contract, when the change of ownership occurs
- if the asset is compulsorily acquired by an entity, the earliest of when
  - you received compensation from the entity
  - the entity became the asset's owner
  - the entity entered it under a power of compulsory acquisition
  - the entity took possession under that power.

If land is disposed of under a contract, it is taken to have been disposed of when the contract is entered into, not the settlement date. The fact that a contract is subject to a condition, such as finance approval, will generally not affect this date.

You're not required to include any capital gain or capital loss in your tax return for the relevant income year until settlement occurs. When settlement occurs, you must include any capital gain or capital loss in your tax return for the income year in which the contract was made. If an assessment has already been made for that income year, you may need to have that assessment amended. Where an assessment is amended to include a net capital gain and a liability for shortfall interest charge (SIC) arises, remission of that interest charge will be considered on a case-by-case basis. Generally, it would be expected that the SIC would be remitted in full where requests for amendment are lodged within a reasonable time after the date of settlement, which, in most cases, is considered to be one month. If you consider that the SIC should be remitted, you should provide reasons why when you request the amendment to your assessment.

Rules to keep in mind

There are a few rules to keep in mind when you calculate your capital gain or capital loss from real estate, in particular rules relating to:

- the costs of owning the real estate
- cost base adjustments for capital works deductions.

Costs of owning

You don't include rates, insurance, land tax, maintenance and interest on money you borrowed to buy the property or finance improvements to it in the reduced cost base. You only include them in the cost base if you:

- acquired the property under a contract entered into after 20 August 1991 (or if you didn’t acquire it under a contract, you became the owner after that date)
- couldn't claim a deduction for the costs because you didn't use the property to produce assessable income, for example, it was vacant land, your main residence, or a holiday home during the period.

Cost base adjustments for capital works deductions

In working out a capital gain for property that you used to produce assessable income (such as a rental property or business premises), you may need to exclude from the cost base and reduced cost base capital works deductions you have claimed in any income year. The same exclusion applies if you omitted to claim, but can still claim, the deduction because the period for amending the relevant income tax assessment has not expired.

For information on when property (for example, a building, structure or other capital improvement to land) is treated for CGT purposes as a CGT asset separate from the land, see:

- Does capital gains tax apply to you?
- Major capital improvements to a dwelling acquired before 20 September 1985.

You must exclude from the cost base of a CGT asset (including a building, structure or other capital improvement to land that is treated as a separate asset for CGT purposes) the amount of capital works deductions you claimed (or omitted to but can still claim because the period for amending the relevant income tax assessment has not expired) for the asset if you acquired the asset either:

- after 7:30 pm AEST on 13 May 1997
- before that time and the expenditure that gave rise to the capital works deductions was incurred after 30 June 1999.

However, if you omitted to claim capital works deductions because you didn't have sufficient information to determine the amount and nature of the construction expenditure, there is no need to exclude the amount of such deductions from the cost base of the CGT asset.

Reduced cost base

You exclude the amount of the capital works deductions you claimed (or omitted to claim but can still claim because the period for amending the relevant income tax assessment has not expired) from the reduced cost base. However, if you omitted to claim capital works deductions because you didn't have sufficient information to determine the amount and nature of the construction expenditure, there is no need to exclude the amount of such deductions from the reduced cost base of the CGT asset.

Example 53: capital works deduction

Zoran acquired a rental property on 1 July 2000 for $200,000. Before disposing of the property on 30 June 2025, he had claimed $10,000 in capital works deductions.

At the time of disposal, the cost base of the property was $210,250. Zoran must reduce the cost base of the property by $10,000 to $200,250.

Rollover

There is generally no rollover or exemption for a capital gain you make when you sell an asset and put the proceeds into a super fund. There is also no general exemption or rollover when you use the proceeds to purchase an identical or similar asset, or you transfer an asset into a super fund. For example, a rollover isn't available if you either:

- sell a rental property and put the proceeds into a super fund
- use the proceeds to purchase another rental property.

A rollover may be available in special circumstances, in particular for:

- destruction
- compulsory acquisition of property
- marriage or relationship breakdown.

However, an asset or the capital proceeds from the sale of an asset may be transferred into a super fund in order to satisfy certain conditions under the small business retirement exemption.

For more information, see Small business CGT concessions.

Keeping records

Keep appropriate records, see Records relating to real estate.

Sale of a rental property

Example 54 shows how you would calculate your capital gain on the sale of your rental property. The Capital gain or capital loss worksheet – Brett (PDF 105KB) shows how you would complete the *Capital gain or capital loss worksheet* for this example.

Example 54: sale of a rental property

Brett purchased a residential rental property on 1 July 1997. The price he paid was $150,000, of which $6,000 was attributable to depreciating assets. He also paid $20,000 in total for pest and building inspections, stamp duty and solicitor's fees.

In the next few years, Brett incurred the following expenses on the property:

- interest on money borrowed $10,000
- *add* rates and land tax of $8,000
- *add* deductible (non-capital) repairs of $15,000
- the total expenses are **$33,000**.

Brett can't include the expenses of $33,000 in the cost base, as he was able to claim a deduction for them. When Brett decided to sell the property, a real estate agent advised him that if he spent around $30,000 on major structural improvements, the property would be valued at around $500,000. The major structural improvements were completed on 1 October 2024 at a cost of $30,000.

On 1 February 2025, he sold the property for $500,000 (of which $4,000 was attributable to depreciating assets). Brett could not claim any capital works deductions for the original construction costs, as construction of the property began before 18 July 1985. However, he could claim a capital works deduction of $255 ($30,000 × 2.5% × 124 ÷ 365) for the major structural improvements.

For information on capital works that qualify for a deduction, see Rental properties 2025. For information on how capital works deductions affect the CGT cost base, see Cost base adjustments for capital works deductions. This is Brett's only capital gain for the year, and he has no capital losses to offset from this income year or previous years.

Brett works out his cost base as follows.

1. Purchase price of property (not including depreciating assets) is $144,000.
2. *Add*:
   - pest and building inspections, stamp duty and solicitor's fees on purchase of the property of $20,000
   - capital expenditure (major structural improvements) of $30,000 and *subtract* capital works deduction of $255 which equals $29,745
   - real estate agent's fees and solicitor's fees on sale of the property of $12,500
3. The **cost base unindexed is $206,245**.

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

- Proceeds from selling the house (not including depreciating assets) are $496,000.
- *Subtract* cost base unindexed
  $496,000 – $206,245 = **$289,755**

He decides the discount method will give him the best result, so he uses this method to calculate his capital gain: $289,755 × 50% = $144,877

Brett writes $144,877 at question **18** – label **A** in his supplementary tax return.

Brett writes $289,755 at question **18** – label **H Total current year capital gains** in his supplementary tax return. Brett must also make balancing adjustment calculations for his depreciating assets. Because he used the property 100% for taxable purposes, he will not make a capital gain or capital loss from the depreciating assets.

Investing in affordable housing

An additional CGT discount of up to 10% is allowed to Australian resident individuals who invest in affordable housing.

A property qualifies as 'affordable' housing if rent is charged at below market rate, and it is made available for eligible tenants on low to moderate incomes. The property must be managed by an eligible community housing provider (CHP).

Only dwellings that are Australian residential premises can be used to provide affordable housing. Commercial residential premises don't qualify as affordable housing. Caravans, mobile homes and houseboats aren't considered residential premises.

The additional affordable housing capital gain discount applies to CGT events occurring on or after 30 December 2020.

Eligibility for the affordable housing CGT discount

All of the following conditions must be met to qualify for up to 10% additional capital gain discount for investing in affordable housing:

- residential premises – the dwelling is Taxable Australian Real Property (TARP) and is residential premises that isn't commercial residential premises and is tenanted or available to be tenanted
- property management – the tenancy of the dwelling or its occupancy is exclusively managed by an eligible CHP
- affordable housing certification – the eligible CHP has given each entity that holds an ownership interest in the dwelling certification that the dwelling was used to provide affordable housing
- NRAS – no entity that has an ownership interest in the dwelling is entitled to receive a National Rental Affordability Scheme (NRAS) incentive for the NRAS year
- MIT membership – if the ownership interest in the dwelling is owned by a Managed Investment Trust (MIT), the tenant doesn't have an interest in the MIT that passes the non-portfolio test.

To qualify for the discount, an investor must have provided affordable housing on or after 1 January 2018 for a period, or intermittent periods, totalling at least 1,095 days. The investor must have invested either directly, or through a trust including where there is an interposed entity between the investor and the trust. The trust that provides the affordable housing and any interposed entities may be a trust, a managed investment trust or partnership, but can't be a public unit trust or super fund.

How to calculate the additional CGT discount

The additional affordable housing CGT discount percentage, which will be 10% or less, is calculated as follows:

(CGT discount percent ÷ 5) × (Affordable housing days ÷ Total ownership days)

Where:

- CGT discount percentage is the discount of up to 50% on capital gains.
- Affordable housing days are the number of days the dwelling was used to provide affordable housing (on or after 1 January 2018) during its ownership period (and shown on the affordable housing certificate), subtract the number of days when the individual receiving the affordable housing capital gains discount was a foreign or temporary resident.
- Total ownership days are the number of days the dwelling was held from the time it was acquired until a CGT event occurred to it, excluding any period of foreign or temporary residency after 8 May 2012.

Affordable housing certificate

If you invested directly in affordable housing, you should have received an annual affordable housing certificate from your CHP showing the number of days your investment was used to provide affordable housing. If you invested in affordable housing through a trust or managed investment trust, you may need to contact the trustee to get the number of affordable housing days in order to work out your additional affordable housing CGT discount percentage.

Example 55: working out the aggregate period and affordable housing discount

On 1 February 2021, Lisa purchased a dwelling that is residential premises.

During her ownership assume Lisa uses the dwelling as follows:

- left it vacant and undertook repairs from when she acquired it on 1 February 2021 (the acquisition date for CGT purposes) until 1 March 2021 (29 days)
- rented it out through a CHP as affordable housing from 2 March 2021 until 4 February 2025 (1,436 days)
- rented it out through a real estate property manager at market rates (that is, not providing affordable housing) from 5 February 2025 until 31 May 2025 (116 days), and
- vacated the property on 1 June 2025 to prepare for sale on 23 June 2025.

On 23 June 2025 (the disposal date for CGT purposes), Lisa signed a contract to sell the dwelling, with settlement occurring on 23 July 2025. Lisa made a capital gain of $100,000.

Lisa held the dwelling for a total of 1,604 days. She used the dwelling to provide affordable housing for 1,436 of the 1,604 days. As Lisa used the dwelling to provide affordable housing for more than 1,095 days, she would be eligible for the additional affordable housing capital gains discount (assuming the dwelling meets the other requirements).

Lisa's affordable housing capital gain discount percentage is equal to:

> (capital gain discount percentage ÷ 5) × (Affordable housing days ÷ Total ownership days)

She works this out as:

> (50% ÷ 5) × (1,436 ÷ 1,604) = 8.95% (this is the discount percent available for the provision of affordable housing)

The discount percentage is equal to the sum of the capital gain discount percentage and the affordable housing discount capital gain percentage. That is, 58.95% (50% plus 8.95%).

Lisa reduces her capital gain by the discount percentage. Lisa has capital gain of $100,000. She works out her capital gain after capital gains discount as:

> Capital gain × (1 – discount %)
>
> $100,000 × (1 – 58.95%) = $41,050

Lisa includes only $41,050 of the $100,000 capital gain in her assessable income from her sale of this property, as a result of investment in affordable housing and meeting all its conditions.

Note: Capital gains can also be reduced by capital losses and other concessions or exemptions. However, for the purpose of this example, these have not been factored in. For more information, see CGT discount for affordable housing.

Other CGT events affecting real estate

CGT event B1: Happens to real estate if you enter into an agreement where the new owner is entitled to possession of the land or the receipt of rents and profits before becoming entitled to a transfer or conveyance of the land.

Where this happens under a contract, it is known as a 'terms contract' and the new owner usually completes the purchase by paying the balance of the purchase price and receiving the instrument of transfer and title deeds.

It may also happen where an agreement is made with a relative or other party to use and enjoy the property for a specified period, after which title to the property passes to them. It will not happen where, under an arrangement, title to a property may pass at an unspecified time in the future.

CGT event B1 happens when use and enjoyment of the land is first obtained by the new owner. Use and enjoyment of the land from a practical point of view takes place at the time the new owner gets possession of the land or the date the new owner becomes entitled to the receipt of rents and profits.

If the agreement falls through before completion and title to the land doesn't pass to the new owner, you may be entitled to amend your assessment for the year in which CGT event B1 happened.

CGT event C1: Happens if an asset is lost or destroyed. This event may happen if, for example, a building on your land is destroyed by fire. Your capital proceeds for CGT event C1 happening include any insurance proceeds you may receive for the loss or destruction. The market value substitution rule for capital proceeds that generally applies if you receive no capital proceeds doesn't apply if CGT event C1 happens.

For more information, see Loss, destruction or compulsory acquisition of an asset.

CGT event D1: Happens if you give someone a right to reside in a dwelling. The capital proceeds include money (but not rent) and the value of any property you receive.

The market value substitution rule for capital proceeds (see Definitions) applies if both:

- the amount of capital proceeds you receive is more or less than the market value of the right
- you and the person you granted the right to were not dealing with each other at arm's length in connection with the event.

CGT event D2: Happens if you grant an option to a person or an entity, or renew or extend an option that you had granted.

The amount of your capital gain or capital loss from CGT event D2 is the difference between what you receive for granting the right and any expenditure you incurred on it. The CGT discount doesn't apply to CGT event D2.

Example 56: granting of an option

You were approached by Colleen, who was interested in buying your land. On 30 June 2024, you granted her an option to purchase your land within 12 months for $200,000. Colleen pays you $10,000 for the grant of the option. You incur legal fees of $500. You made a capital gain in the 2023–24 income year of $9,500.

Exercise of an option

If the option you granted is later exercised, you ignore any capital gain or capital loss you made from the grant, renewal or extension. You may have to amend your income tax assessment for an earlier income year.

Similarly, any capital gain or capital loss that the grantee would otherwise make from the exercise of the option is disregarded.

The effect of the exercise of an option depends on whether the option was a 'call option' or a 'put option'. A call option is one that binds the grantor to dispose of an asset. A put option binds the grantor to acquire an asset.

Example 57: granting of an option (continued)

On 1 February 2025, Colleen exercised the option you granted her. You disregard the capital gain that you made in 2023–24 income year and you request an amendment of your income tax assessment to exclude that amount. The $10,000 you received for the grant of the option is considered to be part of the capital proceeds for the sale of your property in the 2024–25 income year. Your capital gain or capital loss from the property is the difference between its cost base or reduced cost base and $210,000.

CGT event D4: Happens if you enter into a conservation covenant after 15 June 2000 over land that you own and if you receive capital proceeds for entering into the covenant.

From 1 July 2002, CGT event D4 also happens if you receive no capital proceeds for entering into the covenant and you can claim a tax deduction for entering into the covenant. One of the conditions for a tax deduction is that the covenant is entered into with a deductible gift recipient or an Australian Government agency (that is, the Commonwealth, a state, a territory or one of their authorities).

A 'conservation covenant' is a covenant that:

- restricts or prohibits certain activities on the land that could degrade the environmental value of the land
- is permanent and binding on current and future land owners (by way of registration on the title to the land where possible)
- is approved by the Environment Minister (including those entered into under a program approved by that Minister).

If CGT event **D4** happens, you calculate your capital gain by comparing your capital proceeds from entering into the covenant with the portion of the cost base of the land that is attributable to the covenant.

Similarly, you calculate your capital loss by comparing your capital proceeds from entering into the covenant with the portion of the reduced cost base of the land that is attributable to the covenant.

The market value substitution rule for capital proceeds that generally applies if you receive no consideration for a CGT event doesn't apply if CGT event D4 happens. Instead, the capital proceeds are equal to the amount you can claim as a tax deduction for entering into the covenant.

Calculate the relevant portion of the cost base and reduced cost base attributable to the covenant using this formula: A × (B ÷ C)

Where:

- A is cost base (reduced cost base)
- B is capital proceeds from entering into the covenant over land
- C is those capital proceeds plus the market value of the land just after you enter into the covenant.

As the conservation covenant will affect the value of the entire land you must use the cost base of the entire land in calculating the cost base apportioned to the covenant. This is the case even if the covenant specifically states within its terms that the restrictions as to use only apply to part of the land.

CGT event **D4** will not happen if you receive no capital proceeds and the conditions for a tax deduction for entering into the covenant aren't satisfied. In this case, CGT event D1 will apply.

CGT events involving leases

There are a number of CGT events that may apply to the lease of land.

CGT event F1: Happens if you grant a lease to a person or entity or if you extend or renew a lease that you had previously granted. In the case of a long-term lease (one that may be expected to continue for at least 50 years), you can choose to treat the grant (renewal or extension) of the lease as a part disposal of the underlying leased property.

Example 58: receiving an amount for granting a lease

Elisabeth operates a profitable footwear retailing business and wishes to lease some shop space in a prestigious location in the Sydney CBD. However, the demand for shop space in the locality is great, and competition between prospective tenants is fierce. In order to ensure that she secures the lease of the particular shop space that she wants, Elisabeth pays John (the owner of the shop space) a premium of $6,000 in consideration for the grant of that particular lease.

She enters into the lease on 6 September 2024, and John incurs stamp duty of $300 and solicitor’s fees of $500 on the grant of the lease.

John makes a capital gain of $5,200 from CGT event **F1**:

- capital proceeds of $6,000
- *subtract* incidental costs of $800 (that is, stamp duty of $300 and solicitors' fees of $500)
- capital gain is **$5,200**.

For Elisabeth, this transaction results in CGT event C2 when the lease expires.

The amount of your capital gain or capital loss from CGT event **F1** is the difference between any premium you got for granting the lease and the expenditure you incurred in granting it. The CGT discount doesn't apply to CGT event **F1**. The market value substitution rule for capital proceeds that generally applies if you receive no consideration for a CGT event doesn't apply if CGT event F1 happens.

CGT event F2: You can choose for CGT event **F2** to apply (rather than CGT event F1) when you grant, renew or extend a long-term lease (at least 50 years). It can apply if you're the owner of the underlying land or if you grant a sub-lease.

Your capital proceeds if CGT event **F2** happens are the greatest of:

- the market value of the freehold or head lease (at the time you grant, renew or extend the lease)
- the market value if you had not granted, renewed or extended the lease
- any premium from the grant, renewal or extension.

There are special cost base rules that apply if you choose for CGT event F2 to apply.

For any later CGT event that happens to the land or the lessor's lease of it, its cost base and reduced cost base (including the cost base and reduced cost base of any building, part of a building, structure or improvement that is treated as a separate CGT asset) excludes:

- any expenditure incurred before CGT event **F2** happens
- the cost of any depreciating asset for which the lessor has deducted or can deduct an amount for its decline in value.

The 4th element of the property's cost base and reduced cost base includes any payment by the lessor to the lessee to vary or waive a term of the lease or for the forfeiture or surrender of the lease, reduced by the amount of any input tax credit to which the lessor is entitled for the variation or waiver.

CGT event F3: Happens if you make a payment to a lessee to vary a lease. You can only make a capital loss from this CGT event. Your capital loss is equal to the expenditure you incurred to change the lease.

CGT event F4: Happens if you (as lessee) receive a payment from the lessor for agreeing to vary or waive a term of the lease.

You can't make a capital loss from this CGT event. You'll only make a capital gain from CGT event F4 if the amount of the payment you received exceeds the cost base of your lease at the time when the term is varied. In other cases, you'll be required to adjust the cost base of your lease.

The market value substitution rule for capital proceeds that applies if you don't receive market value for a CGT event doesn't apply if CGT event F4 happens.

Example 59: payment to lessee for change in lease

Sam is the lessor of a commercial property. His tenant, Peter, currently holds a 3-year lease over the property, which has another 26 months to run. A business associate of Sam's wishes to lease the property from Sam for a 10-year period, beginning in 6 months' time, for twice the rent that Peter is currently paying. Sam approaches Peter with an offer of $5,000 cash for Peter to agree to vary the terms of the lease so that the lease will expire in 6 months' time. Peter agrees to vary the terms on 10 August 2024.

Sam will make a capital loss from CGT event **F3** happening. His capital loss is equal to the expenditure of $5,000 he incurred.

For Peter, this transaction results in CGT event **F4** happening. The cost base of Peter's lease at the time of the variation was $500. He makes a capital gain of $4,500 ($5,000 – $500).

You disregard any capital loss you make from the expiry, forfeiture, surrender or assignment of a lease (except one granted for 99 years or more) if you didn't use it solely or mainly for the purpose of producing assessable income, for example, if you used it for private purposes.

CGT event F5: Happens if you, as lessor, receive a payment for changing a lease.

The amount of your capital gain or capital loss from CGT event F5 is the difference between what you receive for changing the lease and any expenditure you incurred on it. The CGT discount doesn't apply to CGT event F5.

Subdivision of land

If you subdivide a block of land, each block that results is registered with a separate title. For CGT purposes, the original land parcel is divided into 2 or more separate assets. Subdividing land doesn't result in a CGT event if you retain ownership of the subdivided blocks. Therefore, you don't make a capital gain or a capital loss at the time of the subdivision.

However, you may make a capital gain or capital loss when you sell the subdivided blocks. The date you acquired the subdivided blocks is the date you acquired the original parcel of land and the cost base of the original land is divided between the subdivided blocks on a reasonable basis.

For more information, see Taxation Determination TD 97/3 *Income tax: capital gains: if a parcel of land acquired after 19 September 1985 is subdivided into lots ('blocks'), do Parts 3-1 and 3-3 of the Income Tax Assessment Act 1997 treat a disposal of a block of the subdivided land as the disposal of part of an asset (the original land parcel) or the disposal of an asset in its own right (the subdivided block)?*

When the profit is ordinary income

You may have made a profit from the subdivision and sale of land which occurred in the ordinary course of your business or which involved a commercial transaction or business operation entered into with the purpose of making a profit. In this case, the profit is ordinary income (see Taxation Ruling TR 92/3 *Income tax: whether profits on isolated transactions are income*). You reduce any capital gain from the land by the amount otherwise included in your assessable income.

Example 60: land purchased before 20 September 1985, land subdivided after that date and house built on subdivided land

In 1983, Mike bought a block of land that was less than 2 hectares. He subdivided the land into 2 blocks in May 2024 and began building a house on the rear block, which he finished in August 2024 and didn't use as his main residence. He sold the rear block (including the house) in October 2024 for $650,000. Mike got a valuation from a qualified valuer who valued the rear block at $450,000 and the house at $200,000. The construction cost of the house was $185,000.

Mike acquired the rear block before 20 September 1985, so it isn't subject to CGT. As the new house was constructed after 20 September 1985 on land purchased before that date, the house is taken to be a separate asset from the land. Mike is taken to have acquired the house in May 2024, when he began building it. Mike made a capital gain of $15,000 ($200,000 – $185,000) when he sold the house because he didn't use it as his main residence.

As Mike had owned the house for less than 12 months, he used the 'other' method to calculate his capital gain.

Example 61: dwelling purchased on or after 20 September 1985 and land subdivided after that date

Kym bought a house on a 0.2 hectare block of land in June 2024 for $350,000. The house was valued at $120,000 and the land at $230,000. Kym lived in the house as her main residence. She incurred $12,000 in stamp duty and legal fees purchasing the property.

Kym found the block was too big for her to maintain. In January 2025, she subdivided the land into 2 blocks of equal size – the front one with the house on it. She incurred $10,000 in survey, legal and subdivision application fees, and $1,000 to connect water and drainage to the rear block. In March 2025, she sold the rear block for $130,000.

As Kym sold the rear block of land separately, the main residence exemption doesn't apply to that land. She contacted several local real estate agents who advised her that the value of the front block was $15,000 higher than the rear block. Kym apportioned the $230,000 original cost base into $107,500 for the rear block (46.7%) and $122,500 for the front block (53.3%). Kym incurred $3,000 legal fees on the sale.

The cost base of the rear block is calculated as follows:

- cost of the land $107,500
- *add* $5,604
  46.7% of the $12,000 stamp duty and legal fees on the purchase
- *add* $4,670
  46.7% of the $10,000 cost of survey, legal and application fees
- *add* $1,000
  cost of connecting water and drainage
- *add* $3,000
  legal fees on sale
- The **total is $121,774**.

The capital gain on the sale of the rear block is $8,226. She calculates this by subtracting the cost base ($121,774) from the sale price ($130,000). As Kym had owned the land for less than 12 months, she uses the 'other' method to calculate her capital gain.

Kym will get the full exemption for her house and the front block if she uses them as her main residence for the full period she owns them.

Amalgamation of title

The amalgamation of the titles to various blocks of land that you own doesn't result in a CGT event happening.

Land you acquired before 20 September 1985 that is amalgamated with land acquired on or after that date retains its pre-CGT status.

> **Example 62: amalgamation of title**
>
> On 1 April 1984, Robert bought a block of land. On 1 June 2008, he bought another block adjacent to the first one. Robert amalgamated the titles to the 2 blocks into one title.
>
> Robert is taken to have 2 separate assets. The first block continues to be treated as a pre-CGT asset.

Examples of CGT calculations affecting real estate

There are a number of other examples in this guide that explain how to calculate your capital gain or capital loss on the sale of real estate:

- calculation of capital gain (including worksheet), where a person can choose the indexation or discount method to calculate their capital gain, see Example 13
- calculation of capital gain on property owned for 12 months or less, see Example 9
- recoupment of expenditure affecting CGT cost base calculation, see Example 6
- deductions affecting CGT cost base calculations, see Example 53 and Example 54.

Main residence

Generally, if you're an individual (not a company or trust) you can ignore a capital gain or capital loss from a CGT event that happens to your ownership interest in a dwelling that is your main residence (also referred to as 'your home'). However, special rules apply if the interest in the dwelling is held by the trustee of a Special Disability Trust. In such cases, the trustee of the Special Disability Trust will be eligible for any main residence exemption to the extent the individual principal beneficiary of the Special Disability Trust would have been if that individual principal beneficiary owned the interest in the dwelling.

To get the full exemption from CGT:

- the dwelling must have been your home for the whole period you owned it
- you must not have used the dwelling to produce assessable income
- any land on which the dwelling is situated must be 2 hectares or less
- you must not be an excluded foreign resident at the time the CGT event occurs.

If you inherited a dwelling or a share of a dwelling and it was not the deceased's main residence, you're unlikely to get a full exemption. See Flowchart 3.6 in Appendix 3, and Inherited main residence.

You may get only a partial exemption if one of the following applies:

- the dwelling was your main residence during only part of the period you owned it
- you used the dwelling to produce assessable income
- the land on which the dwelling is situated is more than 2 hectares.

Short absences from your home (for example, annual holidays) don't affect your exemption. If you're a foreign resident when a CGT event happens to your residential property in Australia you'll no longer be entitled to claim the main residence exemption, unless certain life events occur within a continuous period of 6 years of the individual becoming a foreign resident for tax purposes.

Where the deceased was a foreign resident, the changes may also apply to:

- legal personal representatives, trustees and beneficiaries of deceased estates
- surviving joint tenants
- special disability trusts.

For more information, see:

- Main residence exemption for foreign residents
- Foreign residents and capital gains tax.

