Explanation of terms

Assessable income

This is all the income you have received that should be included on your income tax return. Generally, assessable income does not include non-assessable payments from a unit trust, including a managed fund.

Bonus shares

Bonus shares are additional shares a shareholder receives as a dividend in whole or in part. You may also pay an amount to obtain them.

Bonus units

Bonus units are additional units a unit holder receives from the trust. The unit holder may also be required to pay an amount to obtain them.

Calls on shares

A company may sometimes issue a share at less than its par or face value and then make calls to pay up part or all of the remaining outstanding balance.

Capital gain

You may make a capital gain (or profit) as a result of a CGT event—for example, when you sell an asset for more than you paid for it. You can also make a capital gain if a managed fund or other unit trust distributes a capital gain to you.

Capital gains tax

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

Capital improvements

You make a capital improvement to an asset when you incur expenditure to improve it that is then reflected in its value and does not include a repair that is otherwise deductible for income tax purposes.

Capital loss

Generally, you may make a capital loss as a result of a CGT event if you sold an asset for less than you paid for it. Your capital loss is the difference between your reduced cost base and your capital proceeds.

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
- the amount you receive from a liquidator
- the amount you receive on a merger/takeover or
- the market value if you give them 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 **Discount method**).

CGT event

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

Convertible note

A convertible note 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 that amount to acquire new shares or units.

Cost base

The cost base of an asset is generally what it costs you. It is made up of 5 elements:

- money you paid for the asset
- incidental costs of acquiring or selling it (for example, brokers fees and stamp duty)
- non-capital costs associated with owning it (generally this will not apply to shares or units because you will usually have claimed these costs as tax deductions)
- costs associated with increasing its value (for example, if you paid a call on shares)
- what it has cost you to preserve or defend your title or rights to it.

The cost base for a share or unit may need to be reduced by the amount of any non-assessable payment you receive from the company or fund. Generally, interest you have paid on money borrowed to buy shares or units will not form part of your cost base.

Debt forgiveness

A debt is forgiven if you are 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.

Demutualisation

A company demutualises when it changes its membership interests to shares. If you received shares as part of a demutualisation of an insurance company (for example, the NRMA), you may be subject to capital gains tax when you sell the shares.

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

Discount method

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

- the CGT event happened after 11.45 a.m. on 21 September 1999
- you acquired the asset at least 12 months before the CGT event.

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

If you acquired the asset before 11.45 a.m. 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 the discounted capital gain has been received from a managed fund, the amount will need to be grossed up on your income tax return before you apply any capital losses and then the CGT discount.

Dividend reinvestment plans

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

Dwelling

A dwelling can be any building or part of a building suitable for residential accommodation. Examples include a home, an apartment, a strata title unit or a unit in a retirement village.

Employee share schemes

If you acquired shares at a discount under an employee share scheme, you would have included the amount of the discount in your assessable income on your tax return.

For capital gains tax purposes, the cost base of the shares is the amount paid to the company when you acquired them, plus the amount of the discount included in your assessable income under the ordinary tax provisions.

Gross up

Grossing up applies to unit holders who are entitled to a share of the fund's income that includes a capital gain reduced by the CGT discount. In this case, you 'gross up' your capital gain by multiplying by 2 your share of any discounted capital gain you have received from the fund.

Income year

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

Indexation factor

The factor is worked out based on the Consumer Price Index (CPI) at appendix 2.

The indexation factor is the CPI for the September 1999 quarter (123.4), divided by the CPI for the quarter in which you incurred costs relating to the asset. The result is rounded to 3 decimal places. The indexation of the cost base of an asset is frozen as at 30 September 1999.

Indexation method

The indexation method is one of the ways to calculate your capital gain if you bought a CGT asset before 11.45 a.m. 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 cannot use the indexation method for:

- CGT assets bought after 11.45 a.m. on 21 September 1999 or
- expenditure relating to a CGT asset acquired after that date.

You may prefer to use the discount method for CGT events after 21 September 1999 if that method gives you the better result.

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.

Main residence exemption

Generally, you can ignore 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').

Managed fund

A managed fund is a type of unit trust. Managed funds include property trusts, share trusts, equity trusts, growth trusts, imputation trusts and balanced funds.

Net capital gain

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

Non-assessable payment

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

'Other' method

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

Ownership interest

You have an ownership interest if you own a dwelling or land and/or meet the conditions outlined in chapter 6.

Reduced cost base

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

Roll-over

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

Scrip-for-scrip roll-over

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

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

Share buy-backs

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

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

Takeovers and mergers

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

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

Tax-advantaged entity

A tax-advantaged entity is a tax-exempt entity, or the trustee of:

- a complying superannuation fund
- a complying approved deposit fund or
- a pooled superannuation fund.

Tax-deferred amounts

These amounts include indexation allowed to a trust on its capital gains and accounting differences in income.

Tax-exempted amounts

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

Tax-free amounts

These amounts allow the trust to pay greater distributions to its beneficiaries. This is due to certain tax concessions trusts can receive.

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 the switching and transferring of units). A managed fund is a type of unit trust.