TD 3 - Capital Gains: What are the CGT consequences for the borrower (debtor) when a debt is waived?

CGT Determination Number 3

Capital Gains: What are the CGT consequences for the borrower (debtor) when a debt is waived?

Determination

1. For CGT purposes, the borrower is not considered to have an asset. Accordingly, when the lender waives the debt, the borrower does not dispose of an asset and therefore makes no capital gain or loss.

2. No other CGT provisions apply to cause a capital gain or loss to the borrower when the lender waives the debt.

3. There may be cases where the waiver of the debt relates to the disposal of an asset by the borrower. In these cases, the amount of the debt will be taken into account in working out the disposal proceeds of the asset (section 160D).

Example

The borrower owes the lender $1,000. The borrower also owns an asset worth $ 2,500.

The lender buys the asset by paying $1,500 in cash and waiving the $1,000 debt.

The consideration received on the disposal of the asset is $2,500.

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