If a dwelling was not your main residence for the whole time you owned it, some special rules may entitle you to a full exemption or to extend the partial exemption you would otherwise get. These rules can apply to land or a dwelling if you:

- choose to treat the dwelling as your main residence, even though you no longer live in it, see Continuing main residence status after dwelling ceases to be your main residence
- moved into the dwelling as soon as practicable after its purchase, see Moving into a dwelling
- are changing main residences, see Moving from one main residence to another
- are yet to live in the dwelling but will do so as soon as practicable after it is constructed, repaired or renovated and you'll continue to live in it for at least 3 months, see Constructing, renovating or repairing a dwelling on land you already own
- sell vacant land after your main residence is accidentally destroyed, see Destruction of dwelling and sale of land.

Special rules

There are some special CGT rules that aren't covered in this section that may affect you if your home was:

- destroyed and you receive money or another asset as compensation or under an insurance policy
- transferred to you as a result of its conversion to strata title
- compulsorily acquired, see Loss, destruction or compulsory acquisition of an asset.

If you own more than one dwelling during a particular period, only one of them can be your main residence at any one time.

The exception to this rule is if you move from one main residence to another. In this case you can treat 2 dwellings as your main residence for a limited time, see Moving from one main residence to another.

Special rules apply if you have a different main residence from your spouse or dependent children, see Having a different home from your spouse or dependent child.

If you're a foreign resident when a CGT event happens to your residential property in Australia, you'll no longer be entitled to claim the main residence exemption unless certain life events occur within a continuous period of 6 years of the individual becoming a foreign resident for tax purposes.

Downsizer contributions and capital gains tax

A downsizer contribution allows people who are 60 years old and older (from 1 July 2022) or 55 years old and older (from 1 January 2023) at the time of making the contribution, to sell their home and make a contribution to super based on the proceeds of the sale. This also applies to people who may otherwise be prevented from making contributions into super due to:

- age
- work status
- contribution cap restrictions.

There are various criteria to be eligible to make a downsizer contribution.

To make a downsizer contribution, the capital gain or loss from the sale of the home must be disregarded, in whole or part, because the property has been treated as your main residence (for the purposes of the main residence exemption for CGT). A partial main residence CGT exemption (for the purposes of the downsizer contribution eligibility) may apply in a variety of situations, including where the home:

- was not your main residence for the entire period of ownership
- was used to produce assessable income (in whole or part) for a period of time during the ownership
- is on land greater than 2 hectares.

You may not have a capital gain or loss to disregard because, for example:

- your home was a pre-CGT asset (that is, if it was acquired before 20 September 1985)
- your spouse owned the home that was sold.

If your home was a pre-CGT asset you can still make a downsizer contribution if would be entitled to such an exemption if your home was a post-CGT asset rather than a pre-CGT asset.

If your home that was sold was only owned by one spouse, the spouse that didn't have an ownership interest may also make a downsizer contribution, or have one made on their behalf, provided they meet all of the other requirements.

For more information, see Downsizing contributions into super.

What is a dwelling?

A dwelling is anything that is used wholly or mainly for residential accommodation. Certain mobile homes can also be a dwelling. Examples of a dwelling are:

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

Any land the dwelling is on is included as part of the dwelling, but it only qualifies for the main residence exemption if the land and the dwelling are sold together. Also, the exemption applies to a maximum of 2 hectares of land (including the land on which the dwelling is built). Any excess is subject to CGT.

A building or a unit in a building, which is a dwelling, ceases to be a dwelling once you commence converting it into commercial premises.

For more information, see Land adjacent to the dwelling.

What is an ownership interest?

In the case of a flat or home unit, you have an ownership interest if you have a:

- legal or equitable interest in a strata title in the flat or home unit
- licence or right to occupy the flat or home unit
- share in a company that owns a legal or equitable interest in the land on which the flat or home unit is constructed and that share gives you a right to occupy the flat or home unit.

In the case of a dwelling that isn't a flat or home unit, you have an ownership interest if you have either a:

- legal or equitable interest in the land on which it is constructed
- licence or right to occupy it.

In the case of land, you have an ownership interest if you have either a:

- legal or equitable interest in it
- right to occupy it.

An equitable interest may include life tenancy of a dwelling that you acquire, for example, under a deceased's will.

When do you acquire an ownership interest?

For the purposes of the main residence exemption, you have an ownership interest in a dwelling or land you acquire under a contract from the time you get legal ownership (unless you have a right to occupy it at an earlier time).

You have legal ownership of a dwelling or land from the date of settlement of the contract of purchase (or if you have a right to occupy it at an earlier time, that time) until the date of settlement of the contract of sale. This period is called your ownership period. If the dwelling is on 2 hectares of land or less, is your main residence for the whole of the ownership period and you don't use it to produce assessable income, the home is fully exempt.

Example 63: full exemption

Frank signed a contract on 14 August 2001 to purchase 0.1 hectare of land from a developer and to have a house constructed on the land. Under the contract, settlement didn't occur until construction was completed on 26 October 2002.

Frank moved into the house immediately upon settlement of the contract he had with the developer, that is, on 26 October 2002. He didn't have a right to occupy the house at an earlier time under the purchase contract. He signed the contract to sell it on 25 May 2025 and settlement occurred on 20 July 2025. The house was Frank's main residence for the full period he owned it and he didn't use any part of it to produce income.

For CGT purposes, Frank is taken to have acquired the land on which the house was constructed on the date he entered into the contract, 14 August 2001. However, because the house was Frank's main residence for the whole period between settlement of the purchase contract and settlement of the sale contract, it is fully exempt.

The period between when Frank entered into the purchase contract and started to live in the house (14 August 2001 to 25 October 2002) is ignored. This is because the relevant dates for the main residence exemption are the settlement dates or, if you had a right under the purchase contract to occupy the dwelling at an earlier time, that time until settlement of the sale contract.

Even though the settlement dates are used to calculate the period for which the main residence exemption applies, the dates you enter into the purchase and sale contracts are important.

A CGT event occurs when you enter into the sale contract. You include any capital gain in your tax return for the income year in which the CGT event occurs. The dates you enter into the purchase and sale contracts are also relevant for determining what method you can use to work out your capital gain from your main residence.

Example 64: partial exemption

The facts are the same as in the previous example except that Frank rented out the house from 26 October 2002, the date of settlement of the purchase contract, until 2 March 2004. Frank makes a capital gain of $90,000 on the house. To work out the part of the capital gain that isn't exempt, Frank must determine how many days in his ownership period the dwelling was not his main residence.

Frank had an ownership interest in the property from settlement of the purchase contract (26 October 2002) until settlement of the sale contract (20 July 2025), a total of 8,304 days.

The period between the dates the purchase contract was signed (14 August 2001) and settled (25 October 2002) is ignored. As the house was not Frank's main residence from 26 October 2002 to 2 March 2004 (494 days), he doesn't get the exemption for this period.

Frank calculates his capital gain as follows:

$90,000 capital gain × (494 days ÷ 8,304 days) = $5,354 taxable portion

As Frank entered into the purchase contract after 11:45 am AEST on 21 September 1999 and entered into the sale contract after owning the house for at least 12 months, he can reduce his capital gain by the CGT discount of 50% after applying any capital losses.

Because Frank signed the sale contract on 25 May 2025, the CGT event occurred in the 2024–25 income year, even though settlement occurred in the next income year. Frank writes the capital gain on his 2025 tax return.

Is the dwelling your main residence?

The following factors may be relevant in working out whether a dwelling is your main residence:

- the length of time you live there (there is no minimum time a person has to live in a home before it is considered to be their main residence)
- whether your family lives there
- whether you have moved your personal belongings into the home
- the address to which your mail is delivered
- your address on the electoral roll
- the connection of services (for example, phone, gas or electricity)
- your intention in occupying the dwelling.

A mere intention to construct or occupy a dwelling as your main residence, without actually doing so, isn't sufficient to get the exemption. If you were not a resident of Australia for tax purposes while you were living in the property you're unlikely to satisfy the requirements for the main residence exemption.

In certain circumstances, you may choose to treat a dwelling as your main residence even though:

- you no longer live in it; for more information, see Continuing main residence status after dwelling ceases to be your main residence
- you're yet to live in it, but will do so as soon as practicable after it is constructed, repaired or renovated and you'll continue to live in it for at least 3 months; for more information, see Constructing, renovating or repairing a dwelling on land you already own.

Moving into a dwelling

A dwelling is considered to be your main residence from the time you acquired your ownership interest in it if you moved into it as soon as practicable after that time. If you purchased the dwelling, this would generally be the date of settlement of the purchase contract. However, if there is a delay in moving in because of illness or other unforeseen circumstances, the exemption may still be available from the time you acquired your ownership interest in the dwelling.

If you could not move in because the dwelling was being rented to someone, you're not considered to have moved in as soon as practicable after you acquired your ownership interest.

As mentioned earlier, there is a special rule that allows you to treat more than one dwelling as your main residence for a limited time if you're changing main residences, see Moving from one main residence to another.

Example 65: moving in as soon as practicable

Mary signs a contract to buy a townhouse on 1 March 2025. She is to take possession when settlement occurs on 30 April 2025.

On 11 March 2025, Mary is directed by her employer to go overseas on an assignment for 4 months, leaving on 25 March 2025. Mary moves into the townhouse on her return to Australia in late July 2025.

Mary's overseas assignment was unforeseen at the time she bought the property. As she moved in as soon as practicable after settlement of the contract occurred, Mary can treat the townhouse as her main residence from the date of settlement until she moved in.

Land adjacent to the dwelling

The land adjacent to a dwelling is also exempt if:

- during the period you owned it, the land is used mainly for private or domestic purposes in association with the dwelling
- the total area of the land around the dwelling, including the land on which it stands, isn't greater than 2 hectares. If the land used for private purposes is greater than 2 hectares, you can choose which 2 hectares are exempt but the land you choose must include the land on which the dwelling is built.

Land is adjacent to your dwelling if it is close to, near, adjoining or neighbouring the dwelling.

If you sell any of the land adjacent to your dwelling separately from the dwelling, the land isn't exempt. It is only exempt when sold with the dwelling. There is an exception if the dwelling is accidentally destroyed and you sell the vacant land or vacant land adjacent to your dwelling is compulsorily acquired. See:

- Destruction of dwelling and sale of land
- Compulsory acquisition of part of your main residence.

Any part of the land around a dwelling used to produce income isn't exempt, even if the total land is less than 2 hectares. However, the dwelling and any buildings and other land used in association with it remain exempt if you don't use them to produce income.

Example 66: land used for private purposes

Tim bought a home with 15 hectares of land in November 2002. He uses 10 hectares of the land to produce income and 5 hectares for private purposes. Tim can get the main residence exemption for the home and 2 hectares of land he selects out of the 5 hectares that are used for private purposes.

Tim gets a valuation which states that the home and 2 hectares of land that he has selected are worth two-thirds of the total value of the property. The relative values of the different parts of the property remained the same between the time of purchase and the time of sale.

Tim entered into a contract to sell the property on 8 May 2025. The capital gain from the property is $150,000. Tim may claim the main residence exemption on the two-thirds of the capital gain attributable to the house and 2 hectares of land, that is, $100,000.

Because he entered into the contract to acquire the property after 11:45 am AEST on 21 September 1999 and owned it for at least 12 months, Tim reduces his remaining $50,000 gain (attributable to the land) by the CGT discount of 50% after applying any capital losses.

Other structures associated with the dwelling

A flat or home unit often includes areas (for example, a laundry, storeroom or garage) that are physically separate from the flat or home unit. As long as you use these areas primarily for private or domestic purposes in association with the flat or home unit for the whole period you own it, they are exempt on the same basis that the flat or home unit is exempt.

However, if you dispose of one of these structures separately from the flat or home unit, they aren't exempt. If one of these structures is compulsorily acquired without your flat or home unit also being acquired, see Compulsory acquisition of part of your main residence.

Partial exemption for main residence

If a CGT event happens to a dwelling you acquired on or after 20 September 1985 and that dwelling was not your main residence for the whole time you owned it, you get only a partial exemption.

You calculate the part of the capital gain that is taxable as follows:

$A \times (B \div C)$

Where:

- A is total capital gain made from the CGT event
- B is number of days in your ownership period when the dwelling was not your main residence
- C is total number of days in your ownership period.

Example 67: main residence for part of the ownership period

Andrew bought a house on 1 hectare of land under a contract that was settled on 1 July 1992 and moved in immediately. On 1 July 1995, he moved out and began to rent out the house. He didn't choose to treat the house as his main residence for the period after he moved out, although he could have done this under the continuing main residence status after dwelling ceases to be your main residence rule. The home first used to produce income rule doesn't apply because Andrew used the home to produce income before 21 August 1996. A contract for the sale of the house was entered into on 1 July 2024 and settled on 31 August 2024 and Andrew made a capital gain of $100,000. As he is entitled to a partial exemption, Andrew’s capital gain is as follows:

$100,000 × (10,655 days ÷ 11,750 days) = $90,681

As Andrew entered into the contract to acquire the house before 11:45 am AEST on 21 September 1999 but the CGT event occurred after this date, and he had owned the house for at least 12 months, Andrew can choose to use the discount method or the indexation method to calculate his capital gain.

If a dwelling was not your main residence for the whole time you owned it, some special rules may entitle you to a full exemption or to extend the partial exemption you would otherwise get. These rules apply to land or a dwelling if you:

- choose to treat the dwelling as your main residence, even though you no longer live in it; see Continuing main residence status after dwelling ceases to be your main residence
- moved into the dwelling as soon as practicable after its purchase; see Moving into a dwelling
- are changing main residences; see Moving from one main residence to another
- are yet to live in the dwelling but will do so as soon as practicable after it is constructed, repaired or renovated and you'll continue to live in it for at least 3 months; see Constructing, renovating or repairing a dwelling on land you already own
- sell vacant land after your main residence is accidentally destroyed; see Destruction of dwelling and sale of land.

You can't choose to treat a building or a unit in a building as your main residence if immediately after you cease to occupy it as your main residence you commence converting it into commercial premises.

Dwelling used to produce income

Usually, you can't get the full main residence exemption if you acquired your dwelling on or after 20 September 1985, used it as your main residence and you:

- used any part of it to produce income during all or part of the period you owned it
- would be allowed a deduction for interest had you incurred on money borrowed to acquire the dwelling (interest deductibility test).

The interest deductibility test applies regardless of whether you actually borrowed money to acquire your dwelling. You must apply it on the assumption that you did borrow money to acquire the dwelling.

If you rent out part of your home, you would be entitled to deduct part of the interest if you had borrowed money to acquire the dwelling.

If you run a business or professional practice in part of your home, you would be entitled to deduct part of the interest on money you borrowed to acquire the dwelling if:

- part of the dwelling is set aside exclusively as a place of business and is clearly identifiable as such
- that part of the home isn't readily adaptable for private use, for example, a doctor’s surgery located within the doctor’s home.

You would not be entitled to deduct any interest expenses if, for convenience, you use a home study to undertake work usually done at your place of work. Similarly, you would not be entitled to deduct interest expenses if you do paid child-minding at home (unless a special part of the home was set aside exclusively for that purpose). In these situations, you could still get a full main residence exemption.

Example 68: renting out part of a home

Thomas purchased a home under a contract that was settled on 1 July 1999 and sold it under a contract that was settled on 30 June 2025. The home was his main residence for the entire time.

Throughout the period Thomas owned the home, a tenant rented one bedroom, which represented 20% of the home. Both Thomas and the tenant used the living room, bathroom, laundry and kitchen, which represented 30% of the home. Only Thomas used the remainder of the home. Therefore, Thomas would be entitled to a 35% deduction for interest if he had incurred it on money borrowed to acquire his home. The home first used to produce income rule doesn't apply because Thomas used the home to produce income from the date he purchased it.

Thomas made a capital gain of $120,000 when he sold the home. Of this total gain, the following proportion isn't exempt:

Capital gain × percentage of floor area = taxable portion

$120,000 × 35% = $42,000

As Thomas entered into the contract to acquire the home before 11:45 am AEST on 21 September 1999, and entered into the contract to sell it after he had held it for at least 12 months, he can use either the indexation or the discount method to calculate his capital gain.

If you set aside and use part of the dwelling exclusively as a place of business, you can't get a CGT exemption for that part of the dwelling by not claiming a deduction for the interest. Nor can you include interest in the cost base if you're entitled to a deduction but don't claim it.

You can still get a full main residence exemption if someone else uses part of your home to produce income and you receive no income from that person.

When a CGT event happens to the home, the proportion of the capital gain or capital loss that is taxable is an amount that is reasonable according to the extent to which you would have been able to deduct the interest on money borrowed to acquire the home.

In most cases, this is the proportion of the floor area of the home that is set aside to produce income and the period you use the home to produce income. This includes if the dwelling is available (for example, advertised) for rent.

Example 69: running a business in part of a home for part of the period of ownership

Ruth entered into a contract to buy her home that settled before 11:45 am AEST on 21 September 1999. Ruth owned the home for more than 12 months. The home was her main residence for the entire period she owned it.

For half the period Ruth owned the home, she used part of the home to operate her photographic business. She modified the rooms for that purpose and they were no longer suitable for private and domestic use. They represented 25% of the total floor area of the home.

When she sold the home, Ruth made a capital gain of $80,000. The following proportion of the gain is taxable:

$(A \times B) \times C = D$

Where:

- A is capital gain
- B is percentage of floor area not used as main residence
- C is percentage of period of ownership when that part of the home was not used as main residence
- D is taxable portion.

($80,000 × 25%) × 50% = $10,000

As Ruth entered into the contract to acquire the home before 11:45 am AEST on 21 September 1999, and entered into the contract to sell it after she had held it for at least 12 months, she can use either the indexation or discount method to calculate her capital gain.

The home first used to produce income rule doesn't apply, because Ruth used the home to produce income from the date she purchased it.

For more information, see Rental properties guide 2025.

Home first used to produce income

If you start using part or all of your main residence to produce income for the first time after 20 August 1996, a special rule affects the way you calculate your capital gain or capital loss.

In this case, you're taken to have acquired the dwelling at its market value at the time you first used it to produce income if all of the following apply:

- you acquired the dwelling on or after 20 September 1985
- you first used the dwelling to produce income after 20 August 1996
- when a CGT event happens to the dwelling, you would get only a partial exemption, because you used the dwelling to produce assessable income during the period you owned it
- you would have been entitled to a full exemption if the CGT event happened to the dwelling immediately before you first used it to produce income.

If all of the above apply, you must work out your capital gain or capital loss using the market value of the dwelling at the time you first used it to produce income. You don't have a choice.

A similar rule applies if you inherit a dwelling that was the deceased's main residence and you use it to produce income, see Using a home you inherited to produce income.

Full exemption

You may have made the choice to treat a dwelling as your main residence after the dwelling ceases to be your main residence, see Continuing main residence status after dwelling ceases to be your main residence. In this case, if the dwelling is fully exempt, the 'home first used to produce income' rule doesn't apply.

In working out the amount of capital gain or capital loss, the period before the dwelling is first used by you to produce income isn't taken into account. The extent of the exemption depends on the period after that time and the proportion of the home used to produce income. The following 3 examples explain this.

If the 'home first used to produce income' rule applies and the period between when you first used the dwelling to produce income and the CGT event happening is less than 12 months, the CGT discount method isn't available.

Example 70: home becomes a rental property after 20 August 1996

Erin purchased a home on 0.9 hectares of land in July 2002 for $280,000. The home was her main residence until she moved into a new home on 1 August 2005. On 2 August 2005, she commenced to rent out the old home. At that time, the market value of the old home was $450,000.

Erin doesn't want to treat the old home as her main residence, as she wants the new home to be treated as her main residence from when she moved into it.

On 14 April 2025, Erin sold the old home for $496,000. Erin is taken to have acquired the old home for $450,000 on 2 August 2005, and calculates her capital gain to be $46,000.

Because Erin is taken to have acquired the old home on 2 August 2005 and has held it for more than 12 months, she can use the discount method to calculate her capital gain. As Erin has no capital losses, she includes a capital gain of $23,000 in her tax return 2025.

Example 71: part of home first used to produce income after 20 August 1996

Louise purchased a home in December 1993 for $200,000. The home was her main residence. On 1 November 2023, she started to use 50% of the home for a consultancy business. At that time the market value of the house was $320,000.

She decided to sell the property in August 2024 for $350,000. As Louise was still living in the home, she could not get a full exemption under the continuing main residence status after dwelling ceases to be your main residence rule. The capital gain is 50% of the proceeds less the cost base.

Percentage of use × (proceeds – cost base) = capital gain

50% × ($350,000 – $320,000) = $15,000

Louise is taken to have acquired the property on 1 November 2023 at a cost of $320,000. Because she is taken to have acquired it at this time, Louise is taken to have owned it for less than 12 months and must use the 'other' method to calculate her capital gain.

If you make the choice to continue to treat a dwelling as your main residence after it ceases to be your main residence (see Continuing main residence status after dwelling ceases to be your main residence) and you don't get a full exemption, the 'home first used to produce income' rule may apply.

Example 72: dwelling used to produce income for more than 6 years and first used to produce income after 20 August 1996

Roya purchased an apartment in Australia for $280,000 under a contract that was settled on 15 September 1995, and immediately started using the apartment as her main residence.

On 29 September 1997, she moved to another city and began renting out the apartment. During the time she was away, she didn't acquire another dwelling and continued to rent out the apartment. In July 2024, she sold the apartment for $555,000. Settlement occurred on 29 September 2024 and she incurred $15,000 in real estate agent's and solicitor's costs.

As Roya rented out the apartment, she is only entitled to choose to continue to treat the dwelling as her main residence during her absence for a maximum of 6 years, that is, for the period 29 September 1997 to 29 September 2003.

As Roya is only entitled to a partial CGT exemption, she first used the property to produce income after 20 August 1996, and she would have been entitled to a full CGT exemption for the dwelling immediately before she started renting it out, she treats the dwelling as having been acquired on 29 September 1997 at the market value at that time, which was $340,000.

Roya works out her capital gain as follows:

- capital proceeds of $555,000
- cost base of $355,000 ($340,000 + $15,000)
- **total capital gain of $200,000.**

Non-main residence days 7,671 (30 September 2003 to 29 September 2024)

Ownership period days 9,863 (29 September 1997 to 29 September 2024)

$200,000 × (7,671 days ÷ 9,863 days) = $155,551

29 September 1997 is the new deemed acquisition date.

Roya chooses to use the discount method and, because she has no other capital gains or capital losses, she includes a net capital gain of $77,776 ($155,551 × 50%) in her tax return 2025.

Moving from one main residence to another

If you acquire a new home before you dispose of your old one, both dwellings are treated as your main residence for up to 6 months if all of the following apply:

- the old dwelling was your main residence for a continuous period of at least 3 months in the 12 months before you disposed of it
- you didn't use the old dwelling to produce assessable income in any part of that 12 months when it was not your main residence
- the new dwelling becomes your main residence.

If you dispose of the old dwelling within 6 months of acquiring the new one, both dwellings are exempt for the whole period between when you acquire the new one and dispose of the old one.

Example 73: exemption for both homes

Jill and Norman bought their new home under a contract that was settled on 1 January 2025 and they moved in immediately. They sold their old home under a contract that was settled on 15 April 2025. Both the old and new homes are treated as their main residence for the period 1 January to 15 April, even though they didn't live in the old home during that period.

If it takes longer than 6 months to dispose of your old home, both homes are exempt only for the last 6 months before you dispose of the old one. You get only a partial exemption when a CGT event happens to your old home.

Example 74: partial exemption for old home

Jeneen and John bought their home under a contract that was settled on 1 January 2001 and they moved in immediately. It was their main residence until they bought another home under a contract that was entered into on 2 November 2023 and settled on 1 January 2024.

They retained their old home after moving into the new one on 1 January 2024, but didn't use the old one to produce income. They sold the old home under a contract that was settled on 1 October 2024. They owned this home for a total period of 8,675 days.

Both homes are treated as their main residence for the period 1 April 2024 to 1 October 2024, the last 6 months that Jeneen and John owned their old home. Therefore, their old home is treated as their main residence only for the period before settlement of their new home and during the last 6 months before settlement of the sale of the old home.

The 90 days from 1 January 2024 to 31 March 2024, when the old home was not their main residence, are taken into account in calculating the proportion of their capital gain that is taxable (90 ÷ 8,675).

Because they entered into the contract to acquire their old home after 11:45 am AEST on 21 September 1999 and entered into the contract to sell it after they had held it for at least 12 months, Jeneen and John can use the discount method to calculate their capital gain.

If it takes longer than 6 months to dispose of your old home, you may get an exemption for the old home for the period in excess of the 6 months by choosing to treat it as your main residence for that period under the 'continuing main residence status after dwelling ceases to be your main residence' rule. If you do this, you get only a partial exemption when you dispose of your new home.

Example 75: partial exemption for new home

The facts are the same as in the previous example, except that Jeneen and John choose to continue to treat their old home as their main residence for the period from 1 January 2024 to 31 March 2024 under the continuing main residence status after dwelling ceases to be your main residence rule.

This means they get a full exemption when they sell it.

Because both homes can only be exempt for a maximum of 6 months when you're moving from one to the other, Jeneen and John will not get a full exemption for their new home when they sell it. The exemption would not be available for the new home for the 90 days from 1 January 2024 to 31 March 2024.

Status after dwelling ceases to be your main residence

In some cases, you can choose to treat a dwelling as your main residence even though you no longer live in it. You can't make this choice for a period before a dwelling first becomes your main residence. See Is the dwelling your main residence?

Example 76: not main residence until you move in

Therese bought a house and rented it out immediately. Later, she stopped renting it out and moved in.

Therese can't choose to treat the house as her main residence during the period she was absent under the continuing main residence rule, because the house was not her main residence before she rented it out. She will only be entitled to a partial exemption if she sells the dwelling.

This choice needs to be made only for the income year that the CGT event happens to the dwelling, for example, the year that you enter into a contract to sell it. If you own both:

- the dwelling that you can choose to treat as your main residence after you no longer live in it
- the dwelling you actually lived in during that period
  - you make the choice for the income year
  - you enter into the contract to sell the first of those dwellings.

If you make this choice, you can't treat any other dwelling as your main residence for that period (except for a limited time if you're changing main residences, see Moving from one main residence to another).

If you don't use it to produce income (for example, you leave it vacant or use it as a holiday home) you can treat the dwelling as your main residence for an unlimited period after you stop living in it.

If you do use it to produce income (for example, you rent it out or it is available for rent) you can choose to treat it as your main residence for up to 6 years after you stop living in it (see Example 72). If you make this choice and as a result of it the dwelling is fully exempt, the home first used to produce income rule doesn't apply.

Example 77: one period of absence of 10 years

Lisa bought a house after 20 September 1985 but stopped using it as her main residence for the 10 years immediately before she sold it. During this period, she rented it out for 6 years and left it vacant for 4 years.

Lisa chooses to treat the dwelling as her main residence for the period after she stopped living in it, so she disregards any capital gain or capital loss she makes on the sale of the dwelling. The maximum period the dwelling can continue to be her main residence while she used it to produce income is 6 years. However, while the house is vacant, the period she can treat the dwelling as her main residence is unlimited. This means the exemption applies for the whole 10 years that she was absent from the dwelling.

As the dwelling is fully exempt because Lisa made the choice to treat the dwelling as her main residence, the home first used to produce income rule doesn't apply.

The maximum period that Lisa can treat the dwelling as her main residence whilst it was being used to produce income is a total of 6 years even if the period the dwelling was income producing was broken by a period of vacancy. For example, if Lisa rented the dwelling for 4 years, left it vacant for 3 years and rented for 3 years, she could only treat the dwelling as her main residence for 9 of the 10 years that she was not living there.

You can choose when you want to stop the period covered by this choice.

For information on when and how you make a choice, see Choices.

Example 78: choosing to stop the period covered by the choice early

James bought his home in Brisbane on 1 July 2004 and moved in immediately. On 31 July 2018, he moved to Perth and rented out his Brisbane home. James bought a new residence in Perth on 31 January 2024. He sold the property in Brisbane on 31 July 2024. In completing his 2025 tax return, James decided to continue to treat the Brisbane property as his main residence after he moved out of it, but only until 31 January 2024, when he purchased his new main residence in Perth.

If you rent out the dwelling for more than 6 years, the ‘home first used to produce income’ rule may apply, which means you're taken to have acquired the dwelling at its market value at the time you first used it to produce income. See Home first used to produce income.

If you're absent more than once during the period you own the home, the 6-year maximum period that you can treat it as your main residence while you use it to produce income applies separately to each period of absence.

Example 79: 2 periods of absence of 8 years

Lana bought a house after 20 September 1985. For the last 20 years prior to selling the house she stopped using it as her main residence for 2 periods of 8 years. During each period, she rented it out for 6 years and left it vacant for 2 years. Between the first and second period of absence she lived in the dwelling for 2 years. She sold it 2 years after last returning to live in the house.

Lana chooses to treat the dwelling as her main residence for the periods after she stopped living in it. She disregards any capital gain or capital loss she makes on selling it as the period of income production during each absence isn't more than 6 years. Lana is entitled to another maximum period of 6 years as she returned to live in the dwelling between the periods of absence. See **example 80** for more detail where the period of income production exceeds 6 years.

Example 80: home ceases to be the main residence and is used to produce income for more than 6 years during a single period of absence

1 July 1994 Ian settled a contract to buy a home in Sydney on 0.9 hectares of land and used it as his main residence.

1 January 1996 Ian was posted to Brisbane and settled a contract to buy another home there.

1 January 1996 to 31 December 2000 Ian rented out his Sydney home during the period he was posted to Brisbane.

31 December 2000 Ian settled a contract to sell his Brisbane home and he chose not to claim the main residence exemption for this property. The tenant left his Sydney home, and Ian decided to leave it vacant.

The period of 5 years from 1 January 1996 to 31 December 2000 is the first period the Sydney home was used to produce income for the purpose of the 6-year test.

1 January 2001 Ian was posted from Brisbane to Melbourne for 3 years and settled a contract to buy a home in Melbourne. He didn't return to his Sydney home at this time.

1 March 2001 Ian again rented out his Sydney home, this time for 2 years.

28 February 2003 The tenant of his Sydney home left, and Ian again chose to leave it vacant.

The period of 2 years from 2001 to 2003 is the second period the Sydney home was used to produce income under the 6-year test.

31 December 2003 Ian sold his home in Melbourne. Ian chose not to claim the main residence exemption on the sale of this property.

31 December 2004 Ian returned to his home in Sydney and it again became his main residence.

28 February 2025 Ian settled a contract to sell his Sydney home.

As Ian didn't claim the main residence exemption for either of his Brisbane or Melbourne homes he is able to choose to treat the Sydney home as his main residence for the period after he stopped living in it. The effect of making this choice is that any capital gains Ian made on the sale of both his Brisbane home in 2000–01 and his Melbourne home in 2003–04 aren't exempt.

Ian can't get the main residence exemption for the whole period of ownership of the Sydney home because the combined periods he used it to produce income (1 January 1996 to 31 December 2000 and 1 March 2001 to 28 February 2003) during his one absence were more than 6 years.

As a result, the Sydney house isn't exempt for the period it was used to produce income that exceeds the 6-year period, that is, one year.

If the capital gain on the disposal of the Sydney home is $250,000, he calculates the amount of the gain that is taxable as follows:

Period of ownership of the Sydney home:

1 July 1994 to 28 February 2025 = 11,201 days

Periods the Sydney home was used to produce income after Ian stopped living in it.

1. 1 January 1996 to 31 December 2000 = 1,827 days.
2. 1 March 2001 to 28 February 2003 = 730 days.
3. A total of **2,557 days**

First 6 years the Sydney home was used to produce income.

1. 1 January 1996 to 31 December 2000 = 1,827 days.
2. 1 March 2001 to 28 February 2002 = 365 days.
3. A total of **2,192 days.**
4. Income producing for more than 6 years after Ian stopped living in it:
 2,557 – 2,192 = 365 days

Proportion of capital gain taxable in 2024–25

$250,000 × (365 ÷ 11,201) = $8,147

Because Ian entered into the contract to acquire the house before 11:45 am AEST on 21 September 1999 and entered into the contract to sell it after that time, and owned it for at least 12 months, he can use either the indexation or the discount method to calculate his capital gain.

The home first used to produce income rule doesn't apply because the home was first used by Ian to produce income before 21 August 1996.

Home used to produce income and then you stop living in it

If you use any part of your home to produce income before you stop living in it, you can't apply the continuing main residence status after dwelling ceases to be your main residence rule to that part. This means you can't get the main residence exemption for that part of the dwelling either before or after you stop living in it.

Example 81: ceasing to live in a home after part of it is used to produce income

Caroline purchased a home under a contract that was settled on 1 July 1999, and she moved in immediately. She used 75% of the home as her main residence and the remaining 25% as a doctor's surgery, which she used until 30 June 2019.

On 1 July 2019, she moved out and rented out the home until it was sold under a contract that was settled on 30 June 2025. Caroline chose to treat the dwelling as her main residence for the 6 years she rented it out. She made a capital gain of $100,000 when she sold the home.

As 25% of the home was not used as her main residence during the period before Caroline stopped living in it, part of the capital gain is taxable, calculated as follows:

$100,000 × 25% = $25,000

Because Caroline entered into the contract to acquire the house before 11:45 am AEST on 21 September 1999 and sold it after she had owned it for at least 12 months, she can use either the indexation or the discount method to calculate her capital gain.

The home first used to produce income rule doesn't apply because she used it to produce income from the time she purchased it.

Constructing, renovating or repairing a dwelling on land you already own

Generally, if you build a dwelling on land you already own, the land doesn't qualify for exemption until the dwelling becomes your main residence. However, you can choose to treat land as your main residence for up to 4 years, or a longer time if allowed by the Commissioner, before the dwelling becomes your main residence in certain circumstances.

You can choose to have this exemption apply if you acquire an ownership interest (other than a life interest) in land and you:

- build a dwelling on the land
- repair or renovate an existing dwelling on the land
- finish a partly constructed dwelling on the land.

There are conditions that you must satisfy before you can claim the exemption. You must first finish building, repairing or renovating the dwelling and then:

- move into the dwelling as soon as practicable after it is finished
- continue to use the dwelling as your main residence for at least 3 months after it becomes your main residence. A period in which you choose to treat a dwelling as your main residence under the continuing main residence status after dwelling ceases to be your main residence rule is taken into account in working out the 3 month period.

The land, including the dwelling that is being built, renovated, repaired or finished on it, is exempt for the shorter of the following periods:

- the 4-year period, or a longer time if allowed by the Commissioner, immediately before the date the dwelling becomes your main residence
- the period between the date you acquired the land and the date the dwelling becomes your main residence.

However, if after you acquired the land you or someone else occupied a dwelling that was already on the land, the period of exemption starts from the date that dwelling was vacated.

Full exemption

If a newly constructed dwelling is built to replace a previous dwelling that was demolished or destroyed, you can get a full exemption when you dispose of the property if:

- the original dwelling was your main residence for the full period you owned it, you didn't use it to produce assessable income, and it was on land covering an area of 2 hectares or less
- the new dwelling becomes your main residence as soon as practicable after it is completed, it continues to be your main residence until you dispose of it, and that period is at least 3 months
- you make a choice to treat the vacant land and new dwelling as your main residence in the period starting when you stopped occupying the previous dwelling and ending when the new dwelling becomes your main residence, and this period is 4 years, or a longer period if allowed by the Commissioner, or less
- you dispose of the land and new dwelling together.

The Commissioner will consider extending the 4-year period if the delay in building or renovating the dwelling was:

- beyond your control, for example the builder becomes bankrupt and is unable to complete the building or renovation
- caused by unforeseen circumstances such as illness or injury to you or a family member that caused the work to be stopped.

If you make this choice, you can't treat any other dwelling as your main residence for the period, except for a limited time under the moving from one main residence to another rule.

The effect of making the choice is that there will be an unbroken period of a main residence occupancy on the land from the time the original dwelling became your main residence until your new dwelling built on that land is sold.

Therefore, if you have a dwelling you acquired on or after 20 September 1985 and you live in it while you build your new home, you must decide whether to either:

- maintain the exemption for your old home
- have the exemption apply to the land (including the dwelling that is being built, renovated, repaired or finished on it) for the shorter of either
  - the time from when you acquire the land until the new home becomes your main residence
  - the 4-year, or longer if allowed by the Commissioner, period immediately before the date on which the new home becomes your main residence.

If you acquired your old main residence before 20 September 1985, it is fully exempt. (The exception is if you made major capital improvements after that date and didn't use them exclusively as your main residence; see Major capital improvements to a dwelling acquired before 20 September 1985).This means you'll benefit from choosing to treat the land on which your new dwelling is to be built, renovated, repaired or finished as your main residence for the relevant dates above.

You can't choose to have a shorter period of exemption for the new home in order to exempt the old home for part of the construction period.

For information on when and how you make a choice, see Choices.

> ***Example 82: choosing to claim exemption for the land from the date of construction***
>
> Grant bought vacant land on which he intended to build a new home under a contract that was settled on 3 September 2009. He bought his previous home under a contract that was settled on 3 November 1996. Grant finished building his new home on 3 September 2024. He moved into it on 7 October 2024, which was as soon as practicable after completion. He sold his previous home under a contract that was settled on 1 October 2024.
>
> Grant can treat the new home as his main residence from 7 October 2020. In these circumstances, the main residence exemption applies for the period of 4 years immediately before the date the new home actually becomes his main residence. He can also claim the exemption for his previous home from 3 November 1996 to 6 October 2020. Both homes are also exempt from 1 April 2024 to 1 October 2024, the date Grant disposed of the old home. This is because the maximum 6-month exemption also applies, see Moving from one main residence to another.

If you were to die at any time between entering into contracts for the construction work and the end of the first 3 months of residence in the new home, this exemption can still apply.

If you owned the land as a joint tenant and you die, the surviving joint tenant (or if none, the trustee of your estate) can choose to treat the land and the dwelling as your main residence for the shorter of either:

- 4 years before your death
- the period starting when you acquired the land and ending when you die.

If there was already a dwelling on the land when you acquired it and someone else occupied it after that time, the surviving joint tenant (or if none, the trustee of your estate) can choose to treat the land and the dwelling as your main residence for the shorter of either:

- 4 years before your death
- the period starting when the dwelling stopped being occupied so that it could be repaired or renovated and ending when you die.

If you're a surviving joint tenant, beneficiary or trustee of a deceased estate, you'll no longer be entitled to claim the main residence exemption for the deceased’s ownership period:

- if a CGT event happens to your residential property in Australia that you inherited from a foreign resident
- unless certain life events occurred within a continuous period of 6 years of the deceased individual becoming a foreign resident for tax purposes.

For more information, see Main residence exemption for foreign residents.

Partial exemption

If a newly constructed dwelling is built to replace an original dwelling that was demolished or destroyed more than 4 years before the new dwelling became your main residence and the Commissioner doesn't allow a longer period, you may be entitled to a partial exemption. You can get a partial exemption covering the period from 4 years prior to the date the new dwelling became your main residence if:

- the original dwelling was your main residence for the full period you owned it, you didn't use it to produce assessable income, and it was on land covering an area of 2 hectares or less
- the new dwelling becomes your main residence as soon as practicable after it is completed, it continues to be your main residence until you dispose of it, and that period is at least 3 months
- you make a choice to treat the vacant land and new dwelling as your main residence in the period of up to 4 years before the new dwelling becomes your main residence
- you dispose of the land and new dwelling together.

As more than 4 years has elapsed, no exemption is available from the start of the original ownership period to the time when the original dwelling was vacated even though the original dwelling was the taxpayer’s main residence throughout that time.

If you don't make the choice, an exemption will only be available from the time the new dwelling became your main residence.

A partial exemption will also be available on the sale of a newly constructed dwelling built to replace a previous residence which was not your main residence for the whole time you owned it. For example, where you had rented out your property during the original ownership period, and you treated another dwelling as your main residence during that time.

Destruction of dwelling and sale of land

If your home is accidentally destroyed (such as through a natural disaster) and you then dispose of the vacant land on which it was built, you can choose to apply the main residence exemption as if the home had not been destroyed and continued to be your main residence.

You can get a full exemption for the land if you used it solely for private purposes in association with your home and it doesn't exceed 2 hectares. You can't claim the main residence exemption for this period for any other dwelling, except for a limited time if you're changing main residences, see Moving from one main residence to another.

You can only get this exemption where your home was accidentally destroyed. If the destruction of your home is intentional and just after the destruction you sell the vacant block of land, you can't get the main residence exemption.

Having a different home from your spouse or dependent child

If you and a dependent child under 18 years old have different homes for a period, you must choose one of the homes as the main residence for both of you for the period.

If you and your spouse have different homes for a period, you and your spouse must either:

- choose one of the homes as the main residence for both of you for the period
- nominate the different homes as your main residences for the period.

If you and your spouse nominate different homes for the period, and you own 50% or less of the home you have nominated, you qualify for an exemption for your share. If you own more than 50%, your share is exempt for half the period you and your spouse had different homes.

The same applies to your spouse. If your spouse owns 50% or less of the home they have nominated, they qualify for an exemption for their share. However, if your spouse owns more than 50% of the home, their share is exempt for only half the period you had different homes.

This rule applies to each home the spouses own, whether they have sole ownership or own the home jointly (either as joint tenants or tenants in common).

Your 'spouse' includes another person (of any sex) who:

- you were in a relationship with that was registered under a prescribed state or territory law
- although not legally married to you, lived with you on a genuine domestic basis in a relationship as a couple.

This rule applies also if you choose to treat a dwelling as your main residence when you no longer live in it, see Continuing main residence status after dwelling ceases to be your main residence, and this choice results in your having a different main residence from your spouse or a dependent child for a period.

For more information, see Choices.

Example 83: spouses with different main residences

Under a contract that was settled on 1 July 1999, Kathy and her spouse Grahame purchased a townhouse, in which they lived together. Grahame owns 70% of the townhouse while Kathy owns the other 30%.

Under a contract that was settled on 1 August 2001, they purchased a beach house, which they own in equal shares. From 1 May 2002, Kathy lives in their beach house while Grahame keeps living in the townhouse. Grahame nominated the townhouse as his main residence and Kathy nominated the beach house as her main residence.

Kathy and Grahame sold the beach house under a contract that was settled on 15 April 2025. As it was Kathy's main residence and she owned 50% of it, she disregards her share of any capital gain or capital loss for the period she and Grahame had different homes (1 May 2002 to 15 April 2025).

As Grahame didn't live in the beach house or nominate it as his main residence when he and Kathy had different homes, he doesn't ignore his share of any capital gain or capital loss for any of the period he owned it.

Grahame and Kathy also sold the townhouse, under a contract that was settled on 15 April 2025.

Because Grahame owns more than 50% of the townhouse, it is taken to have been his main residence for half of the period when he and Kathy had different homes.

If the total capital gain on the sale of the townhouse is $100,000, Grahame's share of the capital gain is $70,000 (reflecting his 70% ownership interest). The amount of the gain that Grahame disregards under the main residence exemption is worked out as follows:

$70,000 × (1,035 days [see note 1] ÷ 9,421 days [see note 2]) = $7,690

Add: $70,000 × 50% × (8,386 days [see note 3] ÷ 9,421 days [see note 2]) = $31,155

Note 1: townhouse was Grahame's home and he and Kathy didn't have different homes (1 July 1999 to 30 April 2002)

Note 2: total ownership period (1 July 1999 to 15 April 2025)

Note 3: when Grahame and Kathy had the different homes (1 May 2002 to 15 April 2025)

The total amount disregarded by Grahame is:

$7,690 + $31,155 = $38,845

As Grahame bought the townhouse before 11:45 am AEST on 21 September 1999 and entered into the contract to sell it after owning his share for at least 12 months, he can use either the indexation or the discount method to calculate his capital gain.

Kathy's share of the $100,000 capital gain on the townhouse is $30,000, reflecting her 30% ownership interest. The amount she disregards is:

$30,000 × (1,035 days [see note 4] ÷ 9,421 days [see note 5]) = $3,296

Note 4: period before 1 May 2002 when the townhouse was Kathy's home

Note 5: total ownership period (1 July 1999 to 15 April 2025)

As Kathy entered into the contract to buy the townhouse before 11:45 am AEST on 21 September 1999 and entered into the contract to sell it after owning her share for at least 12 months, she can use either the discount method to calculate her capital gain or the indexation method.

Example 84: different main residences

Anna and her spouse, Mark, jointly purchased a townhouse under a contract that was settled on 5 February 2001. They both lived in it from that date until 29 April 2025, when the contract of sale was settled. Anna owned more than 50% of the townhouse.

Before 5 February 2001, Anna had lived alone in her own flat, which she rented out after moving to the townhouse. She then sold her flat and settled the sale on 11 March 2002. Anna chose to treat the flat as her main residence from 5 February 2001 until she sold it under the continuing main residence status after dwelling ceases to be your main residence rule.

Because of Anna's choice, Mark had a different main residence from Anna for the period 5 February 2001 to 11 March 2002. Therefore, Mark must either:

- treat Anna's flat as his main residence for that period
- nominate the townhouse as his main residence for that period.

If he chooses to treat Anna's flat as his main residence, a part of any gain Mark makes when he sells the townhouse will be taxable. He will not get an exemption for the townhouse for the period that he nominated Anna's flat as his main residence (that is, 5 February 2001 to 11 March 2002).

If Mark nominates the townhouse as his main residence, he qualifies for a full exemption on any capital gain he makes when it is sold because he owned 50% or less of it. However, because Mark and Anna have different main residences as a result of Mark's choice, and Anna owns more than 50% of the flat, her gain on the flat will only qualify for a 50% exemption for the period from 5 February 2001 to 11 March 2002.

Any capital gain Anna makes on the townhouse is taxable, except for the period from 12 March 2002 to 29 April 2025 and the part that is ignored under the moving from one main residence to another rule.

Major capital improvements to a dwelling acquired before 20 September 1985

If you acquired a dwelling before 20 September 1985 and you make major capital improvements after that date, part of any capital gain you make when a CGT event happens to the dwelling could be taxable. Even though you acquired the dwelling before CGT started, major capital improvements are considered to be separate CGT assets from the original asset, and may therefore be subject to CGT in their own right if you make them on or after 20 September 1985.

If the dwelling is your main residence and you use the improvements as part of your home, they are still exempt. This includes improvements on land adjacent to the dwelling (for example, installing a swimming pool) if the total land, including the land on which the home stands, is 2 hectares or less.

However, if the dwelling isn't your main residence or you used the improvements to produce income for any period, the part of any gain that is attributable to the improvements for that period is taxable.

A capital improvement to an existing structure, such as a renovation to your house, is taken to be major if its original cost (indexed for inflation if the improvements were made under a contract entered into before 11:45 am AEST on 21 September 1999) is both:

- more than 5% of the amount you receive when you dispose of the dwelling
- greater than a certain threshold. The threshold increases every income year to take account of inflation. Improvement thresholds for 1985–86 to 2024–25 are shown in Table 1.

When you dispose of the dwelling, you calculate the capital gain or capital loss on the major improvements by taking away the cost base of the improvements from the proceeds of the sale that are reasonably attributable to the improvements:

A = B – C

Where:

- A is capital gain on major improvements
- B is proceeds of sale attributable to improvements
- C is cost base of improvements.

You can choose to calculate the capital gain made on the improvements using either the indexation or the discount method if all of the following apply:

- the improvements were made under a contract entered into at or before 11:45 am AEST on 21 September 1999
- the dwelling was sold after that time
- you owned the improvements for at least 12 months.

If you entered into the contract to make the improvements after 11:45 am AEST on 21 September 1999 and you owned them for more than 12 months, you can calculate your capital gain using the CGT discount of 50%.

In calculating the amount of capital proceeds to be attributed to the improvements, you must take whatever steps are appropriate to work out their value. If you make an estimate of this amount, it must be reasonable and you must be able to show how you arrived at the estimated amount.

Example 85: improvement to a dwelling acquired before 20 September 1985

Martin bought a home in 1984. On 1 December 1989, he undertook major renovations to his home, costing $150,000. He sold the home for $500,000 under a contract that was settled on 1 December 2024. At the date of sale, the indexed cost base of the improvements was $186,750.

Of the $500,000 he received for the home, $200,000 could be attributed to the improvements. Martin used the improvements to produce income from the time they were finished until the time he sold them with the home. The home first used to produce income rule doesn't apply to the improvements because they were first used to produce income before 21 August 1996.

The cost base of the improvements is more than 5% of the $500,000 capital proceeds (that is, $25,000) and more than the 2024–25 threshold of $182,665. Therefore, because the improvements were used to produce income, the capital gain on the improvements is taxable. (Because the improvements were made under a contract entered into before 11:45 am AEST on 21 September 1999 the indexed cost base can be used.)

As Martin acquired the improvements before 11:45 am AEST on 21 September 1999 and sold the home after he had held the improvements for at least 12 months, he could use either the indexation method or the discount method to calculate his capital gain on the improvements.

Martin calculates his capital gain using the indexation method as follows:

1. Amount of proceeds attributable to the improvements is $200,000.
2. *Subtract* cost base of improvements indexed for inflation of $186,750.
3. Total **taxable capital gain is $13,250**.

Martin's capital gain using the discount method (assuming he has no capital losses or other capital gains in the 2024–25 income year and doesn't have any unapplied net capital losses from earlier years) is:

1. Amount of proceeds attributable to the improvements is $200,000.
2. *Subtract* cost base of improvements (without indexation) of $150,000.
3. Equals a capital gain of $50,000.
4. *Subtract* 50% discount of $25,000.
5. The **net capital gain is $25,000**.

Martin chooses the indexation method because this gives him a lower capital gain.

Note: If the improvements had been used as part of Martin's main residence, this gain would be exempt. However, if the home (including the improvements) had been rented out for one-third of the period, one-third of the capital gain made on the improvements would have been taxable.

If construction of the improvements started after 13 May 1997 and they were used to produce income, Martin would also reduce the cost base by the amount of any capital works deductions he claimed or can claim, see Cost base adjustments for capital works deductions. If Martin makes a capital loss, the reduced cost base of the improvements is reduced by the amount of any capital works deductions irrespective of when construction started.

Buildings or structures constructed on land acquired before 20 September 1985

Buildings or structures constructed on or after 20 September 1985 on land acquired before that date are also considered to be separate CGT assets from the original land. The major capital improvement threshold and 5% of capital proceeds rules don't apply to them. Therefore, they may be subject to CGT if you use them other than as your main residence.

Dwellings transferred after marriage or relationship breakdown

Special rules apply to dwellings transferred to you from a spouse, or a company or trustee of a trust, if the marriage or relationship breakdown rollover applies.

For more information, see Real estate and main residence.

Inherited main residence

If you inherit a deceased person's dwelling, you may be exempt or partially exempt when a CGT event happens to it. The same exemptions apply if a CGT event happens to a deceased's estate of which you're the trustee. Flowchart 3.6 in Appendix 3 sets out the full exemption rules if you inherit a dwelling. Alternatively, the rules are set out below.

If you're a joint tenant and another joint tenant dies, their interest in the dwelling is taken to pass in equal shares to you and any other surviving joint tenants on that date.

For the purpose of the main residence exemption, you're treated as if that interest in the dwelling has passed to you as beneficiary of the deceased estate, which means the following rules apply to that interest.

If you're a surviving joint tenant, beneficiary or trustee of a deceased estate and a CGT event happens to your residential property in Australia that you inherited from a foreign resident, you may no longer be entitled to claim the main residence exemption for the deceased's ownership period, depending on the length of time the deceased had been a foreign resident.

If you inherit an Australian residential property from a deceased person who had been a foreign resident for 6 years or less at the time of their death, the main residence exemption that the deceased accrued for the dwelling is available to you as the beneficiary. The main residence exemption means you may not pay CGT on any capital gain made after you sell or dispose of the inherited property, depending on the use of the property by both you and the deceased.

If you inherit an Australian residential property from a deceased person who had been a foreign resident for more than 6 years at the time of their death, any main residence exemption that the deceased person may have accrued for that dwelling isn't available to you. This means you may have to pay CGT when you sell or dispose of the property.

If you inherit an Australian residential property and you have been a foreign resident for more than 6 years when you sell or dispose of the property, you can't claim the main residence exemption for your ownership period.

For more information, see Foreign residents and inherited property.

Full exemption

A full exemption will be applied depending on when the deceased died and when they acquired the property.

Deceased died before 20 September 1985

As you acquired the dwelling before 20 September 1985, any capital gain you make is exempt. However, major capital improvements you make to the dwelling on or after 20 September 1985 may be taxable, see Major capital improvements to a dwelling acquired before 20 September 1985.

Deceased died on or after 20 September 1985

A. The deceased acquired the dwelling **before** 20 September 1985 (it doesn't matter whether the dwelling was the main residence of the deceased person).

You may have an ownership interest in a dwelling that passed to you as a beneficiary in a deceased estate or you may have owned it as trustee of a deceased estate. In either case, you disregard any capital gain or capital loss you make from a CGT event that happens to the dwelling if either of the following 2 conditions applies:

1. You disposed of your ownership interest within 2 years of the person's death, that is, if the dwelling was sold under a contract, settlement occurred within 2 years. This exemption applies whether or not you used the dwelling as your main residence or to produce income during the 2-year period. The Commissioner has the discretion to extend the 2-year period for CGT events (such as a sale) happening in the 2008–09 income year and later years, see Commissioner may extend the 2-year time period.
2. From the deceased's death until you disposed of your ownership interest, the dwelling was not used to produce income and was the main residence of one or more of
    a. a person who was the spouse of the deceased immediately before the deceased's death (but not a spouse who was permanently separated from the deceased)
    b. an individual who had a right to occupy the home under the deceased's will (including a right to occupy the home as a result of a court order under the relevant family provision legislation that takes effect as if it had been made as a codicil to the deceased's will)
    c. you, as a beneficiary, if you disposed of the dwelling as a beneficiary.

The dwelling can be the main residence of one of the above people (even though they may have stopped living in it) if they choose to treat it as their main residence under the continuing main residence status after dwelling ceases to be your main residence rule.

The requirement that the dwelling is the main residence of an individual who had a right to occupy it under the deceased's will is satisfied if the individual moves into the dwelling when it is first practicable to do so. This requirement will be satisfied where the delay in moving is because the dwelling can't be occupied until probate and administration of the estate is granted.

B. The deceased acquired the dwelling **on or after** 20 September 1985.

You disregard any capital gain or capital loss you make when a CGT event happens to the dwelling or your ownership interest in the dwelling if either of the following 2 points applies:

1. Condition 2 in **A** above is met and the dwelling passed to you as beneficiary or trustee on or before 20 August 1996. For this to apply, the deceased must have used the dwelling as their main residence from the date they acquired it until their death, and they must not have used it to produce income.
2. One of the conditions in **A** above is met, and the dwelling passed to you as beneficiary or trustee after 20 August 1996, and just before the date the deceased died it was
    a. their main residence
    b. not being used to produce income.

A dwelling can still be regarded as the deceased's main residence even though they stopped living in it, see Continuing main residence status after dwelling ceases to be your main residence.

Example 86: full exemption

Rodrigo was the sole occupant of a home he bought in April 1992. He didn't live in or own another home.

He died in January 2024 and left the house to his son, Petro. Petro rented out the house and then disposed of it 15 months after his father died.

Petro is entitled to a full exemption from CGT, as he acquired the house after 20 August 1996 and disposed of it within 2 years of his father's death.

If Petro didn't sell the house within 2 years of his father's death due to circumstances beyond his control, he may ask the Commissioner to grant an extension of time, see Commissioner may extend the 2-year time period.

Partial exemption

If you don't qualify for a full exemption from CGT for the home, you may be entitled to a partial exemption.

You calculate your capital gain or capital loss as follows:

Capital gain or capital loss amount × (non-main residence days ÷ total days)

Non-main residence days

'Non-main residence days' is the number of days that the dwelling was not the main residence.

1. If the deceased acquired the dwelling before 20 September 1985, non-main residence days is the number of days in the period from their death until settlement of your contract for sale of the dwelling when it was not the main residence of one of the following
    a. a person who was the spouse of the deceased (except a spouse who was permanently separated from the deceased)
    b. an individual who had a right to occupy the dwelling under the deceased's will
    c. you, as a beneficiary, if you disposed of the dwelling as a beneficiary.

Total days

1. If the deceased acquired their ownership interest before 20 September 1985, ‘total days’ is the number of days from their death until you disposed of your ownership interest.
2. If the deceased acquired the ownership interest on or after 20 September 1985, total days is the number of days in the period from when the deceased acquired the dwelling until you disposed of your ownership interest.

A further adjustment may be required if the dwelling was a main residence, but was partly used to produce income, for example, if, for a period, part of it was rented out or used as a place of business.

Example 87: partial exemption

Vicki bought a house under a contract that was settled on 12 February 1996 and she used it solely as a rental property. When she died on 17 November 1999, the house became the main residence of her beneficiary, Lesley. Lesley sold the property under a contract that was settled on 27 November 2024.

As Vicki had never used the property as her main residence, Lesley can't claim a full exemption from CGT. However, as Lesley used the house as her main residence, she is entitled to a partial exemption from CGT.

Vicki owned the house for 1,375 days and Lesley then lived in the house for 9,143 days, a total of 10,517 days. Assuming Lesley made a capital gain of $100,000, the taxable portion is:

$100,000 × (1,375 ÷ 10,517) = $13,074

In working out her capital gain, Lesley can use either the discount method or the indexation method. This is because, for the purposes of using those methods, she is taken to have acquired the property on 12 February 1996 (when Vicki acquired it) and this is before 11:45 am AEST on 21 September 1999, and more than 12 months before Lesley entered into the contract to sell it.

If you dispose of your ownership interest in a dwelling within 2 years of the person’s death, you can ignore the main residence days and total days in the period from the person’s death until you dispose of the dwelling if this lessens your tax liability. See, Commissioner may extend the 2-year time period.

You also ignore any non-main residence days before the deceased’s death in calculating the capital gain or capital loss if all of the following apply:

- you acquired the dwelling after 20 August 1996
- the dwelling was the deceased’s main residence just before their death
- the dwelling was not being used to produce income at the time of their death
- the deceased was not a foreign resident for a continuous period of more than 6 years just before the deceased's death.

Using a home you inherited to produce income

If a person acquired their main residence on or after 20 September 1985, and they died and it passed to you as a beneficiary (or as trustee of their estate) after 20 August 1996, you're taken to have acquired the dwelling at its market value at the time you first used it to produce your income if:

- you first used the dwelling to produce income after 20 August 1996
- when a CGT event happens to the dwelling, you would get only a partial exemption because you used the dwelling to produce assessable income during the period you owned it
- you would have been entitled to a full exemption if the CGT event happened to the dwelling immediately before you first used it to produce income
- the CGT event didn't happen to the dwelling within 2 years of the person’s date of death.

If all of the above apply, you must work out your capital gain or capital loss using the market value of the dwelling at the time you first used it to produce income. You don't have a choice.

Cost to you of acquiring the dwelling

If you acquire a dwelling the deceased had owned, there are special rules for calculating your cost base.

These rules apply in calculating any capital gain or capital loss when a CGT event happens to the dwelling.

The first element of the cost base and reduced cost base of a dwelling (its acquisition cost) is its market value at the date of death if either:

- the dwelling was acquired by the deceased before 20 September 1985
- the dwelling passes to you after 20 August 1996 (but not as a joint tenant), and it was the main residence of the deceased immediately before their death and was not being used to produce income at that date.

In any other case, your acquisition cost is the deceased’s cost base and reduced cost base on the day they died. You may need to contact the trustee or the deceased’s recognised tax adviser to obtain the details. If that cost base includes indexation, you must recalculate it to exclude the indexation component if you prefer to use the discount method to work out your capital gain from the property.

If you're a beneficiary, the cost base and the reduced cost base also include amounts that the trustee of the deceased’s estate would have been able to include in the cost base and reduced cost base.

Continuing main residence status

If the deceased was not living in the home at the date of their death, they or their trustee may have chosen to continue to treat it as their main residence. You may need to contact the trustee or the deceased's recognised tax adviser to find out whether this choice was made. If it was, the dwelling can still be regarded as the deceased's main residence for either:

- an indefinite period, if the dwelling was not used to produce income after the deceased stopped living in it
- a maximum of 6 years after they stopped living in it, if it was used to produce income after they stopped living in it.

Example 88: continuing main residence status

Aldo bought a house in March 1997 and lived in it.

He moved into a nursing home in December 2019 and left the house vacant. He chose to treat the house as his main residence after he stopped living in it under the Continuing main residence status after dwelling ceases to be your main residence rule.

Aldo died in February 2025 and the house passed to his beneficiary, Con, who uses the house as a rental property.

As the house was Aldo's main residence immediately before his death and was not being used to produce income at that time, Con can get a full exemption for the period Aldo owned it.

If Con rented out the house and sold it more than 2 years after Aldo's death, the capital gain for the period from the date of Aldo's death until Con sold it is taxable, unless the Commissioner grants Con an extension of time.

If Con had sold the house within 2 years of Aldo's death, he could have ignored the main residence days and total days between Aldo's death and him selling it, which would have given him exemption for this period.

If Aldo had rented out the house after he stopped living in it, he could also have chosen to continue to treat it as his main residence. The house would be considered to be his main residence until his death because he rented it out for less than 6 years.

If this choice had been made, Con would get an exemption for the period Aldo owned the house.

Commissioner may extend the 2-year time period

A trustee or beneficiary of a deceased estate may apply to the Commissioner for an extension of the 2-year time period. Generally, the Commissioner would exercise the discretion in situations where the delay is due to circumstances which are outside of the control of the beneficiary or trustee, for example:

- the ownership of a dwelling or a will is challenged
- the complexity of a deceased estate delays the completion of administration of the estate
- a trustee or beneficiary is unable to attend to the deceased estate due to unforeseen or serious personal circumstances arising during the 2-year period (for example, the taxpayer or a family member has a severe illness or injury)
- settlement of a contract of sale over the dwelling is unexpectedly delayed or falls through for circumstances outside the beneficiary or trustee's control.

These examples aren't exhaustive.

In exercising the discretion, the Commissioner will also take into account whether and to what extent the dwelling is used to produce assessable income and for how long the trustee or beneficiary held the ownership interest in the dwelling. In certain circumstances you may be eligible to use the safe harbour to extend the 2–year period without having to apply to the Commissioner to exercise discretion. For more information, see Extensions to the 2-year ownership period.

Inheriting a dwelling from someone who inherited it themselves

The formula for calculating the partial main residence exemption is adjusted if the deceased individual also acquired the interest in the dwelling on or after 20 September 1985 as a beneficiary (or trustee) of a deceased estate. The main residence exemption is calculated having regard to the number of days the dwelling was the main residence of yourself and the previous beneficiaries.

Example 89: partial exemption for beneficiaries

Ahmed acquired a dwelling after 20 September 1985. The dwelling was his main residence from the date of settlement of the contract for purchase until he died. The number of days Ahmed owned the dwelling was 3,700.

Under his will, Ahmed left the dwelling to his son, Fayez. Fayez was the sole beneficiary of Ahmed's estate. No other individual had a right to occupy the dwelling under Ahmed's will. Some years later, Fayez died. He had owned the dwelling for 2,600 days and it wasn't his main residence at any time during this period.

The dwelling was left to Mardianah under Fayez's will. Mardianah sold the dwelling in 2024–25 and made a capital gain of $100,000. She owned the dwelling for 750 days and it wasn't her main residence at any time during that period.

The taxable proportion of Mardianah's $100,000 capital gain is $47,518. This is worked out as follows:

$100,000 × (2,600 + 750) ÷ (2,600 + 750 + 3,700) = $47,518

Because the combined period that Ahmed, Fayez and Mardianah owned the dwelling was more than 12 months, Mardianah can reduce her $47,518 capital gain by the 50% discount (after deducting any capital losses).

Because Mardianah gets an exemption for the period the dwelling was Ahmed's main residence, her capital gain is less than it otherwise would have been.

For more information, see Deceased estates.

Death during construction

If an individual entered into a contract to construct, repair or renovate a home on land they already owned, and they die before certain conditions are met, the trustee may choose to have the home and land treated as the deceased's main residence. It is treated as their main residence for up to 4 years before the home became (or was to become) their main residence.

The trustee can make this choice if the deceased dies before:

- the home is finished
- it was practicable for the home to be their main residence
- they had lived in the home for 3 months.

If the trustee makes this choice, no other dwelling can be treated as the deceased's main residence during that time.

If the trustee of a deceased estate disposes of residential property in Australia that was owned by a foreign resident, the trustee may no longer be entitled to claim the main residence exemption for the deceased's ownership period.

For more information, see Main residence exemption for foreign residents.

Loss, destruction or compulsory acquisition of an asset

Explains your CGT obligations if your CGT asset is lost, destroyed or compulsorily acquired.

In this section

Rollover concession

Generally, there are no CGT obligations for assets acquired before 20 September 1985 (pre-CGT). There may be a situation where you receive money or another CGT asset (or both) as compensation when you dispose of an asset involuntarily (or under an insurance policy against the risk of such an event happening). In this case, you may be able to choose to either:

- defer your liability to pay tax on any capital gain arising on the disposal
- get a CGT exemption for any replacement asset if you acquired the original asset before 20 September 1985.

This concession is known as a rollover. It may be available if **one** of the following events happens:

- All or part of your CGT asset is lost or destroyed for example because it was destroyed by a bushfire or cyclone.
- Your CGT asset is compulsorily acquired by an Australian Government agency.
- Your CGT asset is compulsorily acquired by an entity (other than by an Australian Government agency or a foreign government agency) under a power of compulsory acquisition conferred by an Australian or foreign law. However, the compulsory acquisition of minority interests (such as shares in a company) under the Corporations Act or similar foreign law are excluded.
- You dispose of your CGT asset to an entity (other than a foreign government agency) after a notice is served on you inviting you to negotiate a sale agreement. You must have been informed that, if the negotiations are unsuccessful, the asset will be compulsorily acquired under a power of compulsory acquisition conferred by an Australian or foreign law. However, the compulsory acquisition of minority interests (such as shares in a company) under the Corporations Act or similar foreign law are excluded.
- You dispose of land to an entity (other than a foreign government agency) where a mining lease was compulsorily granted over the land, the lease significantly affected your use of the land, the lease was in force immediately before the disposal and the entity to which you disposed of the land was the lessee.
- You dispose of land to an entity (other than a foreign government agency) where a mining lease would have been compulsorily granted over the land, the lease would have significantly affected your use of the land and the entity to which you disposed of the land would have been the lessee.
- A lease that had been granted to you by an Australian Government agency under a Commonwealth, state or territory law expires and isn't renewed.

This rollover isn't available for plant disposed of after 11:45 am AEST on 21 September 1999 and other depreciating assets from 1 July 2001. Instead, if a depreciating asset is lost or destroyed or, acquired compulsorily or by forced negotiation (other than by a foreign government agency), the capital allowances provisions may allow for a balancing adjustment offset.

This means that rather than including an amount in your assessable income by way of a balancing adjustment, you can offset that amount against the cost of a replacement asset (or assets).

If you choose to take rollover, you don't need to lodge a written election stating your choice, it will be clear from the way you prepare your tax return.

You can't choose to defer a capital loss but you can use it to reduce any capital gain made in the current income year or a later income year.

For rollover relief to apply, the replacement asset you receive can't be a car, motorcycle or similar vehicle.

From 1 July 2001, for rollover relief to apply, the replacement asset you receive can't become an item of your trading stock, nor can it be a depreciating asset.

Compulsory acquisition of part of your main residence

For certain compulsory acquisitions, an optional rollover may apply to a particular arrangement to which the exemption for part of a main residence also applies. The rollover may apply to that arrangement to the extent that the compulsory acquisition exemption doesn't apply.

A compulsory acquisition of part of your main residence may not qualify for the rollover as the requirement that you acquire a replacement asset that is used for the same (or a similar) purpose may not be able to be met. For example, if vacant land adjacent to your home is compulsorily acquired, you may not be able to acquire replacement adjacent land.

In this case, the main residence exemption may apply to the compulsory acquisition (or similar arrangement) of part of your main residence such as vacant land or structures.

For more information, see Main residence – compulsory acquisition

Time of the CGT event

You need to know the time of a CGT event to work out in which income year a capital gain or capital loss affects your income tax.

If an asset is lost or destroyed and you receive compensation, the time of the CGT event is when you first receive the compensation. For example, if the asset is destroyed in a disaster and you receive an insurance pay out the time of the CGT event is when you receive the insurance payout.

If you don't receive any compensation, the time of the CGT event is when the loss is discovered or the destruction occurred.

If your asset was compulsorily acquired by an entity under an Australian law or foreign law, the time of the CGT event is the earliest of when:

- you first received compensation from the entity
- the entity became the asset's owner
- the entity enters the asset (for example, land) or takes possession of it.

If an entity acquires your asset following negotiation (rather than compulsorily acquiring it), the time of the CGT event is either:

- the date the contract to acquire it is made
- the date of the change of ownership if there is no contract.

If a lease that had been granted to you by an Australian government agency expires and isn't renewed, the time of the CGT event is when the lease expires.

If you receive money

If you receive money because a CGT event happens, you can choose a rollover only if either:

- you incur expenditure in acquiring another CGT asset that is used either
  - in your business or is installed ready for use in the business for a reasonable period if the original asset was a business asset
  - otherwise, for a reasonable period for the same or a similar purpose as the original asset
- part of the original asset is lost or destroyed and you incur expenditure of a capital nature in repairing or restoring it.

You must incur at least some of the expenditure either:

- no earlier than one year before the event happens
- within one year after the end of the income year in which the event happens.

This period may be extended in special circumstances.

Example 90: rollover applies

Trish paid for the repair of an asset in January 2025, for which she was compensated after part of it was destroyed on 1 September 2024. Trish received an insurance payout as compensation for the damage to her asset on 12 December 2024. Her capital expenditure qualifies for the rollover concession because it was incurred between 13 December 2023 to 30 June 2026.

The replacement asset need not be identical to the one it is replacing. However, for a rollover to apply, you must use it in the same business (or for the same or a similar purpose) as the one for which you used the original asset. Also, your replacement asset can't become an item of trading stock, nor can it be a depreciating asset.

Example 91: rollover doesn't apply

Denise receives money when her manufacturing business premises are destroyed. She buys a rental property with this money.

Denise can't access the rollover concession because she doesn't use the rental property for the same or similar purpose as her old business premises.

Consequences of receiving money

If you receive money (for example an insurance payout) and choose to take a rollover, the consequences depend on whether you acquired the original asset:

1. before 20 September 1985
2. on or after 20 September 1985, and
   a. the money received for the asset is more than the cost of repair or replacement
   b. the money received doesn't exceed the cost of repair or replacement.

1. Original asset acquired before 20 September 1985

If you acquired the original asset before 20 September 1985, you're taken to have acquired the repaired or replacement asset before that day if either:

- you repair or restore the original asset
- you replace the original asset either
  - at a cost of no more than 120% of its market value at the time of the event
  - at any cost, provided it (or part of it) was lost or destroyed by a natural disaster and the replacement asset is substantially the same.

This means you disregard any capital gain or capital loss you make when a later CGT event happens to the repaired or replacement asset.

2. Original asset acquired on or after 20 September 1985

If you acquired the original asset on or after 20 September 1985, the way rollover applies will depend on whether the money you received is more or less than the cost of repairing or replacing the asset. If it is more, it also depends on whether the capital gain you make when the event happens is either:

- more than that excess
- less than or equal to that excess.

a. Money received is more than the cost of repair or replacement

If you don't use all of the money you received to repair or replace the original asset, this affects your CGT obligations. The amount of capital gain you include in your tax return depends on whether the capital gain is more or less than the difference between the amount you received and the cost of the repair or replacement.

If the capital gain is more than that difference, you reduce your capital gain to the amount of the excess. Include this amount in your tax return in the year the event happens. This gain may be eligible for the CGT discount. For more information see How to work out your capital gain or capital loss.

When a later CGT event happens, you reduce the amount of expenditure included in the cost base of the asset by the difference between the capital gain before it is reduced and the excess. This enables you to defer part of your CGT liability until a later CGT event happens. If the capital gain is less than or equal to the excess (the compensation amount less the cost of the repair or replacement), you don't reduce the capital gain and the amount of the expenditure on the repair or replacement included in the cost base, see Example 93.

b. Money received doesn't exceed the cost of repair or replacement

If the amount of money you received is less than or equal to the expenditure you incurred to repair or replace the original asset, you disregard any capital gain. You reduce the expenditure you include in the cost base of the asset when a later CGT event happens by the amount of the gain, see **example 92**.

Example 92: money received is less than expenditure incurred

Gerard’s business premises were destroyed by a bushfire fire on 15 January 2025. He received $246,000 in compensation from his insurance company.

It cost him $257,000 to reconstruct the premises, $11,000 more than the amount of compensation he received.

Gerard made a capital gain of $2,000 because his cost base apportioned to the building was $244,000 at the time of the fire.

1. Compensation money received is $246,000.
2. *Subtract* cost base of $244,000.
3. The total capital gain is $2,000.
4. Compensation money received is $246,000.
5. *Subtract* replacement expenditure of $257,000.
6. Shortfall amount is $11,000.

As the compensation money doesn't exceed the repair expenditure, Gerard disregards the capital gain. However, the amount of expenditure that Gerard can include in the cost base of the repaired building is reduced by the amount of the capital gain ($2,000) to $255,000.

Example 93: money received is more than the expenditure incurred

Assume that, in the previous example, Gerard incurred only $240,000 for repairs and the cost attributed to the building was $230,000.

1. Compensation money received is $246,000.
2. *Subtract* cost base of $230,000.
3. The total capital gain is $16,000.
4. Compensation money received is $246,000.
5. *Subtract* replacement expenditure of $240,000.
6. Total excess is $6,000.

The compensation money ($246,000) is $6,000 more than the replacement expenditure ($240,000). The capital gain ($16,000) is $10,000 more than the excess of $6,000. The capital gain is reduced to the excess amount of $6,000.

Gerard's capital gain (before applying the CGT discount of 50%) is $6,000. Therefore, assuming he has not made any other capital losses or capital gains in the 2024–25 income year (and doesn't have any unapplied net capital losses from earlier years) Gerard includes $3,000 ($6,000 × 50%) as his net capital gain for the 2024–25 income year.

Also, he reduces the expenditure he incurred on the replacement asset by the balance of the capital gain ($10,000) to $230,000. This means $10,000 of the capital gain is deferred.

For more information, see Insurance payouts after a disaster.

If you receive an asset

If you receive a replacement asset when the CGT event happens, you can choose a rollover only if:

- the replacement asset isn't a depreciating asset, not a registered emissions unit or held as trading stock when you acquire it
- the market value of the replacement asset is more than the cost base of the original asset just before the event happened.

Consequences of receiving an asset

If you choose to take a rollover when you receive a replacement asset, you disregard any capital gain you make from the original asset. The other consequences are outlined below.

Original asset acquired before 20 September 1985

If you acquired the original asset before 20 September 1985, you're taken to have acquired the new asset before that day.

Original asset acquired on or after 20 September 1985

If you acquired the original asset on or after 20 September 1985, the first element of the cost base and reduced cost base of the replacement asset is taken to be the cost base and reduced cost base of the original asset at the time of the event.

However, you may have to recalculate the first element of the cost base of your replacement asset if the cost base of the original asset included an amount of indexation and you're seeking to apply the CGT discount to a capital gain from the replacement asset.

Example 94: asset received

Jon acquired land after 19 September 1985 which the state government compulsorily acquired on 14 July 2024. The cost base of the land at the time it was compulsorily acquired was $180,000. As compensation, Jon received another piece of land with a market value of $200,000.

Because the market value of the replacement land was greater than the cost base of the original land just before it was compulsorily acquired, Jon disregards the capital gain made on the disposal of the original land. Jon is taken to have paid $180,000 to acquire the replacement land (that is, the cost base of the original land at the time it was compulsorily acquired).

If you receive both money and an asset

If you receive both money and an asset and choose to take a rollover, the requirements and consequences are different for each part of the compensation.

You need to separately determine what happens to the replacement asset and the money, having regard to the proportion of the original asset attributable to each type of compensation.

The rules are then applied separately to the money and to the asset.

Example 95: money and an asset received as compensation

The state government compulsorily acquires land Kris bought in 2004. Its cost base at the time was $150,000 but Kris received compensation worth $160,000.

Half of the total compensation is money ($80,000) and half is replacement land (market value $80,000).

Therefore, the cost base of the original land attributable to each part of the compensation is $75,000 (50% × $150,000). Kris bought additional replacement land for $82,000.

The total capital gain is $10,000 which is capital proceeds of cash and property totalling $160,000 less the cost base of $150,000. Half of this capital gain can be attributed to the money and half to the asset (the replacement land).

The money Kris received as compensation is less than the amount he paid to buy the additional land. He can therefore disregard the $5,000 of the capital gain that is attributable to the money compensation. He reduces the expenditure on the additional land by $5,000, so the first element of its cost base is only $77,000.

As the market value of the replacement land is more than that part of the cost base of the original land, Kris can choose to take rollover relief and disregard the capital gain of $5,000 relating to the land.

As a result, the value of the replacement land ($75,000) forms the first element of its cost base, not its market value ($80,000) when he acquired it.

Indexation or CGT discount

If a CGT event happens to the replacement asset (for example, a later disposal), you may be able to use the indexation method or the discount method to calculate your capital gain. This applies only if the periods of ownership of the original asset and the replacement asset add up to at least 12 months. For indexation to apply, you must have acquired the asset before 11:45 am AEST on 21 September 1999.

Main residence – compulsory acquisition

The main residence exemption can apply to certain compulsory acquisitions (or similar arrangements) which are associated with your main residence but not with your dwelling.

You can ignore a capital gain or capital loss you make from a compulsory acquisition (or similar arrangement) that happens only to land that is adjacent to:

- a dwelling that is your main residence
- a dwelling that passed to you as a beneficiary or trustee of a deceased estate.

The main residence exemption will apply to the extent that the land was used primarily for private or domestic purposes in association with the dwelling.

The maximum area of vacant land covered by the exemption is 2 hectares less the area of land underneath the dwelling.

This applies to CGT events that happen on or after 29 June 2011.

You also have the choice to apply the main residence exemption to CGT events that happened during the transitional period:

- starting at the beginning of the 2004–05 income year
- ending immediately before 29 June 2011.

The main residence exemption applies to structures adjacent to a flat or home unit, such as a garage or a storeroom, in the same way as it applies to land adjacent to a dwelling.

A partial CGT exemption may apply where the dwelling was:

- not used as a main residence during all of the relevant ownership period
- used for income-producing purposes.

For more information, see:

- Partial exemption
- Dwelling used to produce income.

The exemption for compulsory acquisitions of part of your main residence can apply to all the relevant CGT events, which is broader than the CGT events that the ordinary main residence exemption can apply to.

If you're a foreign resident when a CGT event happens to your residential property in Australia under a compulsory acquisition arrangement you may no longer be entitled to claim the main residence exemption.

For more information, see Main residence exemption for foreign residents.

What is compulsory acquisition?

All levels of Australian Government or entities acting on behalf of government can compulsorily acquire land and associated structures or an interest in land for a public purpose.

Compulsory acquisition involves your ownership interest in the land being compulsorily acquired by:

- an Australian Government agency (that is, by the Australian, a state or a territory government or by an authority of the Australian, a state or a territory government)
- a non-government entity authorised to do so under a power conferred by an Australian law.

The acquirer serves a notice on the landowner inviting them to negotiate for the disposal of the asset or part of the asset. This notice should inform the landowner that if negotiations are unsuccessful, the acquirer will proceed to acquire the asset or part of the asset in accordance with its legislative powers. Even if the landowner accepts the initial or negotiated offer, this is viewed to be a compulsory acquisition. This type of negotiated disposal is referred to as an acquisition under the shadow of compulsion.

This would typically involve:

- compulsorily acquiring part of the land adjacent to your residence
- compulsorily acquiring a structure such as a garage, storeroom or other structure associated with your flat or home unit.

Arrangements similar to a compulsory acquisition include the following:

- Your ownership interest in the land is compulsorily cancelled (however described), including compulsorily terminated or revoked.
- Your ownership interest in the land is varied (however described), for example, removing your ownership right to further develop the main residence. It could restrict your ability to erect structures above a certain level, for example installing antennas or remove your right to dig below the soil inhibiting your ability to undertake any further structural development of the property.
- Your ownership interest in the land is surrendered (however described) or varied (however described) under the shadow of compulsion.
- An interest or right in, or relating to, your land is compulsorily conferred on an Australian Government agency or an entity under a power conferred by an Australian law, for example, compulsorily creating a right of access over part of land adjacent to your dwelling.
- You confer on an entity an interest in, or right in, or relating to, your land under the shadow of compulsion, for example, compulsorily negotiating an agreement in relation to a temporary right in relation to your main residence. Government could require temporary access through your property to improve property that is used for a public purpose.
- Your ownership interest in the land was conferred on you by an Australian Government agency for a limited, but renewable period of operation, and that ownership interest was not renewed by that agency. For example, a right that you hold over the land isn't renewed, such as a Crown lease.

The exemption doesn't apply to compulsory acquisitions, or similar arrangements, of adjacent land or a structure where the dwelling to which they relate is outside Australia.

Example 96: full main residence exemption

Debbie and Geoff live in a 3 bedroom house on a small suburban block that is 2 hectares. In July 2010, the Department of Main Roads commenced negotiations with several home owners in Debbie and Geoff's neighbourhood to end ownership rights over part of the land adjacent to the dwelling. When their ownership rights end, Debbie and Geoff along with other home owners would not be able to build on that part of the land or conduct any activities on that part of the land.

The area adjacent to their dwelling on which their ownership right ends is 50 square metres (10 metres wide by 5 metres located along the rear boundary)

They qualify for full main residence exemption because they have lived in the dwelling throughout their ownership period. This means Debbie and Geoff would be able to apply the main residence exemption to the proceeds they received for the compulsory acquisition which ended their ownership rights.

How much will be part of your main residence

If your property exceeds 2 hectares you'll need to determine how much and which parts of your property will form part of your main residence exemption area.

If the land used for private purposes is greater than 2 hectares, you can choose which 2 hectares are exempt.

Example 97: land exceeds 2 hectares

Robyn's property is 10.35 hectares. She identifies the dwellings, land and associated structures that are linked to the main residence and are for private or personal use as a total of 1.90 hectares. The driveway is 1500 square metres in area. Adding the driveway for personal use makes the adjacent land covered by the exemption greater than 2 hectares (2.05 hectares). Robyn decides to exclude 500 square metres of driveway to ensure that the total area of the land isn't greater than 2 hectares.

Land exceeds 2 hectares

Calculation element	Hectares	Square metres
Main residence	0.0345	345
Swimming pool	0.0044	44
Dam 1 (pump water to landscaped gardens)	0.3500	3,500
Garage	0.0100	100
Guest house	0.0153	153
Driveway	0.1000	1,000
Landscaped gardens	1.4857	14,857
Total	2.00	20,000

Maximum exempt area

Where you have previously disregarded one or more capital gains or losses for a compulsory acquisition (or similar arrangement) of adjacent land or structure, the maximum area of adjacent land available for the main residence exemption when the dwelling is eventually sold (or otherwise realised) is reduced. The reduced area is called the 'maximum exempt area'.

However, the maximum exempt area is only reduced by a previous compulsory acquisition or similar arrangement where you lost rights to the substantial use and enjoyment of that land either completely or for at least 10 years.

This rule ensures you're not disadvantaged by having to reduce your maximum exempt area where you have lost only insubstantial rights to the use and enjoyment of the exempt land. It also ensures that you're not disadvantaged where you lose substantial rights to the use and enjoyment of the exempt land but only for a short term such as under a short-term lease. This means that such land will remain eligible for a later application of the main residence exemption.

Examples of compulsory arrangements that don't result in substantial loss of rights to the use and enjoyment of the land might include where an easement is granted over vacant land which still permits the use and enjoyment of the land. Another example might be where the government compulsorily acquires subsurface land under your main residence. If you didn't use or enjoy the subsurface land and the compulsory acquisition didn't result in you losing rights to the substantial use and enjoyment of the surface land, then the maximum exempt area would not be reduced.

Example 98: reduction in maximum exempt area

In January 2007, the government contacted Robyn and advised that they are acquiring 1.40 hectares of her land for the development of a freeway. Part of this acquisition includes the dam and landscaped gardens Robyn had identified as being part of the main residence. The area of the acquisition includes 0.40 of a hectare of Robyn's main residence.

Robyn may choose to apply the main residence capital gains tax exemption to the part of the capital proceeds, received for the compulsory acquisition, which relates to the 0.40 hectares of the land Robyn had recorded as being associated with the main residence.

After the compulsory acquisition Robyn's property is reduced to 8.95 hectares. The dam and part of her landscaped gardens were acquired by the government for the freeway. Robyn isn't able to revise the land and structures that are associated with her main residence. Her maximum exempt area is reduced by the 0.4 hectares she had previously attributed to her main residence that was acquired by the government.

Reduction in maximum exempt area

Calculation element	Hectares	Square metres
Main Residence	0.0345	345
Swimming pool	0.0044	44
Garage	0.0100	100
Guest house	0.0153	153
Driveway	0.1000	1,000
Landscaped gardens	1.4357	14,357
Total	1.6	16,000

Exemption conditions to be met

Where you satisfy all of the following conditions any capital gain or capital loss arising from the compulsory acquisition (or similar arrangement) of adjacent land or structure without the dwelling is automatically disregarded.

The conditions that must be met are:

- you're an individual
- the exempt land is all or part of a dwelling's adjacent land at the time of the CGT event
- the CGT event doesn't happen in relation to the dwelling or your ownership interest in the dwelling
- one of the following applies
  - the dwelling was your main residence during some or all of the period you owned it
  - your ownership interest in the dwelling passed to you as a beneficiary in a deceased estate
  - you own the ownership interest in the dwelling as the trustee of a deceased estate
- the adjacent land or structure is compulsorily acquired or is the subject of a similar compulsory arrangement
- the sum of the following is 2 hectares or less
  - the area of all of the dwelling's adjacent land at the time of the CGT event
  - the area of land on which the dwelling is built
  - for each earlier CGT event that resulted in a capital gain or capital loss being disregarded under this exemption, the area of adjacent land exempted at the time of the earlier CGT event, but only if that involved reducing the area of the dwelling's adjacent land at the time of that earlier CGT event.

This last condition ensures that you'll not be disadvantaged by double counting of the same area of land where you have not lost substantial use and enjoyment of the land, although with diminished rights. For example, a compulsory easement is created over land but you retain ownership of the land affected by the easement.

Where you satisfy all of the conditions apart from the last condition (that is, where the sum of the relevant areas of land is more than 2 hectares), there is no automatic disregarding of any capital gain or capital loss arising from the compulsory acquisition (or similar arrangement).

In these circumstances, you can choose to disregard so much of the capital gain or capital loss that relates to an area of adjacent land that is compulsorily acquired (or subject to a similar arrangement) that isn't more than the maximum exempt area.

Record keeping requirements

With all assets you need to keep records. In this case, you'll need to keep records of the transactions or events that provide evidence of your assessment of how the main residence capital gains tax exemption applies to the part of your main residence that has been compulsorily acquired. This includes a record of your calculations of your capital gain or loss and if your property is greater than 2 hectares.

To find out more about the record keeping requirements in relation to assets and capital gain tax see Keeping CGT records.

Marriage or relationship breakdown

Explains your CGT obligations if your marriage or relationship ended on or after 20 September 1985.

In this section

Overview

Read this section if your marriage or relationship ended on or after 20 September 1985 and you transfer an asset or a share of an asset to your spouse, you receive an asset or a share of an asset from your spouse, or a company or trustee of a trust transfers an asset to you or your spouse.

When we talk about 'your spouse', this includes your former spouse. It doesn't include your spouse's or your former spouse's legal personal representative (such as an executor).

Transfer of an asset means transferring ownership of an asset to the transferee spouse and includes **creating** an asset in their favour (such as a right to use property).

Where we talk about **an asset**, this includes a share of, or an interest in, a jointly owned asset.

Transferee spouse refers to the spouse to whom an asset is transferred, while the **transferor** is the person (or a company or the trustee of a trust) who transfers an asset to the transferee spouse.

As a general rule, CGT applies to all changes of ownership of assets on or after 20 September 1985. However, if you transfer an asset to your spouse as a result of the breakdown of your marriage or relationship, there is an automatic rollover in certain cases. You can't choose whether or not it applies.

This rollover ensures the transferor spouse disregards a capital gain or capital loss that would otherwise arise. In effect, the one who receives the asset (the transferee spouse) will make the capital gain or capital loss when they subsequently dispose of the asset. If you're the transferee spouse, the cost base of the asset is transferred to you.

Conditions for the marriage or relationship breakdown rollover

For the rollover to apply, the CGT event must have happened because of:

- an order of a court or court order made by consent under the *Family Law Act 1975* or a similar law of a foreign country
- a court order under a state, territory or foreign law relating to breakdown of relationship between spouses.

The rollover also applies to CGT events that happen after 12 December 2006 because of one of the following:

- a financial agreement that is binding under section 90G of the *Family Law Act 1975* (known as a 'binding financial agreement') or a corresponding written agreement that is binding because of a corresponding foreign law
- an award made in an arbitration referred to in section 13H of the *Family Law Act 1975* (known as an 'arbitral award') or a similar award under a corresponding state, territory or foreign law
- a written agreement that is binding because of a state, territory or foreign law relating to breakdowns of relationship between spouses and because of such law, a court is prevented from making an order either
  - about matters to which the agreement applies
  - that is inconsistent with the terms of the agreement for those matters, unless the agreement is varied or set aside.

These are referred to below as 'binding agreements' used by separating couples. The following agreements relating to relationship breakdowns meet these requirements:

- a domestic relationship agreement or termination agreement that complies with subsection 47(1) of the *New South Wales Property (Relationships) Act 1984*
- a recognised agreement within the meaning of the *Queensland Property Law Act 1974*
- a cohabitation agreement that is a certificated agreement within the meaning of the *South Australian's Domestic Partner Property Act 1996*
- a personal relationship agreement or separation agreement that complies with subsection 62(1) of the *Tasmanian Relationships Act 2003*
- a financial agreement that complies with subsection 205ZS(1) of the *Western Australian Family Court Act 1997*
- a domestic relationship agreement or termination agreement that complies with subsection 33(1) of the *Australian Capital Territory's Domestic Relationships Act 1994*
- a cohabitation agreement or separation agreement that complies with subsection 45(2) of the *Northern Territory's De Facto Relationships Act 1991*
- a relationship agreement that complies with subsections 59(1) and (2) of the *Victorian Relationships Act 2008* (which came into effect on 1 December 2008).

From 1 March 2009 the rollover also applies to CGT events that happen because of either a:

- financial agreement that is binding because of section 90UJ of the *Family Law Act 1975* (known as a 'binding financial agreement')
- corresponding written agreement that is binding because of a corresponding foreign law.

Section 90UJ relates to agreements made between parties to a de facto relationship.

In addition, from 2009–10 the marriage breakdown rollover was extended to same-sex couples.

Timing of the CGT event

Because certain changes to the marriage or relationship breakdown rollover rules apply to CGT events that happened after 12 December 2006 it is important to know when those events happened. Appendix 1 contains information about the timing of CGT events.

If an asset was transferred under a contract, the CGT event happened when the contract was entered into.

A binding financial agreement may be a contract. The time at which a contract is entered into depends on the terms and conditions of the agreement and the relevant legislation being satisfied such that the agreement can take effect. In the case of a binding financial agreement, a separation declaration has to be made under section 90DA of the *Family Law Act 1975* before the agreement can take effect.

A binding agreement used by a marriage or relationship breakdown couple may be a contract. The time at which a contract was entered into depends on the terms and conditions of the agreement and the relevant legislation being satisfied such that the agreement could take effect.

If there is no contract, the CGT event happened when the change of ownership of the asset occurred.

Transfers made because of a court order or arbitral award aren't made under a contract. Therefore, no CGT event happened until the asset was transferred under the order or award.

If the asset was transferred under an agreement to which CGT event B1 (see Appendix 1) applied, the event happened when use of the asset passed to the transferee spouse.

Binding financial agreements can be entered into before, during or after marriage or relationship. Arbitral awards allow property and financial matters of separating couples to be settled using arbitration. These arrangements allow separating couples to settle their affairs without having to go through court processes, which are often costly and protracted.

Rollovers that don't require court intervention

For transfers that happen because of a binding financial agreement, or a binding agreement used by a separating couple, the rollover only applies if at the time of the transfer all of the following apply:

- the spouses involved were separated
- there is no reasonable likelihood of cohabitation being resumed
- the transfer happened because of reasons directly connected with the breakdown of the marriage or relationship.

The transfer may not be directly connected with the breakdown if, for example:

- the spouses had an agreement before the breakdown of their marriage or relationship stating that the particular property was to be transferred between them for other reasons not directly related to the marriage or relationship breakdown
- the agreement provided for the transfer of non-specific property, the transfer doesn't occur for a considerable time (say, more than 12 months) after the agreement, and factors are present that suggest the transfer was not directly connected to the marriage or relationship breakdown.

Relevant CGT events

For the rollover to apply, one of the following events must have happened. The transferor either:

- disposed of an asset to the transferee spouse (CGT event A1)
- entered into an agreement with the transferee spouse under which
  - the right to use and enjoy a CGT asset passed to the transferee spouse
  - title in the asset will or may pass to the transferee spouse at the end of the agreement (CGT event B1). There is no rollover if title in the CGT asset doesn't pass to the transferee spouse when the agreement ends
- created a contractual or other right in favour of the transferee spouse (CGT event D1)
- granted an option to the transferee spouse or renewed or extended an option granted to them (CGT event D2)
- owned a prospecting or mining entitlement, or an interest in one, and granted the transferee spouse a right to receive income from operations carried on by the entitlement (CGT event D3)
- was a lessor and granted, renewed or extended a lease to the transferee spouse (CGT event F1).

There is no rollover for the transfer of trading stock.

Consequences of the rollover

In this section:

- You transfer the asset
- The asset is transferred to you

You transfer the asset

If you transferred the asset, the consequences of the rollover are:

- you disregard any capital gain or capital loss for assets acquired before 20 September 1985
- for assets acquired on or after 20 September 1985, the marriage or relationship breakdown rollover ensures you disregard any capital gain or capital loss you make from the CGT event that involves you and the transferee spouse.

The asset is transferred to you

You'll need to determine the date the asset was acquired before being transferred to you.

Assets acquired before 20 September 1985

If a CGT asset, including a share of a jointly owned asset, was transferred to you because of the breakdown of your marriage or relationship and it was acquired by the transferor before 20 September 1985, you're also taken to have acquired the asset before that date. You disregard any capital gain or capital loss you make when you later dispose of the asset.

However, if you made a major capital improvement to that asset after 20 September 1985, you may be subject to CGT when you dispose of it or another CGT event happens to that asset.

For more information, see Other capital improvements to pre-CGT assets.

Assets acquired on or after 20 September 1985

The rules are different if the asset was acquired by the transferor on or after 20 September 1985. In this case, if you received the CGT asset (or a share of a jointly owned asset) and there was a marriage or relationship breakdown rollover, you're taken to have acquired the asset (or share of the asset) at the time it was transferred from your spouse (or the company or trustee).

To calculate your capital gain or capital loss when a later CGT event happened, the first element of your cost base and reduced cost base are the same as the cost base and reduced cost base of your spouse (or the company or trustee) at the time of the transfer. Your cost base and reduced cost base also include any costs incurred by you or the previous owner (your spouse, the company or trustee) in transferring the particular asset on the breakdown of your marriage or relationship, such as conveyancing costs and stamp duty.

General legal costs relating to the breakdown or incurred in seeking a property settlement, and payments made under a Family Court order representing the increase in value of the CGT asset, aren't included.

If the transferor's cost base includes an amount of indexation, you may later have to recalculate the first element of your cost base to exclude that amount if you want to apply the CGT discount to your capital gain.

If you acquired the asset from your spouse (or the company or trustee) before 11:45 am AEST on 21 September 1999, you may be able to use the indexation method when calculating your capital gain. This can only apply if your and your spouse's combined period of ownership is 12 months or more (or your and the company's or trustee's combined period of ownership is 12 months or more).

If you acquired the asset after 11:45 am AEST on 21 September 1999, you can't use the indexation method when calculating your capital gain but you may be able to use the discount method. You can use the discount method to calculate your capital gain if your and your spouse's combined period of ownership is 12 months or more. If the period is less than 12 months, you use the 'other' method.

Collectables or personal use assets remain collectables or personal use assets when they are transferred from your spouse (or the company or trustee) in the case of a marriage or relationship breakdown rollover.

For information about collectables and personal use assets, see What is a CGT asset?

There are several instances where your spouse (or a company or trustee) may create an asset in your favour. **Table 5** explains how to calculate the first element of your cost base and reduced cost base of that asset in each case.

Table 5: Calculation of cost base

CGT event	First element of cost base and reduced cost base
Creating contractual or other rights (D1)	Incidental costs incurred by the transferor that relate to the event
Granting an option (D2)	Expenditure incurred by the transferor to grant the option
Granting a right to income from mining (D3)	Expenditure incurred by the transferor to grant the right
Granting a lease (F1)	Expenditure incurred by the transferor on the grant renewal or extension of the lease

You're taken to have acquired the asset at the time specified by the CGT event. For example, for CGT event D1, you acquired the asset at the time you entered into the contract, or, if there is no contract, at the time the right was created. For more information, see Appendix 1.

CGT assets transferred by a company or trust

If a company or a trustee of a trust transferred a CGT asset to a spouse, adjustments are required to the relevant cost base and reduced cost base of interests in the company or trust. These may have been shares (or indirect interests in shares) in the company, units in a unit trust and other interests in the trust. They are reduced in value by an amount that reasonably reflects the fall in their market value as a result of the transfer of the CGT asset.

If the transferor was a controlled foreign corporation or a foreign trust, there are special rules for working out the capital gain or capital loss for a subsequent CGT event.

Generally, the transfer of an asset from a private company to a spouse who is a shareholder or an associate of a shareholder is treated as a payment for the purposes of Division 7A of the *Income Tax Assessment Act 1936*, which the company may be taken to have paid a dividend because of that payment.

For more information, see Payments by private companies.

Example 99: transfer of assets from a marriage or relationship

Danny and Claudia jointly owned the following assets immediately before their marriage breakdown:

Danny and Claudia's joint assets

Asset	When purchased	Cost $
The family home	January 1985	75,000
Holiday house	December 1988	65,000
Shares in a company	March 1999	35,000

After their permanent separation in October 2024, the Family Court approved the couple’s agreement and made an appropriate court order by consent.

Danny transferred his interest in the family home to Claudia in March 2025 under the court order. Because it was acquired by the couple before 20 September 1985 and the CGT rollover applied, she is taken to have acquired Danny’s interest in the home before that date. Therefore, Claudia will not have to pay tax on any capital gains when she sells the home, that is, either on her original interest in the home, or the interest Danny transferred to her.

Danny has no CGT obligation on the transfer to Claudia of his interest in the family home.

Claudia’s interests in the shares and the holiday house were transferred to Danny in March 2025 under the court order. The holiday house didn't become his home.

Although the couple acquired these assets on or after 20 September 1985, Claudia’s capital gains from the transfer of her interests in these assets to Danny are disregarded under the marriage breakdown rollover.

Danny is taken to have acquired Claudia’s interests in these assets at the time of transfer for her relevant cost bases. If he were to sell the holiday home or the shares, he would separately calculate his capital gain or capital loss in respect of his original interest and the interest he acquired from Claudia.

When he sells the assets, Danny can choose to apply the indexation method or the discount method to work out the amount of any capital gain from his original interests because they were acquired before 21 September 1999.

Because he acquired Claudia’s interests after that date, he can only choose the discount method to work out any capital gain on them. However, in applying the 12-month ownership test for the purposes of the CGT discount, he can take into account the period that Claudia owned the interest.

Danny will have to ensure that the cost bases of the interests he acquired from Claudia don't include any amount of indexation.

If these rules apply to you, seek help from us or a recognised tax adviser.

Super interests

Payment splits

A CGT rollover may apply if an interest in a small super fund is subject to:

- a payment split on the breakdown of relationship between spouses
- a CGT asset of a small super fund is transferred to another complying super fund.

A small super fund is one that is a complying fund with no more than 6 members.

Transfer of own interest in a small super fund

A trustee of a small super fund also qualifies for CGT rollover when the trustee transfers an asset or assets reflecting the entire personal interest of one of the spouses or former spouses to the trustee of another complying super fund for the benefit of that spouse. For the rollover to apply both spouses must hold an interest in the small super fund before the transfer. This allows spouses to separate their super arrangements on the breakdown of their relationship without any CGT liability.

To qualify for a rollover, the spouses have to be permanently separated at the time of the transfer, the transfer has to have happened because of reasons directly connected with the breakdown of the relationship between spouses and, the transfer has to have been made in accordance with:

- a court order made under section 79 or subsection 90AE(2) or 90AF(2), section 90SM or 90YX of the *Family Law Act 1975* or a corresponding foreign law
- a court order made under a state, territory or foreign law relating to breakdowns of relationship between spouses that corresponds to an order made under the *Family Law Act 1975*
- an award made in an arbitration referred to in section 13H of the *Family Law Act 1975* (known as an arbitral award) or a corresponding award made in an arbitration under a corresponding state, territory or foreign law
- a financial agreement that is binding under section 90UJ of the *Family Law Act 1975* (known as a 'binding financial agreement') and was made on or after 1 March 2009
- a financial agreement that is binding under section 90G of the *Family Law Act 1975* (known as a 'binding financial agreement') or a corresponding written agreement that is binding because of a corresponding foreign law
- a written agreement that is binding because of a state, territory or foreign law relating to breakdowns of relationship between spouses and, that because of such a law, a court is prevented from making an order about matters to which the agreement applies, or that is inconsistent with the terms of the agreement for those matters, unless the agreement is varied or set aside.

Once the trustee has obtained a CGT rollover for such a transfer, the rollover is no longer available for a transfer of any asset reflecting the personal super interest of the other spouse if that later transfer arises out of the same marriage or relationship breakdown.

Example 100: transfer of super interest

Danny and Claudia each have a personal interest in a small super fund. They reach a binding financial agreement on marriage breakdown, which provides that the trustee transfer all of the assets reflecting Danny's personal interest to another complying super fund. The assets reflecting Danny's personal interest consist of a parcel of shares and a rental property.

A CGT rollover will apply to the transfer. Consequently, no rollover will then be available to the trustee for any transfer for the benefit of Claudia.

The consequences of the rollover for the transfer of a super interest are the same as for the transfer of other assets between spouses as a result of a marriage or relationship breakdown.

Cash settlements

Changes to the law ensure that no CGT liability arises in relation to the ending of spouses' rights that directly relate to the breakdown of their marriage or relationship, including if they receive cash as part of a breakdown settlement. No CGT liability arises if, at the time the rights end, the spouses were separated and there was no reasonable likelihood of cohabitation being resumed.

Real estate that was a main residence

You'll need to determine the date the CGT event happened.

Transfers where the CGT event happened on or before 12 December 2006

You're entitled to an exemption from CGT on a dwelling (when you dispose of it) for the period it was your main residence after it was transferred to you, if all of the following apply:

- the dwelling was acquired by your spouse on or after 20 September 1985
- the dwelling was transferred to you under a CGT event that happened on or before 12 December 2006
- a marriage or relationship breakdown rollover applies.

If the dwelling was your main residence, you may only qualify for a partial exemption ifone of the following applies:

- it was your main residence for only part of the period after it was transferred to you
- you used the dwelling to produce assessable income
- the land on which the dwelling is situated is more than 2 hectares.

Keep all relevant records. Make sure you get any records you need from your spouse if you don't already have a copy, including records that show:

- how and when they acquired the dwelling (or the interest in a dwelling)
- its cost base when they transferred it to you.

For more information, see Real estate and main residence.

Transfers where the CGT event happened after 12 December 2006

You take into account the way in which you and your spouse used a dwelling (or an interest in a dwelling) during your combined period of ownership, when determining your eligibility for the main residence exemption if the following apply:

- the dwelling was acquired by your spouse on or after 20 September 1985
- the dwelling was transferred to you under a CGT event that happened after 12 December 2006
- the marriage or relationship breakdown rollover applies.

This means you're entitled to a full exemption from CGT (when you dispose of it) if the land on which the dwelling is situated is 2 hectares or less, and both of the following apply:

- during the period your spouse owned the dwelling, it was their main residence and was not being used by them to produce assessable income
- during the period you owned the dwelling, it was your main residence and was not being used by you to produce assessable income.

If any of these conditions aren't met, you may qualify for a partial exemption.

If the dwelling was not your or your spouse’s main residence during all of your combined period of ownership, you work out the proportion of your capital gain that is taxable using the formula:

$$A \times (B + C) \div D$$

Where:

- A is total capital gain or capital loss
- B is number of days it was not your spouse's main residence during their ownership period
- C is number of days it was not your main residence during your ownership period
- D is number of days in your combined period of ownership.

For more information, see Real estate and main residence.

Keep all relevant records. Make sure you get any records you need from your spouse if you don’t already have a copy, including records that show:

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

Example 101: dwelling transferred to you under a CGT event that happened after 12 December 2006 becomes your home

George and Natalie jointly purchased a holiday home on 0.1 hectare of land. Settlement of the purchase contract happened on 13 March 2020. On 13 March 2022, George transferred his half-interest to Natalie under the terms of an arbitral award.

Natalie uses the dwelling as her main residence for 3 years after the date of the CGT event until she sells it. Settlement of the sale contract happens on 13 March 2025.

Because the dwelling was Natalie's main residence for 3 years out of the 5 years she owned her original interest, she is entitled to a 60% main residence exemption on that interest.

Because George's half interest in the dwelling was transferred to Natalie under a CGT event that happened after 12 December 2006 and CGT marriage or relationship breakdown rollover applied, Natalie is also entitled to a 60% main residence exemption on that half interest (having regard to how they both used that interest during their combined period of ownership).

In working out the cost base of the interest George transferred to her, Natalie adds any relevant costs she incurred after George transferred it to her to the cost base of his interest at the time of the transfer.

Home first used to produce income rule applies to combined period of ownership

If a dwelling acquired on or after 20 September 1985 is used as a main residence from the time it is acquired and is later used to produce income, the 'home first used to produce income' rule may apply. For the rule to apply, the first income-producing use must be after 20 August 1996 and the dwelling must qualify for full main residence exemption immediately prior to it being used to produce income. See, Home first used to produce income.

If the dwelling (or an interest in the dwelling) is transferred to you under a CGT event that happened after 12 December 2006 and the marriage or relationship breakdown rollover applies to the transfer, the CGT main residence exemption rules take into account the way you and your spouse use the dwelling during your combined period of ownership.

Where the 'home first used to produce income' rule and the marriage or relationship breakdown rollover apply and the dwelling (or an interest in the dwelling) was transferred to you by your spouse, you're taken to have acquired it at the time it is first used to produce income for its market value at that time. The first income-producing use may be during your or your spouse's ownership period.

Example 102: home transferred under a CGT event that happens after 12 December 2006 and the 'first used to produce income' rule applies

Harry bought a house on 0.2 hectare of land for $200,000 on 17 November 2001. It was his main residence and was not used by him to produce income. On 1 June 2019, he and Anita started living together as spouses. Harry moved into Anita's townhouse and rented out the house. The house was valued at $250,000 at the time.

Harry and Anita had one child before their relationship broke down in 2023. Harry gave notice to the tenants that the lease on the house wouldn't be renewed.

On 1 June 2024, Anita moved into the house with their child. Under a binding agreement entered into on the same day, Harry transferred the house to Anita. A CGT rollover applied. (Anita also transferred her townhouse to Harry under the agreement.)

Anita is taken to have acquired the house on 1 June 2019 for the market value at that time ($250,000) because it was first used to produce income at that time. The following facts are relevant in determining eligibility for the main residence exemption in this example:

- Harry acquired the house after 19 September 1985
- it was his main residence from the time he became the owner
- the house was first rented out after 20 August 1996
- the CGT event under which the house was transferred to Anita happened after 12 December 2006 and a CGT rollover applied
- Anita would be entitled to a partial main residence exemption on the sale of the house
- Harry would have obtained a full main residence exemption had he sold it just before he began renting it out on 1 June 2019.

If Anita sells the house under a contract that is settled on 1 June 2029 and it is her main residence until that time, she would obtain a 50% exemption, because it would have been her main residence for 5 years (1 June 2024 to 1 June 2029) out of the 10 years after she is taken to have acquired it.

Choices made under the CGT main residence rules

In certain circumstances, you may choose to treat a dwelling as your main residence for a period, even though you no longer live in it, see Continuing main residence status after dwelling ceases to be your main residence or you're yet to live in it, see Constructing, renovating or repairing a dwelling on land you already own.

Such choices aren't required to be made by a transferor spouse where a rollover applies because the capital gain or capital loss is disregarded. However, there is nothing to prevent the transferor spouse making a choice (for example, as part of the negotiations with the transferee spouse and transferee spouse's advisers about the transfer of a dwelling or an interest in a dwelling).

If there was a period when the transferor spouse and transferee spouse had different main residences before they separated, they need to make a choice to either:

- treat one of the dwellings as the main residence of both of them for the period
- nominate the different dwellings as their main residences (and obtain a partial exemption on both).

Choices relating to the main residence exemption generally need to be made by the day the person lodges their tax return for the income year they transfer or enter into the contract to sell the dwelling (or their interest in it) or another CGT event happens to it. In most cases, the way in which the tax return is prepared is sufficient evidence of that choice.

For the practical reasons of negotiating a property settlement, any choices the transferor spouse decides to make would generally be expected to be made before they transfer the dwelling (or their interest in it) to the transferee spouse.

A signed statement could be provided by the transferor spouse to the transferee spouse at the time of the property settlement as evidence of the making of a choice. Such a statement would be evidence that the transferee spouse could use to support the calculation of any capital gain or capital loss they make when the dwelling is later disposed of or another CGT event happens to the dwelling.

For more information, see Choices.

Example 103: choice made by transferor spouse to treat dwelling as their main residence

At the time of negotiating their property settlement on the breakdown of their marriage in 2025, Calvin and Denise discuss with their advisers how to divide their joint assets. When she was single, Denise had purchased a townhouse under a contract that was settled on 1 August 2000. She lived in it for 3 years.

On 14 August 2003, Denise and Calvin rented a flat and started living together as spouses. At that time, Denise began renting out her townhouse. After living together for 2 years in the flat, Denise and Calvin bought a house. They moved in on 25 September 2005, the date of settlement of the purchase contract. Denise continued to rent out the townhouse.

In 2025, their relationship broke down. Denise and Calvin decided that Calvin would transfer his half share in the house to Denise (where she and their daughter would continue to live) and she would transfer the townhouse to Calvin (for him to live in) under a binding financial agreement. Because the townhouse had been Denise's main residence, she could choose to continue to treat it as such for up to 6 years of any period of absence.

In negotiating their binding financial agreement, Denise provided Calvin with a signed statement which indicated she had chosen to treat the townhouse as her main residence for the 2 years between the time she moved out and the time they bought the house together.

Because the 'home first used to produce income' rule applies, Calvin is taken to have acquired the townhouse for its market value on 14 August 2003 and will qualify for a partial main residence exemption when he sells it. (The period from 2000 to 2003 is ignored from their combined period of ownership.)

The effect of Denise's choice is that the townhouse is exempt from CGT for the period between 14 August 2003 (when she moved out) and 25 September 2005 (when she and Calvin bought the house together). When Calvin sells it, he will get an exemption for that period as well as for the period he lived in it after the marriage broke down.

If Denise had not made the choice, Calvin would not get the exemption for the period from 14 August 2003 to 25 September 2005.

Dwellings transferred from a company or the trustee of a trust

If a dwelling (or an interest in a dwelling) was transferred to you from a company or trustee of a trust, and the marriage or relationship breakdown rollover applies to the transfer, you're treated as having owned the dwelling while it was owned by the company or trustee. However, you can't get the main residence exemption during any part of the period that the company or trustee owned it (even if you lived in the dwelling during that time).

Therefore, if a dwelling is transferred to you by a company or trustee as a result of your marriage or relationship breakdown, you'll be entitled to the exemption only for the period after it was transferred when it was your main residence. You work out the proportion of your capital gain or capital loss that is exempt by dividing the period after the transfer that it was your main residence by the combined period you and the company or trustee owned it. For more information, see Real estate and main residence.

Consequences of the rollover not applying

If you and your spouse divide your property under a private or informal agreement (not because of a court order, a binding financial agreement, an arbitral award or another agreement or award referred to above), the marriage or relationship breakdown rollover doesn't apply. If this is the case, you must take any capital gain or capital loss you make on the transfer of the asset into account in working out your net capital gain (or net capital losses carried forward to future years) in your tax return for that income year.

The spouse to whom the asset is transferred is taken to have acquired the asset at the time of transfer. Special rules may apply if a spouse receiving property doesn't pay anything for it, or if the amount paid by one spouse for property owned by the other is greater or less than the market value of the property and they aren't dealing at arm’s length. In these cases, the transferee is taken to have paid the market value of the property and the transferor is taken to have received the market value of the property. You're said to be dealing at arm’s length with someone if each of you acts independently and neither of you exercises influence or control over the other in connection with the transaction. It depends not only on the nature of your relationship but also the quality of the bargaining between you.

Example 104: rollover doesn't apply

Laurie and Jennie separated after living in a relationship for 4 years. To avoid legal costs, they decided that they would divide their assets without involving solicitors. During their relationship they had occupied a townhouse owned by Laurie. As part of their informal arrangement, they decided Laurie would keep it. They owned separate household items and decided each of them would keep whatever they had bought.

They also agreed that Laurie would transfer his half share of their rental property to Jennie in return for $6,000. Under the arrangement, Jennie would also become liable for the whole of the mortgage after the date of transfer. Little or no bargaining took place between Laurie and Jennie and no other assets were transferred. Jennie is taken to have paid the market value of Laurie’s share of the rental property. (The $6,000 she actually paid and the mortgage liability she assumed from Laurie are ignored.) This is because:

- a CGT rollover didn't apply (as the transfer didn't happen because of a court order or a relevant agreement or award)
- Jennie and Laurie didn't deal with each other at arm’s length in connection with the transfer.

Laurie is taken to have received the market value of his share of the rental property at the time it was transferred to Jennie. This means, in working out his net capital gain for the income year he transferred the property to Jennie, he takes into account a capital gain or capital loss, based on the market value of his half share at that time.

Deceased estates

Rules that apply if you're a deceased person's legal personal representative or a beneficiary of a deceased estate.

In this section

CGT and deceased estates

When a person dies, the assets that make up their estate can either:

- pass directly to a beneficiary (or beneficiaries)
- pass directly to their legal personal representative (for example, their executor) who may dispose of the assets or pass them to the beneficiary (or beneficiaries).

A beneficiary is a person entitled to assets of a deceased estate. They can be named as a beneficiary in a will or they can be entitled to the assets as a result of the laws of intestacy (when a person dies without having made a will).

A legal personal representative can be either:

- the executor of a deceased estate (that is, a person appointed to wind up the estate in accordance with the will)
- an administrator appointed to wind up the estate if the person doesn't leave a will.

Capital gain or capital loss on death is disregarded

There is a general rule that CGT applies to any change of ownership of a CGT asset, unless the asset was acquired before 20 September 1985 (pre-CGT).

There is a special rule that allows any capital gain or capital loss made on a post-CGT asset to be disregarded. It will be disregarded if, when a person dies, an asset they owned passes:

- to their legal personal representative or to a beneficiary
- from their legal personal representative to a beneficiary.

Exceptions to this rule

A capital gain or capital loss isn't disregarded if a post-CGT asset owned at the time of death passes from the deceased to a tax-advantaged entity or to a foreign resident. In these cases, a CGT event is taken to have happened to the asset just before the person died. The CGT event results in:

- a capital gain if the market value of the asset on the day the person died was more than the cost base of the asset
- a capital loss if the market value was less than the asset's reduced cost base.

These capital gains and capital losses should be taken into account in the deceased person's 'date of death tax return'. The date of death tax return is for the period from the start of the income year to the date of the person's death.

However, any capital gain or capital loss from a testamentary gift of property can be disregarded if:

- the gift was made to a deductible gift recipient
- the gift would have been income tax deductible if it had not been a testamentary gift.

The condition that testamentary gifts of property must be valued at greater than $5,000 before the CGT exemption applies doesn't apply to gifts made on or after 1 July 2005.

Tax-advantaged entity

A tax-advantaged entity is one of the following:

- a tax-exempt entity, for example, a church or charity
- the trustee of either
  - a complying super fund
  - a complying approved deposit fund
  - a pooled super trust
- a foreign resident.

Foreign resident beneficiary

If a foreign resident is a beneficiary of a deceased's post CGT asset, any capital gain or capital loss is taken into account in preparing the deceased person's date of death tax return if:

- the deceased was an Australian resident when they died
- the asset isn't taxable Australian property in the hands of the beneficiary.

Assets which pass to the beneficiary or legal personal representative

Main residence

Special rules apply if the asset was the deceased person's or beneficiary's main residence, see Inherited main residence and Flowchart 3.6 in Appendix 3.

Other real estate

Even if the property was not the deceased person's main residence, special rules may mean you qualify for a full or partial exemption when you dispose of it, see Inherited main residence and Flowchart 3.6 in Appendix 3.

Other assets

In administering and winding up a deceased estate, a legal personal representative may need to dispose of some or all of the assets of the estate. Assets disposed of in this way are subject to the normal rules and any capital gain the legal personal representative makes on the disposal is subject to CGT.

Similarly, it may be necessary for the legal personal representative to acquire an asset (for example, to satisfy a specific legacy made). Any capital gain or capital loss they make on disposal of that asset to the beneficiary is subject to the normal CGT rules.

If a beneficiary sells an asset they have inherited, the normal CGT rules also apply.

Acquisition of asset

If you acquire an asset owned by a deceased person as their legal personal representative or beneficiary, you're taken to have acquired the asset on the day the person died. If that was before 20 September 1985, you disregard any capital gain or capital loss you make from the asset.

Cost base of asset

Assets acquired by the deceased person before 20 September 1985

If the deceased person acquired their asset before 20 September 1985, the first element of your cost base and reduced cost base (that is, the amount taken to have been paid for the asset) is the market value of the asset on the day the person died.

If, before they died, a person made a major improvement to a pre-CGT asset on or after 20 September 1985, the improvement isn't treated as a separate asset by the legal personal representative or beneficiary. They are taken to have acquired a single asset. The cost base of this asset, when the legal personal representative or beneficiary acquires it, is equal to the cost base of the major improvement on the day the person died plus the market value of the pre-CGT asset (excluding the improvement) on the day the person died.

Assets acquired by the deceased person on or after 20 September 1985

If a deceased person acquired their asset on or after 20 September 1985, the first element of your cost base and reduced cost base is taken to be the deceased person's cost base and reduced cost base of the asset on the day the person died.

There is an exception if the asset is a dwelling and certain conditions are met. See Cost to you of acquiring the dwelling.

If the deceased person died before 21 September 1999, and you choose the indexation method to work out the capital gain when you dispose of the asset (or when another CGT event happens), you index the first element of the cost base from the date the deceased person acquired it up until 21 September 1999.

If the deceased person died on or after 21 September 1999, you can't use the indexation method and, when you dispose of the asset, you must recalculate the first element of your cost base to leave out any indexation that was included in the deceased's cost base.

If you're the trustee of a Special Disability Trust, the first element of your cost base and reduced cost base is the market value of the asset on the day the person died.

Expenditure incurred by a legal personal representative

As a beneficiary, you can include in your cost base (and reduced cost base) any expenditure the legal personal representative (for example, the executor) would have been able to include in their cost base if they had sold the asset instead of distributing it to you. You can include the expenditure on the date they incurred it.

For example, if an executor incurs costs in confirming the validity of the deceased's will, these costs form part of the cost base of the estate's assets.

Example 105: transfer of an asset from the executor to a beneficiary

Maria died on 13 October 2002, leaving 2 assets, both acquired after 19 September 1985: a parcel of 2,000 shares in Bounderby Ltd and a vacant block of land. Giovanni was appointed executor of the estate (the legal personal representative).

When the assets are transferred to Giovanni as legal personal representative, he disregards any capital gain or capital loss. Giovanni disposes of (sells) the shares to pay Maria's outstanding debts. As the shares aren't transferred to a beneficiary, any capital gain or capital loss on this disposal must be included on the tax return for Maria's deceased estate.

When all debts and tax have been paid, Giovanni transfers the land to Maria's beneficiary, Antonio, and pays the conveyancing fee of $5,000. As the land is transferred to a beneficiary, any capital gain or capital loss to date is disregarded. The first element of Antonio's cost base is taken as Maria's cost base on the date of her death. Antonio is also entitled to include in his cost base the $5,000 Giovanni spent on the conveyancing.

Choosing the indexation method or the discount method

If the deceased person died before 11:45 am AEST on 21 September 1999 and you dispose of the asset (as legal personal representative or beneficiary) after that date, there are 2 ways of calculating your capital gain. You can use either the indexation method or the discount method, whichever gives you the better result. However, the CGT discount is only available if you're an individual, a trust or a complying super entity.

Elements of an asset's cost base can be indexed only if you own the asset for at least 12 months before disposing of it. For the purposes of this 12-month ownership test you're taken to have acquired the asset when the deceased acquired it, not from the date of their death.

For the CGT discount to apply, you must have acquired the asset at least 12 months before disposing of it. For the purposes of this 12-month ownership test, you're taken to have acquired the asset at one of the following times:

- for pre-CGT assets, the date the deceased died
- for post-CGT assets, the date the deceased acquired it.

Example 106: indexation and CGT discount

Leonard acquired a property on 14 November 1998 for $126,000. He died on 6 August 1999 and left the property to Gladys. She sold the property on 6 July 2024 for $240,000. The property was not the main residence of either Leonard or Gladys.

Although Gladys acquired the property on 6 August 1999, for the purpose of determining whether she had owned the property for at least 12 months, she was taken to have acquired it on 14 November 1998 (the day Leonard acquired it).

At the time of disposal, Gladys had owned the property for more than 12 months. As she is taken to have acquired it before 11:45 am AEST on 21 September 1999 and disposed of it after that date, Gladys could choose to index the cost base. However, if the discount method would give her a better result, she could choose to claim the CGT discount.

If Gladys chooses the discount method she would have to exclude from the first element of her cost base the amount that represented the indexation that had accrued to Leonard up until the time he died.

If you're a foreign or temporary resident and taxable Australian property passes to you from the deceased, you may not be able to apply the CGT discount if you're taken to have acquired the asset after 8 May 2012.

For more information, see CGT discount for foreign residents.

Collectables and personal use assets

A post-CGT collectable or personal use asset is still treated as such when you receive it as a beneficiary or the legal personal representative of the estate.

Joint tenants

If 2 or more people acquire a property asset together, it can be either as tenants in common or as joint tenants.

If a tenant in common dies, their interest in the property is an asset of their deceased estate. This means it can be transferred only to a beneficiary of the estate or be sold (or otherwise dealt with) by the legal personal representative of the estate.

If one of the joint tenants dies, their interest in the property passes to the surviving joint tenants. It isn't an asset of the deceased estate.

For CGT purposes, if you're a joint tenant you're treated as if you're a tenant in common owning 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're beneficiaries.

This means that if the dwelling was the deceased’s main residence, you may be entitled to the main residence exemption (see Inherited main residence) for the interest you acquired from them.

If the joint tenant who dies acquired their interest in the asset on or after 20 September 1985, the first element of the cost base of the interest you acquire from them is the cost base of their interest on the day they died, divided by the number of joint tenants (including you) who acquire it. The first element of the reduced cost base of the interest you acquire from them is worked out similarly.

Example 107: surviving joint tenants

In 2001, Ming and Lee buy a residential property for $250,000 as joint tenants. Each one is taken to have a 50% interest in it. On 1 May 2003, Lee dies.

On 1 May 2003, Ming is taken to have acquired Lee's interest for an amount equal to Lee's cost base on that day.

If Ming uses the property as his main residence after Lee dies, he may be entitled to the main residence exemption for the interest he acquired from Lee as well as for his original interest.

If the joint tenant who dies acquired their interest in the asset before 20 September 1985, the first element of the cost base of the interest you acquire from them is the market value of their interest on the day they died, divided by the number of joint tenants (including you) who acquire it. The first element of the reduced cost base of the interest you acquire from them is worked out similarly.

For the indexation and discount methods to apply, you must have owned the asset (or your share of it) for at least 12 months. As a surviving joint tenant, for the purposes of this 12-month test, you're taken to have acquired the deceased's interest in the asset (or your share of it) at the time the deceased person acquired it.

Example 108: CGT and joint tenants

Trevor and Kylie acquired land as joint tenants before 20 September 1985. Trevor died in October 2013. For CGT purposes, Kylie is taken to have acquired Trevor's interest in the land at its market value at the date of his death.

Kylie holds her original 50% interest as a pre-CGT asset, and the inherited 50% interest as a post-CGT asset which she is taken to have acquired at its market value at the date of Trevor's death.

If Kylie sold the land within 12 months of Trevor's death, she would qualify for the CGT discount on any capital gain she makes on her post-CGT interest. She qualifies for the CGT discount because, for the purposes of the 12-month ownership test, she is taken to have acquired Trevor's interest at the time he acquired it, which was before 20 September 1985.

Unapplied net capital losses

If the deceased had any unapplied net capital losses when they died, these can't be passed on to you as the beneficiary or legal personal representative for you to offset against any net capital gains.

Life and remainder interests

There may be CGT consequences on the creation, surrender, expiry or disposal of a life interest or remainder interest.

For more information, see Taxation Ruling TR 2006/14 *Income tax: capital gains tax: consequences of creating life and remainder interests in property and of later events affecting those interests.*

Trustee choice to be assessed on capital gains

The trustee of a resident trust may choose (if permitted by the trust deed) to be assessed on a capital gain of the trust. This is allowed provided no beneficiary has received any amount referable to the gain during 2024–25 or within 2 months of the end of 2024-25 income year. The choice must be made in respect of the whole capital gain.

This is similar to (and replaced) the choice available to the trustee of a testamentary trust under the law prior to the 2010–11 amendments but isn't limited to those trustees. Under the previous law (that applied from 2005–06) the trustee of a resident testamentary trust could choose to be assessed on the capital gains for an income year which would otherwise be assessed to an income beneficiary (or the trustee on their behalf).

The trustee will be able to make the choice if, for example, under the terms of the trust the income beneficiary can't benefit from the capital gains. Only the trustee can make this choice.

If the trustee makes a choice in respect of a capital gain then:

- the trustee will be assessed on the capital gain under section 99 or 99A, as appropriate
- the capital gain isn't taken into account in working out any beneficiary's net capital gain for 2024–25.

Example 109: trustee choice to be assessed

Marcia is entitled to all the income of a resident trust for the duration of her life. Under the terms of the trust deed, the trust would be wound up on her death and the corpus distributed to Trevor.

While Marcia is alive, the trustee disposes of some shares in the trust and makes a capital gain. Marcia isn't entitled under the terms of the trust to receive the proceeds from the disposal of the shares as Trevor is the capital beneficiary.

As the capital gain is included in the net income of the trust for tax purposes, Marcia may be assessed on her share of the capital gain even though she isn't entitled to benefit from the gain. The trustee can make a choice to be assessed on the share of the capital gain that would otherwise be assessed to Marcia.

Earnout and deferred consideration arrangements

Explains what earnout and deferred consideration arrangements are.

In this section

Earnout and deferred consideration

Earnout and deferred consideration arrangements are often employed as a way of structuring the sale of a business (including business assets or an interest in an entity carrying on a business) to deal with uncertainty about its value. They create a contingent right to a future payment (or other financial benefit) that is unascertainable at the time the right is created.

Often the sale contract provides for:

- an initial lump sum payment by the buyer
- a right to subsequent financial benefits that are contingent on satisfying conditions about the performance of the business, market prices, or meeting certain milestones.

In a standard earnout or deferred consideration arrangement, the buyer agrees to pay the seller additional amounts if the relevant conditions are met. The seller holds the contractual right. In a reverse earnout or deferred consideration arrangement, the seller agrees to pay amounts to the buyer if the relevant conditions aren't met. The buyer holds the contractual right.

Some earnout and deferred consideration arrangements combine the features of both a standard arrangement and a reverse arrangement as both the buyer and seller may be obligated to provide financial benefits which are dependent on contingencies.

Legislation that became law on 25 February 2016 provides for look-through CGT treatment of certain earnout arrangements entered into on or after 24 April 2015. Under the look-through CGT treatment in Subdivision 118-I, capital gains or losses associated with look-through earnout rights are disregarded, and the financial benefits of the arrangement are instead applied to the capital proceeds or cost base of the underlying asset.

The tax considerations for earnouts and deferred consideration arrangements outlined in this section are general in nature and may not be relevant to all sale transactions that include earnout or deferred consideration arrangements. This section doesn't address arrangements such as a discount for prompt payment, the provision by the seller of an indemnity, warranty, or guarantee or financing arrangements which result in an equity interest being issued by an entity. The tax outcomes for such transactions will be dictated by the nature of the rights in question and the circumstances of the wider transaction of which they form part.

Look-through earnout rights

Look-through CGT treatment applies to a contractual right to future financial benefits created under an earnout or deferred consideration arrangement if all of the following apply:

- the contractual right was created on or after 24 April 2015
- the contractual right is a right to future financial benefits that aren't reasonably ascertainable at the time the right is created
- the right was created under an arrangement involving the disposal of a CGT asset
- the disposal caused CGT event A1 to happen
- just before the CGT event, the CGT asset was an active asset of the entity which disposed of the asset
- all of the financial benefits under the right are to be provided within 5 years after the end of the income year in which the CGT event happened
- the financial benefits must be contingent on the economic performance of the CGT asset or a business for which it is expected that the CGT asset be an active asset for the period to which those financial benefits relate
- the value of those financial benefits reasonably relates to that economic performance
- the parties to the arrangement deal with each other at arm's length in making the arrangement.

Under the look-through CGT treatment:

- the capital gains or losses in respect of look-through earnout rights are disregarded
- for the buyer, any financial benefit provided (or received) under a look-through earnout right increase (or decrease) the cost base and the reduced cost base of the underlying asset
- for the seller, any financial benefit received (or provided) under the look-through earnout right increase (or decrease) the capital proceeds from the disposal of the underlying asset
- capital losses arising from the disposal of assets to which look-through earnout rights relate are temporarily disregarded until and to the extent that they become certain, that is, the capital losses could not be further reduced by you receiving one or more financial benefits. Once the losses become certain, they are available from the income year in which they were originally incurred, and not when the amount of the losses became certain.

Where an earnout or deferred consideration arrangement doesn't satisfy the above conditions, the contractual right or rights created under the arrangement are considered separate CGT assets. Taxpayers who are subject to the Taxation of Financial Arrangement (TOFA) provisions in Division 230 of the ITAA 1997 should consider whether their earnout or deferred consideration arrangement is a 'financial arrangement' subject to those provisions. Earnout and deferred consideration arrangements contingent on the economic performance of the relevant business are generally excluded from the TOFA provisions. However, the TOFA provisions may apply to certain types of earnout or deferred consideration arrangements. Where the TOFA provisions apply to an earnout or deferred consideration arrangement that also satisfies the definition of a look-through earnout right in Subdivision 118-I, TOFA will apply in priority to look-through CGT treatment. For more information, see Guide to taxation of financial arrangements (TOFA). If you have an earnout arrangement that doesn't satisfy the requirements for look-through treatment under Subdivision 118-I or TOFA treatment under Division 230 of the ITAA 1997, and you're unsure of the tax treatment of your arrangement, you can request an early engagement discussion or seek a ruling.

Example 110: the look-through CGT treatment

This example doesn't consider any other CGT concessions that may be available.

A business is sold on the following terms:

- the buyer agrees to pay an initial upfront amount of $800,000
- the buyer agrees to pay the seller 50% of the revenue above $500,000 per annum for the next 3 income years.

The market value of the earnout rights at the time of the contract is $300,000 in total.

Revenue for the business in the following 3 income years is $700,000, $800,000 and $700,000. Therefore, the buyer makes additional payments of $100,000, $150,000 and $100,000 to the seller.

The following assumptions are made:

- the seller's cost base for the business is $700,000
- all the conditions of a look-through earnout right are met
- the seller has no capital losses brought forward from prior years
- the seller isn't eligible for any CGT discount
- no other expenditure has been incurred
- the TOFA rules don't apply to the seller or buyer.

Outcomes for the seller and buyer

Year	Seller	Buyer
0	CGT event A1 happens. The seller's capital proceeds are $800,000. The cost base is $700,000. The capital gain is $100,000.	The buyer acquires an asset with a cost base of $800,000.
1	Financial benefits of $100,000 received. Increase Year 0 capital proceeds by $100,000 to $900,000, which results in a revised capital gain or $200,000.	The buyer provides financial benefits of $100,000. The buyer's cost base is increased to $900,000.
2	Financial benefits of $150,000 received. Increase Year 0 capital proceeds by $150,000 to $1,050,000, which results in a revised capital gain of $350,000.	The buyer provides financial benefits of $150,000. The buyer's cost base is increased to $1,050,000.
3	Financial benefits of $100,000 received. Increase Year 0 capital proceeds by $100,000 to $1,150,000, which results in a revised capital gain of $450,000.	The buyer provides financial benefits of $100,000. The buyer's cost base is increased to $1,150,000.

Under the look-through CGT treatment:

- a valuation of the earnout rights isn't required
- the CGT consequences for the seller is reported and assessed when the financial benefits are received or provided.
- the cost base of the buyer reflects the financial benefits provided by the buyer, including the benefits provided under the earnout arrangement.

Amendments

To apply look-through CGT treatment, you may need to seek an amendment to your net capital gain (or capital losses carried forward amount) of an earlier income year. You may be able to seek such amendment by completing labels 7F and 7G of the CGT schedule.

Extension to period of review

Financial benefits under a look-through earnout right can be provided or received up to 5 years after the end of the income year in which the CGT event occurred. In some cases, the period of review may have passed before you have provided or received the financial benefit requiring the amendment.

Accordingly, the period of review for all entities' tax-related liabilities affected by a look-through earnout right is the later of the period of review that would normally apply and 4 years after the end of the income year in which the last possible financial benefit could be received or provided under the look-through earnout right. This includes liabilities in subsequent years and tax related liabilities for taxes other than income tax.

Penalties and interest

You'll not be subject to shortfall interest charge on additional tax that you must pay as a result of providing or receiving financial benefits under a look-through earnout right. This is provided you request an amendment to the relevant income tax assessment by the due date for lodgement of the income year in which you received or provided those financial benefits.

However, the above exception to the shortfall interest charge doesn't apply to the extent you accessed a concession for which you're ultimately not eligible as a result of receiving or providing those financial benefits.

The Commissioner isn't liable to pay interest on any overpayment of tax which results from financial benefits being provided or received under a look-through earnout right.

Remaking choices affected by look-through earnout rights

You can remake any choice previously made where the choice relates to a capital gain or loss that can be affected by financial benefits provided or received under a look-through earnout right. However, you need to remake the choice at or before the time you're required to lodge your income tax return for the income year in which the financial benefit is provided or received.

Therefore, you may need to reconsider any choices and your entitlement to concessions in light of financial benefits provided or received to ensure that the resulting gain, loss or cost base reflects any concessions that are available. Alternatively, you can wait until it is clear whether or not you'll be finally eligible for the concession before making any choice.

Additionally, if you have made contributions to a super fund in order to access a concession, you can't withdraw these contributions if the concessions are no longer available.

For more information, see Choices.

Effect of look-through earnout rights on small business CGT concessions

The future financial benefits received or provided under a look-through earnout right may affect your eligibility for some CGT concessions. It may also impact on the time allowed for you to take certain actions to satisfy the eligibility requirements.

For more information, see Small business CGT concessions.

Allocated cost amount (ACA) affected by look-through earnout rights

Subsection 705-65(5B) requires consolidated groups to revise the ACA amount of an entity that joins the group to take account of subsequent money or property provided in respect of the acquisition of a membership interest in the entity where the subsequent money or property was not taken into account in working out the ACA when the entity joined the group.

Consolidated groups may need to revise the entry ACA of an entity that joins the group if:

- the membership interest in the entity was acquired under a look-through earnout arrangement
- subsequent financial benefits were provided or received under the look-through earnout right
- the subsequent financial benefits were not considered when working out the ACA when the entity joined the group.

For more information, see Consolidation.

Appendixes

Additional information to help you understand and complete your CGT obligations.

Appendix 1 Summary of CGT events

Shows a summary of the different types of transactions or events that may result in a capital gain or capital loss.

Disposal

CGT event	Time of event	Capital gain	Capital loss
A1 Disposal of a CGT asset	When the disposal contract is entered into or, if none, when the entity stops being the asset's owner	The capital proceeds from disposal *subtract* the asset's cost base	The asset's reduced cost base *subtract* capital proceeds

Hire purchase and similar agreements

CGT event	Time of event	Capital gain	Capital loss
B1 Use and enjoyment before title passes	When use of the CGT asset passes	The capital proceeds *subtract* the asset's cost base	The asset's reduced cost base *subtract* capital proceeds

End of a CGT asset

CGT event	Time of event	Capital gain	Capital loss
C1 Loss or destruction of a CGT asset	When compensation is first received or, if none, when the loss is discovered or destruction occurred	The capital proceeds *subtract* the asset's cost base	The asset's reduced cost base *subtract* capital proceeds
C2 Cancellation, surrender and similar endings	When the contract ending an asset is entered into or, if none, when an asset ends	The capital proceeds from the ending *subtract* the asset's cost base	The asset's reduced cost base *subtract* capital proceeds
C3 End of an option to acquire shares and so on	When the option ends	The capital proceeds from granting the option *subtract* expenditure in granting it	The expenditure in granting the option *subtract* capital proceeds

Bringing a CGT asset into existence

CGT event	Time of event	Capital gain	Capital loss
D1 Creating contractual or other rights	When the contract is entered into or the right is created	The capital proceeds from creating the right *subtract* incidental costs of creating the right	The incidental costs of creating the right *subtract* capital proceeds
D2 Granting an option	When the option is granted	The capital proceeds from the grant *subtract* expenditure to grant it	The expenditure to grant the option *subtract* capital proceeds
D3 Granting a right to income from mining	When the contract is entered into or, if none, when the right is granted	The capital proceeds from the grant of right *subtract* the expenditure to grant it	The expenditure to grant the right *subtract* capital proceeds
D4 Entering into a conservation covenant	When covenant is entered into	The capital proceeds from covenant *subtract* cost base apportioned to the covenant	The reduced cost base apportioned to the covenant *subtract* capital proceeds from covenant

Trusts

CGT event	Time of event	Capital gain	Capital loss
E1 Creating a trust over a CGT asset	When the trust is created	Capital proceeds from creating the trust *subtract* the asset's cost base	The asset's reduced cost base *subtract* capital proceeds
E2 Transferring a CGT asset to a trust	When the asset is transferred	Capital proceeds from the transfer *subtract* the asset's cost base	The asset's reduced cost base *subtract* capital proceeds
E3 Converting a trust to a unit trust	When the trust is converted	Market value of the asset at that time *subtract* its cost base	The asset's reduced cost base *subtract* that market value
E4 Capital payment for trust interest (including CCIV sub-fund trust interest)	When the trustee makes the payment	Non-assessable part of the payment *subtract* the cost base of the trust interest	No capital loss
E5 Beneficiary becoming entitled to a trust asset	When the beneficiary becomes absolutely entitled	For a trustee, market value of the CGT asset at that time *subtract* its cost base For a beneficiary, that market value *subtract* the cost base of the beneficiary's capital interest	For a trustee, the reduced cost base of the CGT asset at that time *subtract* that market value For a beneficiary, the reduced cost base of the beneficiary's capital interest *subtract* that market value
E6 Disposal to a beneficiary to end an income right	The time of the disposal	For a trustee, market value of the CGT asset at that time *subtract* its cost base For a beneficiary, that market value *subtract* the cost base of the beneficiary's right to income	For a trustee, the reduced cost base of the CGT asset at that time *subtract* that market value For a beneficiary, the reduced cost base of the beneficiary's right to income *subtract* that market value

CGT event	Time of event	Capital gain	Capital loss
E7 Disposal to a beneficiary to end capital interest	The time of the disposal	For a trustee, market value of the CGT asset at that time *subtract* its cost base For a beneficiary, that market value *subtract* the cost base of the beneficiary's capital interest	For a trustee, the reduced cost base of the CGT asset at that time *subtract* that market value For a beneficiary, the reduced cost base of the beneficiary's capital interest *subtract* that market value
E8 Disposal by a beneficiary of capital interest	When the disposal contract is entered into or, if none, when the beneficiary ceases to own the CGT asset	Capital proceeds *subtract* the appropriate proportion of the trust's net assets	The appropriate proportion of the trust's net assets *subtract* the capital proceeds
E9 Creating a trust over future property	When the entity makes an agreement	Market value of the property (as if it existed when the agreement was made) *subtract* incidental costs in making the agreement	The incidental costs in making the agreement *subtract* the market value of the property (as if it existed when the agreement was made)
E10 Annual cost base reduction exceeds cost base of interest in AMIT / attribution CCIV sub-fund trust	When reduction happens	Excess of cost base reduction over cost base	No capital loss

Leases

CGT event	Time of event	Capital gain	Capital loss
F1 Granting a lease	For granting a lease, when the entity enters into the lease contract or, if none, at the start of the lease For a lease renewal or extension, at the start of the renewal or extension	Capital proceeds *subtract* the expenditure on grant, renewal or extension	Expenditure on grant, renewal or extension *subtract* capital proceeds
F2 Granting a long-term lease	For granting a lease, when the lessor grants the lease For a lease renewal or extension, at the start of the renewal or extension	Capital proceeds from the grant, renewal or extension *subtract* the cost base of the leased property	Reduced cost base of the leased property *subtract* the capital proceeds from the grant, renewal or extension
F3 Lessor pays lessee to get lease changed	When the lease term is varied or waived	No capital gain	Amount of expenditure to get lessee's agreement
F4 Lessee receives payment for changing a lease	When the lease term is varied or waived	Capital proceeds *subtract* the cost base of lease	No capital loss
F5 Lessor receives payment for changing a lease	When the lease term is varied or waived	Capital proceeds *subtract* expenditure for variation or waiver	Expenditure for variation or waiver *subtract* capital proceeds

Shares

CGT event	Time of event	Capital gain	Capital loss
G1 Capital payment for shares	When the company pays a non-assessable amount	Payment *subtract* cost base of shares	No capital loss
G3 Liquidator or administrator declares shares or financial instruments worthless	When declaration is made	No capital gain	Reduced cost base of shares or financial instruments

Special capital receipts

CGT event	Time of event	Capital gain	Capital loss
H1 Forfeiture of a deposit	When the deposit is forfeited	Deposit *subtract* expenditure in connection with the prospective sale	Expenditure in Connection with the prospective sale *subtract* deposit
H2 Receipt for an event relating to a CGT asset	When the act, transaction or event occurred	Capital proceeds *subtract* incidental costs	Incidental costs *subtract* capital proceeds

Cessation of residency

CGT event	Time of event	Capital gain	Capital loss
I1 Individual or company stops being an Australian resident	When the individual or company stops being an Australian resident	For each CGT asset the person owns, its market value *subtract* its cost base	For each CGT asset the person owns, its reduced cost base *subtract* its market value
I2 Trust stops being a resident trust	When the trust ceases to be a resident trust for CGT purposes	For each CGT asset the trustee owns, its market value *subtract* its cost base	For each CGT asset the trustee owns, its reduced cost base *subtract* its market value

Reversal of rollover

CGT event	Time of event	Capital gain	Capital loss
J1 Company stops being a member of a wholly owned group after a rollover	When the company stops being a member of a wholly owned group after a rollover	Market value of the asset at the time of the event *subtract* its cost base	Reduced cost base of the asset *subtract* that market value
J2 Change for replacement asset or improved asset after a rollover under Subdivision 152-E	when the change happens	The amount mentioned in subsection 104-185(5)	No capital loss
J4 Trust failing to cease to exist after rollover under Subdivision 124-N	when the failure to cease to exist happens	For a company, market value of the asset at the time the company acquired it *subtract* its cost base at that	For a company, reduced cost base of the asset at the time the company acquired it *subtract*

CGT event	Time of event	Capital gain	Capital loss
		time For a shareholder, market value of the share at the time the shareholder acquired it *subtract* its cost base at that time	its market value at that time For a shareholder, reduced cost base of the share at the time the shareholder acquired it *subtract* its market value at that time
J5 Failure to acquire replacement asset and to incur 4th element expenditure after a rollover under Subdivision 152-E	At the end of the replacement asset period	The amount of the capital gain that you disregarded under Subdivision 152-E	No capital loss
J6 Cost of acquisition of replacement asset or amount of 4th element expenditure, or both, not sufficient to cover disregarded capital gain	At the end of the replacement asset period	The amount mentioned in subsection 104-198(3)	No capital loss

Other CGT events

CGT event	Time of event	Capital gain	Capital loss
K1 Incoming international transfer of emissions unit	when you start to hold the unit as a registered emissions unit	unit's market value is more than its cost base	unit's market value is less than its cost base
K2 Bankrupt pays an amount for debt	When payment is made	No capital gain	That part of the payment that relates to the denied part of a net capital loss
K3 Asset passing to a tax-advantaged entity	When an individual dies	Market value of the asset at death *subtract* its cost base	Reduced cost base of the asset *subtract* that market value
K4 CGT asset starts being trading stock	When the asset starts being trading stock	Market value of asset *subtract* its cost base	Reduced cost base of the asset *subtract* that market value

CGT event	Time of event	Capital gain	Capital loss
K5 Special capital loss from a collectable that has fallen in market value	When CGT event A1, C2 or E8 happens to shares in the company, or an interest in the trust, that owns the collectable	No capital gain	Market value of the shares or interest (as if the collectable had not fallen in market value) *subtract* the capital proceeds from CGT event A1, C2 or E8
K6 Pre-CGT shares or trust interest	When another CGT event involving the shares or interest happens	Capital proceeds from the shares or trust interest that are attributable to post-CGT assets owned by the company or trust *subtract* the assets' cost bases	No capital loss
K7 Balancing adjustment occurs for a depreciating asset that you used for purposes other than taxable purposes	When the balancing adjustment event occurs	Termination value *subtract* cost times fraction	Cost *less* termination value times fraction
K8 Direct value shifts affecting your equity or loan interests in a company or trust	The decrease time for the interests	Capital gain worked out under section 725-365	No capital loss
K9 Entitlement to receive payment of a carried interest	When you become entitled to receive the payment	Capital proceeds from the entitlement	No capital loss
K10 You make a forex realisation gain as a result of forex realisation event 2 and item 1 of the table in subsection 775-70(1) applies	When the forex realisation event happens	Equal to the forex realisation gain	No capital loss
K11 You make a forex realisation loss as a result of forex realisation event 2, and item 1 of the table in subsection 775-75(1) applies	When the forex realisation event happens	No capital gain	Equal to the forex realisation loss
K12 Foreign hybrid loss exposure adjustment	Just before the end of the income year	No capital gain	The amount stated in subsection 104-270(3)

Consolidations

CGT event	Time of event	Capital gain	Capital loss
L1 Reduction under section 705-57 in tax cost setting amount of assets of entity becoming subsidiary member of consolidated group or MEC group	Just after entity becomes subsidiary member	No capital gain	Amount of reduction
L2 Amount remaining after step 3A etc of 'joining allocable cost amount' is negative	Just after entity becomes subsidiary member	Amount remaining	No capital loss
L3 Tax cost setting amounts for retained cost base assets exceed joining allocable cost amount	Just after entity becomes subsidiary member	Amount of excess	No capital loss
L4 No reset cost base assets against which to apply excess of net allocable cost amount on joining	Just after entity becomes subsidiary member	No capital gain	Amount of excess
L5 Amount remaining after step 4 of 'leaving allocable cost amount' is negative	When entity ceases to be subsidiary member	Amount remaining	No capital loss
L6 Error in calculation of tax cost setting amount for joining entity's assets	Start of the income year when the Commissioner becomes aware of the errors	The net overstated amount resulting from the errors, or a portion of that amount	The net understated amount resulting from the errors, or a portion of that amount
L8 Reduction in tax cost setting amount for reset cost base assets on joining can't be allocated	Just after entity becomes subsidiary member	No capital gain	Amount of reduction that can't be allocated

Appendix 2 Consumer price index (CPI)

Shows the consumer price index from 1985 to 1999 for each quarter.

All groups: weighted average of 8 capital cities

Year	Quarter ending 31 Mar	Quarter ending 30 Jun	Quarter ending 30 Sep	Quarter ending 31 Dec
1985	–	–	39.7	40.5
1986	41.4	42.1	43.2	44.4
1987	45.3	46.0	46.8	47.6
1988	48.4	49.3	50.2	51.2
1989	51.7	53.0	54.2	55.2
1990	56.2	57.1	57.5	59.0
1991	58.9	59.0	59.3	59.9
1992	59.9	59.7	59.8	60.1
1993	60.6	60.8	61.1	61.2
1994	61.5	61.9	62.3	62.8
1995	63.8	64.7	65.5	66.0
1996	66.2	66.7	66.9	67.0
1997	67.1	66.9	66.6	66.8
1998	67.0	67.4	67.5	67.8
1999	67.8	68.1	68.7	n/a (see Note 1)

For an explanation of indexation and how it applies, see The indexation method.

Note 1: If you use the indexation method to calculate your capital gain, the indexation factor is based on increases in the CPI up to September 1999 only.

Appendix 3 Flowcharts

Work through the flowcharts on how to treat bonus shares, rights or options, and main residence exemption rules.

In this section

Flowchart 3.1 – Bonus shares on or after 20 September 1985

Treatment of bonus shares issued on or after 20 September 1985, read through the questions and answers.

Question 1 Did you acquire the original shares on or after 20 September 1985?

- Yes – Read on from Question 2 Is any part of the bonus shares a dividend or treated as a dividend?
- No – Read on from Question 4 Is any part of the bonus shares a dividend or treated as a dividend?

Question 2 Is any part of the bonus shares a dividend or treated as a dividend?

- Yes – Read on from Question 3 Were the bonus shares issued before 1 July 1987?.
- No – Read Answer 1 Bonus shares acquisition date and CGT.

Question 3 Were the bonus shares issued before 1 July 1987?

- Yes – Read Answer 1 Bonus shares acquisition date and CGT.
- No – Read Answer 3 Bonus shares acquisition date and CGT.

Question 4 Is any part of the bonus shares a dividend or treated as a dividend?

- Yes – Read on from Question 5 Were the bonus shares issued before 1 July 1987?
- No – Read on from Question 6 Are the bonus shares partly paid?

Question 5 Were the bonus shares issued before 1 July 1987?

- Yes – Read on from Question 6 Are the bonus shares partly paid?
- No – Read Answer 2 Bonus shares acquisition date and CGT

Question 6 Are the bonus shares partly paid?

- Yes – Read on from Question 7 Were the bonus shares issued before 10 December 1986?
- No – Read Answer 4 Bonus shares acquisition date and CGT.

Question 7 Were the bonus shares issued before 10 December 1986?

- Yes – Read Answer 4 Bonus shares acquisition date and CGT.
- No – Read on from Question 8 Before sale of the bonus shares, were any more call payments made to the company?

Question 8 Before sale of the bonus shares, were any more call payments made to the company?

- Yes – Read Answer 5 Bonus shares acquisition date and CGT
- No – Read Answer 4 Bonus shares acquisition date and CGT.

Answer 1 Bonus shares acquisition date and CGT

1. The bonus shares are subject to capital gains tax.
2. The bonus shares are acquired when the original shares were acquired.
3. The cost base of each original and bonus share is equal to
   a. the cost base of the original shares divided by the total number of original and bonus shares, *plus*
   b. any calls on partly paid bonus shares.

Answer 2 Bonus shares acquisition date and CGT

1. The bonus shares are subject to capital gains tax if issued on or after 20 September 1985.
2. The acquisition date of the bonus shares is their date of issue.
3. The cost base is the amount of the dividend *plus* any calls on partly paid bonus shares.

Answer 3 Bonus shares acquisition date and CGT

1. The bonus shares are subject to capital gains tax.
2. The acquisition date of the bonus shares is their date of issue.
3. The cost base is the amount of the dividend, *plus* any calls on partly paid bonus shares.

Answer 4 Bonus shares acquisition date and CGT

You're taken to have acquired the bonus shares before 20 September 1985 and they aren't subject to capital gains tax.

Answer 5 Bonus shares acquisition date and CGT

1. The bonus shares are subject to capital gains tax.
2. The acquisition date of the bonus shares is the date when the liability to pay the first call arises.
3. The cost base is the market value of the bonus shares just before the liability to pay the first call arises, *plus* the amount of call payments made.

Flowchart 3.2 – Bonus units issued on or after 20 September 1985

Treatment of bonus units issued on or after 20 September 1985, read through the questions and answers.

Question 1 Did you acquire the original units on or after 20 September 1985?

- Yes – Read on from Question 2 Is any part of the bonus units included in your assessable income?
- No – Read on from Question 3 Is any part of the bonus units included in your assessable income?

Question 2 Is any part of the bonus units included in your assessable income?

- Yes – Read Answer 1 Bonus units acquisition date and CGT.
- No – Read Answer 2 Bonus units acquisition date and CGT.

Question 3 Is any part of the bonus units included in your assessable income?

- Yes – Read on from Question 4 Were the bonus units issued on or after 20 September 1985?.
- No – Read on from Question 5 Are the bonus units partly paid?.

Question 4 Were the bonus units issued on or after 20 September 1985?

- Yes – Read Answer 1 Bonus units acquisition date and CGT.
- No – Read

Question 5 Are the bonus units partly paid?

- Yes – Read on from Question 6 Were the bonus units issued before 10 December 1986?
- No – Read Answer 4 Bonus units acquisition date and CGT.

Question 6 Were the bonus units issued before 10 December 1986?

- Yes – Read Answer 4 Bonus units acquisition date and CGT.
- No – Read on from Question 7 Before the sale of the bonus units were any more call payments made to the trust?

Question 7 Before the sale of the bonus units were any more call payments made to the trust?

- Yes – Read Answer 3 Bonus units acquisition date and CGT.
- No – Read Answer 4 Bonus units acquisition date and CGT.

Answer 1 Bonus units acquisition date and CGT

1. The bonus units are subject to capital gains tax.
2. The acquisition date of the bonus units is their date of issue.
3. The cost base is the amount included in assessable income, *plus* any calls on partly paid bonus units.

Answer 2 Bonus units acquisition date and CGT

1. The bonus units are subject to capital gains tax.
2. The bonus units are acquired when the original units were acquired.
3. The cost base of each original and bonus unit is equal to
   a. the cost of the original units divided by the total number of original and bonus units, *plus*
   b. any calls on partly paid bonus units.

Answer 3 Bonus units acquisition date and CGT

1. The bonus units are subject to capital gains tax.
2. The acquisition date of the bonus units is the date when the liability to pay the first call arises.
3. The cost base is the market value of the bonus units just before the liability to pay the first call arises, *plus* the amount of call payments made.

Answer 4 Bonus units acquisition date and CGT

You're taken to have acquired the bonus units before 20 September 1985 and they aren't subject to capital gains tax.

Flowchart 3.3 – Treatment of rights or options issued for no cost as a share or unit holder

Treatment of rights or options to either:

- acquire shares where the rights or options were issued directly to you by the company (but not under an employee share scheme) for no payment because you were a shareholder
- acquire units where the rights or options were issued directly to you after 28 January 1988 by the trust for no payment because you were a unit holder.

Read through the questions and answers.

Question 1 Did you acquire the original shares or units before 20 September 1985?

- Yes – Read Question 2 Did you exercise the rights or options on or after 20 September 1985?
- No – The acquisition date of the rights or options is the date of acquisition of the original shares or units. Read Question 3 Did you exercise the rights or options?

Question 2 Did you exercise the rights or options on or after 20 September 1985?

- Yes – Read Answer 1 Shares or units acquired on exercise of the rights or options – directly issued, no payment.
- No – Read Answer 2 Shares or units acquired on exercise of the rights or options – directly issued, no payment

Question 3 Did you exercise the rights or options?

- Yes – Read Answer 3 Shares or units acquired on exercise of the rights or options – directly issued, no payment.
- No – Read Answer 4 Shares or units acquired on exercise of the rights or options – directly issued, no payment.

Answer 1 Shares or units acquired on exercise of the rights or options – directly issued, no payment

1. The shares or units acquired on exercise of the rights or options are subject to capital gains tax.
2. The acquisition date of the shares or units is the date of exercise of the rights or options to acquire the shares or units.
3. The first element of the cost base and the reduced cost base of the shares or units are
   a. the market value of the rights or options at the time you exercise them, *plus*
   b. the amount you pay for the shares or units on exercising the rights or options, *plus*
   c. any amount that was included in your assessable income as a result of the rights or options being exercised on or after 1 July 2001.

Although the shares or units are subject to capital gains tax, any capital gain or capital loss you make from exercising the rights or options to acquire those shares or units is disregarded.

Answer 2 Shares or units acquired on exercise of the rights or options – directly issued, no payment

1. If you didn't exercise the rights or options, you disregard any capital gain or capital loss on the sale or expiry of the rights or options.
2. If you exercised the rights or options before that date, you disregard any capital gain or capital loss you make when you dispose of the shares or units that you acquired.

Answer 3 Shares or units acquired on exercise of the rights or options – directly issued, no payment

1. The shares or units acquired on exercise of the rights or options are subject to capital gains tax.
2. The acquisition date of the shares or units is the date of the exercise.
3. The first element of the cost base and the reduced cost base of the shares or units are
   a. the cost base of the rights or options at the time of exercise, *plus*
   b. the amount you pay for the shares or units on exercising the rights or options, *plus*
   c. any amount that was included in your assessable income as a result of the rights or options being exercised on or after 1 July 2001.

Although the shares or units are subject to capital gains tax, any capital gain or capital loss you make from exercising the rights or options to acquire those shares or units is disregarded.

Answer 4 Shares or units acquired on exercise of the rights or options – directly issued, no payment

If the capital proceeds on the sale or expiry of the rights or options are more than their cost base, you make a capital gain.

If the capital proceeds are less than their reduced cost base, you make a capital loss.

Flowchart 3.4 – Treatment of rights or options you acquire from a share or unit holder

Treatment of rights or options to acquire either:

- shares where the rights or options were acquired by you from an individual or entity that acquired them as a shareholder in the company
- units where the rights or options were issued after 28 January 1988 and were acquired by you from an individual or entity that acquired them as a unit holder in the trust.

Read through the questions and answers.

Question 1 Did you acquire the rights or options before 20 September 1985?

- Yes – Read Question 3 Did you exercise the rights or options on or after 20 September 1985?
- No – The acquisition date of the rights or options was the date of the contract to acquire the rights or options or, if there was no contract, the date the other individual or entity stopped being the owner of the rights or options. Read Question 2 Did you exercise the rights or options?

Question 2 Did you exercise the rights or options?

- Yes – Read Answer 4 Shares acquired on exercise of the rights or options from an individual or entity.
- No – Read Answer 1 Shares acquired on exercise of the rights or options from an individual or entity.

Question 3 Did you exercise the rights or options on or after 20 September 1985?

- Yes – Read Answer 3 Shares acquired on exercise of the rights or options from an individual or entity.
- No – Read Answer 2 Shares acquired on exercise of the rights or options from an individual or entity.

Answer 1 Shares acquired on exercise of the rights or options from an individual or entity

If the capital proceeds on the sale or expiry of the rights or options are more than their cost base, you make a capital gain.

If the capital proceeds are less than their reduced cost base, you make a capital loss.

Answer 2 Shares acquired on exercise of the rights or options from an individual or entity

1. If you didn't exercise the rights or options, you disregard any capital gain or capital loss on the sale or expiry of the rights or options.
2. If you exercised the rights or options before that date, you disregard any capital gain or capital loss when you dispose of the shares or units that you acquired.

Answer 3 Shares acquired on exercise of the rights or options from an individual or entity

1. The shares acquired on exercise of the rights or options are subject to capital gains tax.
2. The acquisition date of the shares is the date of exercise of the rights or options to acquire the shares or units.
3. The first element of the cost base and the reduced cost base of the shares are
   a. the market value of the rights or options at the time you exercise them, *plus*
   b. the amount you pay for the shares on exercising the rights or options, *plus*
   c. if the rights or options were exercised on or after 1 July 2001 and, as a result, an amount is included in your assessable income, that amount.

Although the shares or units are subject to capital gains tax, any capital gain or capital loss you make from exercising the rights or options to acquire those shares or units is disregarded.

Answer 4 Shares acquired on exercise of the rights or options from an individual or entity

1. The shares or units acquired on exercise of the rights or options are subject to capital gains tax.
2. The acquisition date of the shares or units is the date of exercise of the rights or options.
3. The first element of the cost base and the reduced cost base of the shares or units is
   a. the cost base of the rights or options at the time of exercise, *plus*
   b. the amount you paid for the shares or units on exercising the rights or options, *plus*
   c. any amount that was included in your assessable income as a result of the rights or options being exercised on or after 1 July 2001.

Although the shares or units are subject to capital gains tax, any capital gain or capital loss you make from exercising the rights or options to acquire those shares or units is disregarded.

Flowchart 3.5 – Treatment of rights or options to acquire shares or units you issued directly from a company

Treatment of rights or options to acquire shares or units where you either:

- paid for and which were issued directly to you from the company (but not under an employee share scheme) or trust
- acquired from an individual or entity that was not a shareholder or unit holder.

This flowchart doesn't apply to rights or options for the issue of units by the grantor of the rights or options if they were exercised before 27 May 2005.

Read through the questions and answers.

Question 1 Did you acquire the rights or options before 20 September 1985?

- Yes – Read Question 2 Did you exercise the rights or options?
- No – Read Question 4 Did you exercise the rights or options?

Question 2 Did you exercise the rights or options?

- Yes – Read Question 3 Did you exercise the rights or options on or after 20 September 1985?
- No – Read Answer 1 Rights or options to acquire shares or units you pay for and directly issued by the company.

Question 3 Did you exercise the rights or options on or after 20 September 1985?

- Yes – Read Question 5 Were the rights or options renewed or extended after 20 September 1985?.
- No – Read Answer 4 Rights or options to acquire shares or units you pay for and directly issued by the company.

Question 4 Did you exercise the rights or options?

- Yes – Read Answer 3 Rights or options to acquire shares or units you pay for and directly issued by the company
- No – Read Answer 2 Rights or options to acquire shares or units you pay for and directly issued by the company.

Question 5 Were the rights or options renewed or extended after 20 September 1985?

- Yes – Read Question 6 Were they exercised before 27 May 2005?.
- No – Read Answer 5 Rights or options to acquire shares or units you pay for and directly issued by the company.

Question 6 Were they exercised before 27 May 2005?

- Yes – Read Answer 5 Rights or options to acquire shares or units you pay for and directly issued by the company.
- No – Read Answer 3 Rights or options to acquire shares or units you pay for and directly issued by the company.

Answer 1 Rights or options to acquire shares or units you pay for and directly issued by the company

You disregard any capital gain or capital loss you make on the sale or expiry of the rights or options.

Answer 2 Rights or options to acquire shares or units you pay for and directly issued by the company

If the capital proceeds on the sale or expiry of the rights or options are more than their cost base, you make a capital gain. If the capital proceeds are less than their reduced cost base, you make a capital loss.

Answer 3 Rights or options to acquire shares or units you pay for and directly issued by the company

1. The shares or units acquired on exercise of the rights or options are subject to capital gains tax.
2. The acquisition date of the shares or units is the date of exercise of the rights or options.
3. The first element of the cost base and the reduced cost base of the shares or units is
   a. the amount you paid for the rights or options, *plus*
   b. the amount you paid for the shares or units on exercising the rights or options.

Although the shares or units are subject to capital gains tax, any capital gain or capital loss you make from exercising the rights or options to acquire those shares or units is disregarded.

Answer 4 Rights or options to acquire shares or units you pay for and directly issued by the company

You disregard any capital gain or capital loss on the shares or units acquired from the exercise of the rights or options because the shares or units were acquired before 20 September 1985.

Answer 5 Rights or options to acquire shares or units you pay for and directly issued by the company

1. The shares or units acquired on exercise of the rights or options are subject to capital gains tax.
2. The acquisition date of the shares or units is the date of exercise of the rights or options.
3. The first element of the cost base and the reduced cost base of the shares or units are
   a. the market value of the rights or options at the time you exercised them, *plus*
   b. the amount you paid for the shares on exercising the rights or options.

Although the shares or units are subject to capital gains tax, any capital gain or capital loss you make from exercising the rights or options to acquire those shares or units is disregarded.

Flowchart 3.6 – CGT main residence exemption when you sell an inherited dwelling

This flowchart doesn't apply where you or the deceased person were a foreign resident. For rules that apply in this situation, see Inherited property and CGT.

Read through the questions and answers for the capital gains tax (CGT) main residence exemption rules when you sell a dwelling you inherit.

Read with this flowchart, Real estate and main residence.

Question 1 Did the deceased person acquire the dwelling before 20 September 1985?

- Yes – Read Question 2 Did settlement of your contract to sell the dwelling happen within 2 years of the person dying (or did the Commissioner allow you more time)?
- No – Read Question 3 Was the dwelling the deceased person's main residence just before they died?

Question 2 Did settlement of your contract to sell the dwelling happen within 2 years of the person dying (or did the Commissioner allow you more time)?

- Yes – Read Answer 1 CGT main residence exemption rules when you sell a dwelling you inherited.
- No – Read Question 5 From the deceased person's death until settlement of your contract to sell the inherited dwelling, was it your main residence (or the main residence of an individual who had a right to occupy it under the will or the spouse of the deceased person)?

Question 3 Was the dwelling the deceased person's main residence just before they died?

- Yes – Read Question 4 Just before they died, was the dwelling being used to produce income
- No – Read Answer 2 CGT main residence exemption rules when you sell a dwelling you inherited.

Question 4 Just before they died, was the dwelling being used to produce income

- Yes – Read Answer 2 CGT main residence exemption rules when you sell a dwelling you inherited.
- No – Read Question 2 Did settlement of your contract to sell the dwelling happen within 2 years of the person dying (or did the Commissioner allow you more time)?

Question 5 From the deceased person's death until settlement of your contract to sell the inherited dwelling, was it your main residence (or the main residence of an individual who had a right to occupy it under the will or the spouse of the deceased person)?

- Yes – Read Question 6 From the deceased person's death until settlement of your contract to sell the inherited dwelling, was any part of the dwelling used to produce income?
- No – Read Answer 2 CGT main residence exemption rules when you sell a dwelling you inherited.

Question 6 From the deceased person's death until settlement of your contract to sell the inherited dwelling, was any part of the dwelling used to produce income?

- Yes – Read Answer 2 CGT main residence exemption rules when you sell a dwelling you inherited.
- No – Read Answer 1 CGT main residence exemption rules when you sell a dwelling you inherited.

Answer 1 CGT main residence exemption rules when you sell a dwelling you inherited

Dwelling is fully exempt.

Answer 2 CGT main residence exemption rules when you sell a dwelling you inherited

Dwelling isn't fully exempt (but you may qualify for a part exemption).

Dwellings that passed to you before 21 August 1996

This flowchart doesn't apply to a dwelling that passed to you before 21 August 1996. For the rules that apply in that situation, see Real estate and main residence.

Where the deceased person died before 20 September 1985

If the deceased person died before 20 September 1985, the dwelling is fully exempt when you sell it. However, if you made a major capital improvement to the dwelling on or after 20 September 1985 and have used it to produce assessable income it may be subject to CGT, see Real estate and main residence.

Where you or the deceased person were a foreign resident

This flowchart doesn't apply where you or the deceased person were a foreign resident. For rules that apply in this situation, see Inherited property and CGT

Appendix 4 Definitions

Check out common terms used in this guide and what they mean.

Adjusted Division 6 percentage

A beneficiary's adjusted Division 6 percentage is the percentage of the income of the trust estate (disregarding any amount of a capital gain or a franked distribution to which any beneficiary or the trustee is specifically entitled) that they are presently entitled to.

For more information, see Trusts.

Amount of capital gains from a trust (including a managed fund)

Distributions from trusts can include different amounts but only the following types of amounts are relevant for CGT purposes:

- distributions of all or a part of the trust's income where the trust's net income for tax purposes includes a net capital gain
- distributions or other entitlements described as being referable to a specific capital gain or gains
- distributions of non-assessable amounts.

For more information, see Trust distributions.

Assessable income

Assessable income is all the income you have received and that you include in your tax return. Generally, assessable income doesn't include non-assessable payments from a unit trust, including a managed fund.

Attribution corporate collective investment vehicle sub-fund trust

An attribution corporate collective investment vehicle (CCIV) sub-fund trust is a sub-fund of a CCIV which meets certain AMIT eligibility criteria in an income year and so is treated as an AMIT for that income year under the attribution regime in Division 276 of the *Income Tax Assessment Act 1997*.

Attribution managed investment trust

An attribution managed investment trust (AMIT) is a managed investment trust (MIT) whose trustee has chosen to apply the attribution rules in Division 276 of the *Income Tax Assessment Act 1997*.

Attribution managed investment trust member annual statement

An attribution managed investment trust member annual statement (AMMA) is a member statement provided by an attribution managed investment trust (AMIT) or an attribution corporate collective investment vehicle (CCIV) sub-fund trust to each of its members for an income year.

Bonus shares

Bonus shares are additional shares a shareholder receives wholly or partly as a dividend. You may also be required to pay an amount to get them.

Bonus units

Bonus units are additional units a unit holder receives from the trust. You may also be required to pay an amount to get them.

Call on shares

A company may sometimes issue a partly paid share and then make a call to pay up part or all of the remaining outstanding balance.

Capital gain

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 distributes an amount described as a capital gain to you.

Under the trust provisions, you may make a capital gain if you're either or both:

- specifically entitled to an amount of a capital gain made by the trust
- there is an amount of capital gain included in the income of the trust to which no entity is specifically entitled and you're presently entitled to a share of that income.

For more information, see Trusts.

Capital gains disregarded by a foreign resident

If a foreign resident or the trustee of a foreign trust for CGT purposes had a CGT event happen in 2024–25, to a CGT asset that isn't considered to be taxable Australian property, any capital gain or capital loss made is disregarded under Division 855 of the *Income Tax Assessment Act 1997*.

For more information, see:

- Foreign residents, temporary residents and changing residency
- Taxable Australian property

Capital gains tax

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

Capital improvement

A capital improvement is an improvement to an asset. A capital improvement doesn't include a repair that is deductible for income tax purposes.

Capital loss

Generally, you make a capital loss as a result of a CGT event if the capital proceeds you receive for an asset are less than its reduced cost base (what you paid for it).

Capital proceeds

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 of the shares or units
- the value of the shares or units you receive on a demerger
- the value of the shares or units and the amount of cash you receive on a merger or takeover
- the market value of the shares or units which you give away.

CGT asset

CGT assets include shares, units in a unit trust, collectables (such as jewellery), assets for personal use (such as furniture or a boat) and other assets (such as an investment property).

CGT-concession amounts

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

CGT discount

The CGT discount is the amount (or percentage) by which a capital gain may be reduced under the discount method, see The discount method.

CGT event

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.

Collectables

A collectable is an artwork, an item of jewellery, an antique, a coin, a medallion, a rare folio, a rare manuscript, a rare book, a postage stamp or a first day cover that is used or kept mainly for personal use or enjoyment. Collectables also include an interest in any of the listed items, a debt that arises from any of those items or an option or right to acquire any of those items.

Consolidation rules

From 1 July 2002, consolidation refers to taxing wholly owned groups as single entities, and enables assets to be transferred between members of a group without triggering capital gains or requiring cost base adjustments for membership interests. Subsidiary members are treated as part of the head company. Intra-group transactions are disregarded for income tax purposes.

Convertible note

A convertible note is a type of investment you can make in a company or unit trust. A convertible note earns interest on the amount you pay to acquire the note until the note's expiry date. On expiry of the note, you can either ask for the return of the money paid or convert that amount to acquire new shares or units.

Corporate collective investment vehicle

A corporate collective investment vehicle (CCIV) is a collective investment vehicle which is in legal form a registered company limited by shares. It comprises one or more sub-funds and is operated by a single corporate director. A sub-fund of a CCIV is all or part of the CCIV's business that is registered as a sub-fund of the CCIV by ASIC.

Corporate Collective Investment Vehicle (CCIV) sub-fund trust

For taxation purposes, a CCIV sub-fund is taken to be a separate unit trust with both:

- the CCIV as trustee
- members of the CCIV as beneficiaries, of the CCIV sub-fund trust in accordance with their shareholding that is referable to the sub-fund.

Each CCIV sub-fund trust is subject to the existing rules for the taxation of trusts.

Cost base

The cost base of an asset is generally what the asset costs you. The cost base is made up of 5 elements:

1. money you paid, or property you gave, for the asset
2. incidental costs of acquiring or selling the asset (for example, brokerage and stamp duty)
3. costs of owning the asset (generally this will not apply to shares or units because you'll usually have claimed or be entitled to claim these costs as tax deductions)
4. costs associated with either
   - increasing or preserving the value of the asset
   - installing or moving the asset
5. costs to preserve or defend your title or rights to the asset, such as you paying for a call on shares.

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

Debt forgiveness

A debt is forgiven if you're freed from the obligation to pay it. A commercial debt that is forgiven may reduce your capital loss, your cost base or your reduced cost base.

Demerger

A demerger involves the restructuring of a corporate or trust group by splitting its operations into 2 or more entities or groups. Under a demerger, the owners of the head entity of the group acquire a direct interest in the demerged entity that was formerly part of the group.

Demerger exemption

A demerger exemption applies to disregard certain capital gains or capital losses made by a demerging entity in a demerger group. A demerger group comprises the head entity of a group of companies or trusts and at least one demerger subsidiary. Discretionary trusts and super funds can't be members of a demerger group.

Demerger rollover

A demerger rollover may apply to CGT events that happened on or after 1 July 2002 to interests that you own in the head entity of a demerger group where a company or trust is demerged from the group. Generally, the head entity undertaking the demerger will advise owners whether demerger rollover is available but you should seek our advice if you're in any doubt. We may have provided advice in the form of a class ruling on a specific demerger, confirming that the rollover is available.

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

Demutualisation

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, AMP, IOOF or NRMA), you're not subject to CGT until you sell the shares or another CGT event happens.

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.

Depreciating assets

A depreciating asset is an asset that has a limited effective life and can reasonably be expected to decline in value over the time it is used. Depreciating assets include items such as computers, tools, furniture and motor vehicles.

Land and items of trading stock are specifically excluded from the definition of depreciating asset, as are most intangible assets such as options, rights and goodwill.

Discount method

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

- the CGT event happened after 11:45 am AEST on 21 September 1999
- you acquired the asset at least 12 months before the CGT event.

If you use the discount method, you don't index the cost base. First, reduce your capital gains by the amount of any capital losses made in the year and any unapplied net capital losses from earlier years. You then apply the discount to any remaining capital gain.

If you acquired the asset before 11:45 am AEST on 21 September 1999, you may be able to choose either the discount method or the indexation method, whichever gives you the better result.

Discounted capital gain

A discounted capital gain is a capital gain that has been reduced by the CGT discount. If you received the discounted capital gain from a managed fund you'll need to gross up the amount before you apply any capital losses and then the CGT discount.

Disposal of assets by a trust to a company

You can apply a rollover if a trust restructures and disposes of all of its assets to a company and the units or interests in the trust are replaced by shares in the company. This rollover isn't available for a restructure undertaken by a discretionary trust.

Disposal or creation of assets in a wholly-owned company

If you're an individual or a trustee, you can choose to obtain a rollover to defer the capital gain if:

- you dispose of a CGT asset, or all the assets of a business, to a company in which you own all the shares, or you create a CGT asset in such a company
- all the partners in a partnership dispose of partnership property to a company in which they all own shares or the partners create a CGT asset in such a company.

Dividend reinvestment plans

Under dividend reinvestment plans, shareholders can choose to have their dividend used to acquire additional shares in the company instead of receiving a cash payment. For CGT purposes, you're 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.

Dwelling

A dwelling is anything that is used wholly or mainly for residential accommodation. Examples of a dwelling are a home, an apartment, a strata title unit or a unit in a retirement village.

Early stage innovation company

You may be entitled to the early stage investor tax incentives for eligible investments you make in an early stage innovation company (ESIC). A company will qualify as an ESIC if it meets both:

- the early stage test
- either the
  - 100-point innovation test
  - Principles-based innovation test.

For more information, see Qualifying as an early stage innovation company.

Employee share schemes

Employee share schemes (ESS) give employees benefits such as shares or the opportunity to buy shares (such as rights or options) in the company they work for at a discounted price. These benefits are known as ESS interests. In most cases, ESS interests are exempt from CGT implications until the discount on the ESS interest has been taxed. When you sell your ESS interests (or resulting shares), they are taxed under the CGT rules (or if you're a share trader, the trading stock rules).

For more information, see Employee share schemes.

Exchange of rights or options

You may apply a rollover to defer the capital gain when you exchange rights or options to acquire shares in a company or units in a unit trust.

This rollover is a type of replacement asset rollover.

Exchange of share in one company for share in another company

You may apply a rollover to defer the capital gain when you exchange shares in one company for shares in an interposed company.

This rollover is a type of replacement asset rollover.

Exchange of shares or units

A rollover may be chosen to defer the capital gain if you exchange shares in the same company or units in the same unit trust.

This rollover is a type of replacement asset rollover.

Exchange of units in a unit trust for share in a company

You can apply a rollover to defer the capital gain when you exchange units in a unit trust for shares in a company due to a reorganisation.

Excluded foreign resident

An excluded foreign resident is a person who, at the time of the CGT event, is a foreign resident and has been a foreign resident for tax purposes for a continuous period of more than 6 years.

Extra capital gain

A beneficiary of a trust who has a share of a capital gain that was included in the net income of the trust for tax purposes, will include an amount of extra capital gain when working out their own net capital gain. The amount of extra capital gain will depend on the beneficiary's share of a capital gain, the amount of the taxable income of the trust that relates to the beneficiary's share of the capital gain and whether any discounts or concessions were applied by the trustee when working out the amount of the capital gain for tax purposes.

For more information, see Trusts.

Foreign resident capital gains withholding

For foreign residents who entered into transactions from 1 July 2017 onwards, a withholding obligation applies to the disposal of:

- taxable Australian real property
- an indirect Australian real property interest
- an option or right to acquire such property or such an interest.

For more information, see Foreign resident capital gains withholding.

Gross up

Grossing up applies to beneficiaries or unit holders who are entitled to a share of trust income that includes a capital gain reduced by the CGT discount. In this case, you ‘gross up’ your capital gain by multiplying by 2 your share of any discounted capital gain received from the trust. You may also have to gross up a capital gain that was reduced by the small business 50% active asset reduction.

Income year

An income year is the period covered by your tax return, generally 1 July to the next 30 June. However, in particular circumstances, the Commissioner may allow a company or other entity to adopt a different 12-month period for their income year.

Indexation factor

The indexation factor is worked out based on the consumer price index (CPI) at Appendix 2.

The indexation of the cost base of an asset is frozen on 30 September 1999. For CGT events after that time, the indexation factor is the CPI for the September 1999 quarter (68.7), divided by the CPI for the quarter in which you incurred costs relating to the asset. The result is taken to 3 decimal places rounding up if the 4th decimal place is 5 or more.

Indexation method

The indexation method is one of the ways to calculate your capital gain if you acquired a CGT asset before 11:45 am AEST on 21 September 1999. This method allows you to increase the cost base by applying an indexation factor (based on increases in the consumer price index up to September 1999).

You can't use the indexation method for:

- CGT assets acquired after 11:45 am AEST on 21 September 1999
- expenditure relating to a CGT asset acquired after 11:45 am AEST on 21 September 1999.

For CGT events after 11:45 am AEST on 21 September 1999 the discount method may give you the better result.

Inter-company asset rollover

A same asset rollover is available where a company transfers or creates (CGT event) a CGT asset in another company that is a member of the same wholly-owned group, but one of the companies is a non-resident.

Legal personal representative

A legal personal representative can be either:

- the executor of a deceased estate (that is, a person appointed to wind up the estate in accordance with the will)
- an administrator appointed to wind up the estate if the person doesn't leave a will.

LIC capital gain amount

An LIC capital gain amount 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 isn't included as a capital gain at question **18** in the supplementary tax return. See Example 47 and the instructions for dividend income for question 11 in *Individual tax return instructions 2025*.

Main residence

Your main residence is your home, that is, the dwelling you regard as your main place of residence and nominate as such for any CGT concessions dealing with the disposal of a main residence.

For more information, see Is the dwelling your main residence?

Main residence exemption

Generally, you can disregard a capital gain or capital loss from a CGT event that happens to a dwelling that is your main residence (also referred to as 'your home'). Subject to certain conditions, you may not be able to disregard a capital gain or capital loss if:

- you have used your home to produce income
- your home was not your main residence for the full period you owned it
- you were an excluded foreign resident at the time you sold your main residence
- the land around your home is more than 2 hectares.

Managed fund

A managed fund is a unit trust. The types of managed funds available include cash management trusts, fixed interest trusts, mortgage trusts, property trusts, equity trusts, international trusts and diversified trusts. Attribution managed investment trusts (AMITs) and attribution corporate collective investment vehicle (CCIV) sub-fund trusts, have separate tax rules.

Managed investment trust

A trust is a managed investment trust (MIT) if:

- the trustee of the trust is an Australian resident, or the central management and control of the trust is in Australia
- the trust doesn't carry on or control an active trading business
- the trust is a managed investment scheme under section 9 of the *Corporations Act 2001*
- the trust is sufficiently widely-held and not closely-held (special counting rules apply where investors in a MIT are specified widely held entities)
- the trust is operated or managed by an appropriately regulated entity.

Market value substitution rule for capital proceeds

In some cases, if you receive nothing in exchange for a CGT asset (for example, if you give it away as a gift) you're taken to have received the market value of the asset at the time of the CGT event. You may also be taken to have received the market value if your capital proceeds are more or less than the market value of the CGT asset, and you and the purchaser were not dealing with each other at arm’s length in connection with the event.

You're said to be dealing at arm’s length with someone if each party acts independently and neither party exercises influence or control over the other in connection with the transaction. The law looks at not only the relationship between the parties but also the quality of the bargaining between them.

Market value substitution rule for cost base and reduced cost base

In some cases, the general rules for calculating the cost base and reduced cost base have to be modified. For example, the market value may be substituted for the first element of the cost base and reduced cost base if one of the following applies:

- you didn't incur expenditure to acquire the asset
- some or all of the expenditure you incurred can't be valued
- you didn't deal at arm’s length with the previous owner in acquiring the asset.

Net capital gain

A net capital gain is the difference between your total capital gains for the year and the total of your capital losses for the year and unapplied net capital losses from earlier years, less any CGT discount and small business CGT concessions to which you're entitled.

Net capital loss

A net capital loss occurs when your total capital losses for the year are more than your total capital gains for the year. This loss can be carried forward and deducted from capital gains you make in later years. There is no time limit on how long you can carry forward a net capital loss.

Capital losses from collectables can only be used to reduce capital gains from collectables. If your total capital losses from collectables for the year are more than your total capital gains from collectables, you have a net capital loss from collectables for the year. This loss is carried forward and deducted from capital gains from collectables in later years. There is no time limit on how long you can carry forward a net capital loss from a collectable.

Non-assessable payment

A non-assessable payment is a payment received from a company, trust or fund that isn't assessed as part of your income in your tax return.

This includes some distributions from unit trusts, managed funds and companies.

'Other' method

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 CGT assets, including shares or units, you have bought and sold within 12 months (that is, when the indexation and discount methods don't apply).

Other CGT assets and any other CGT events

Other CGT assets refers to the capital gain or capital loss that you have made and that doesn't fit into any of the more specific categories listed at item **1** of the CGT schedule – such as the disposal of your forestry interests in a forestry managed investment scheme or hedging financial arrangements.

Other exemptions and rollovers

Other exemptions and rollovers are exemptions and rollovers that you have applied that aren't listed in one of the more specific codes under the question 'Have you applied an exemption or rollover?' of the individual supplementary tax return or your entity's tax return.

Other real estate

Other real estate on the CGT schedule refers to any real estate including land and buildings that are situated outside of Australia, for example, a rental property situated in the United States.

Other shares

Other shares on the CGT schedule are shares that aren't listed on an Australian securities exchange, such as privately held shares or shares listed on a foreign securities exchange, but not also on an Australian securities exchange, for example, shares listed on the New York Stock Exchange (NYSE).

Other units

Other units on the CGT schedule are units in a unit trust that aren't listed on an Australian securities exchange, such as privately held units or units listed on a foreign securities exchange, but not also on an Australian securities exchange, for example, units listed on the NYSE.

Ownership interest

You have an ownership interest if you own a dwelling or land. For other circumstances where you may have an ownership interest, see What is an ownership interest?

Post-CGT asset

Post-CGT assets are assets acquired on or after 20 September 1985.

Pre-CGT asset

Pre-CGT assets are assets acquired before 20 September 1985. They are generally exempt from CGT. An exception occurs where CGT event K6 applies.

Prior year net capital losses

See Unapplied net capital losses.

Real estate situated in Australia

Real estate situated in Australia is any real property, including land and buildings, that is in Australia.

Reduced cost base

The reduced cost base is the amount you take into account when you're working out whether you have made a capital loss when a CGT event happened.

The reduced cost base may need to have amounts deducted from it such as non-assessable payments.

The reduced cost base doesn't include indexation or costs of owning the asset such as interest on monies borrowed to buy it.

Replacement asset rollovers

A replacement asset rollover may apply to defer the capital gain when you replace an asset in certain circumstances.

For more information, see Other exemptions and rollovers.

Rollover

A rollover allows a capital gain to be deferred or disregarded until a later CGT event happens.

Same asset rollover

A same asset rollover allows a capital gain that you make to be deferred when you transfer or dispose of assets in certain circumstances.

For more information, see Other exemptions and rollovers.

Scrip for scrip rollover

A scrip for scrip rollover can apply to CGT events that happened 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 rollover conditions have been satisfied.

This rollover 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 rollover if you received shares (or units) plus cash for your original shares. In that case, if the information provided by the company or fund isn't sufficient for you to calculate your capital gain, you may need to seek advice from us.

Share buy-back

Some of the buy-back price may have been treated as a dividend for tax purposes (for buy-backs announced by listed public companies before 25 October 2022, and for buy-backs completed before and after that date by other companies). The time you make the capital gain or capital loss will depend on the conditions of the particular buy-back offer.

Shares in companies listed on an Australian securities exchange

Shares in companies listed on an Australian securities exchange don't include shares in privately owned companies whose shares aren't publicly traded. For the purposes of the CGT schedule, Include shares in privately owned companies under **Other Shares**.

Small business CGT concessions

There are 4 small business CGT concessions available where certain conditions are satisfied. They are, the:

- small business 15-year exemption
- small business 50% active asset reduction
- small business retirement exemption
- small business roll-over.

These concessions apply to CGT events that happened after 11:45 am AEST on 21 September 1999.

In addition to the 4 small business CGT concessions, there is a small business restructure roll-over allowing the transfer of active assets – including CGT assets – from one entity to another, on or after 1 July 2016, without incurring an income tax liability.

For more information, see Small business CGT concessions.

Specifically entitled

A beneficiary that is specifically entitled to the whole or part of a capital gain made by the trust will be assessable on the amount of the net (taxable) income of the trust that relates to that gain.

Generally, a beneficiary will be taken to be specifically entitled to an amount of a capital gain if:

- they have received or are likely to receive the benefit of that capital gain
- the entitlement is recorded in the accounts or records of the trust within 2 months after the end of the income year.

Spouse

Your 'spouse' includes another person who:

- you were in a relationship with that was registered under a prescribed state or territory law
- although not legally married to you, lived with you on a genuine domestic basis in a relationship as a couple.

Takeovers and mergers

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

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

Tax-advantaged entity

A tax-advantaged entity is a tax-exempt entity, or a foreign resident, or the trustee of:

- a complying super fund
- a complying approved deposit fund
- a pooled super fund.

Unapplied net capital losses from earlier years

Unapplied net capital losses from earlier years is the amount of net capital losses from earlier years remaining after you have deducted the capital gain made between the year when the losses were made and the current income year.

To reduce capital gains in the current year, use unapplied net capital losses from earlier years (after first taking out from the current year capital gain any current year capital losses).

To reduce capital gains from collectables in the current year, you can use only the unapplied net capital losses from collectables from earlier years.

Unit trust

A unit trust is a trust or fund that is divided into units representing capital and income entitlements. Units may be traded or redeemed (including switching and transferring units). A managed fund is a type of unit trust.

Units in unit trusts listed on an Australian securities exchange

Units in unit trusts listed on an Australian securities exchange don't include units in private equity trusts or family trusts, whereby the trust is established for the benefit of one or more ascertainable beneficiaries, rather than for the promotion of the welfare of the general public or for the advancement of a cause. For the purposes of the CGT schedule, include units in a private trust under **Other units**.