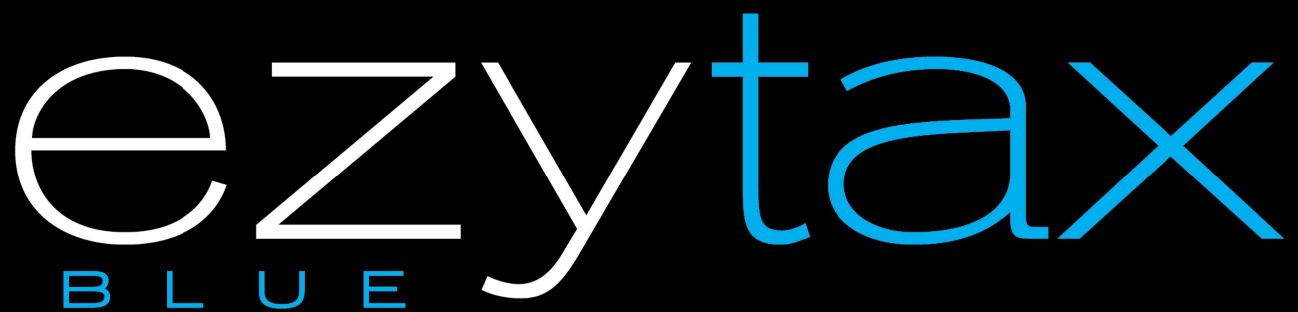

chapter 2c

capital gains

CHAPTER 2C – CAPITAL GAINS

ITEM 18 – CAPITAL GAINS TAX (CGT)

There is a list of terms and explanations at the end of the chapter.

Capital Gains tax is the tax paid on any capital gain made on the disposal of assets purchased and sold after 19 September 1985 and is included on the annual income of the tax return. There is no separate tax on capital gains it is merely a component of income tax. The tax on net capital gain is the individual's marginal tax rate.

A **capital gain** is made from most **CGT events**, if the **capital proceeds** are greater than the cost base - for example, if the payment received is more than the purchase price of an asset. A **capital loss** is made if the reduced cost base is greater than the capital proceeds. For example, if the payment received is less than the purchase price of the asset. Distribution from a managed fund or other trust can also have a capital gain component.

If an individual, the net capital gain is shown at Item **18A** on the tax return.

Total current year capital gains is shown at Item **18H** on the tax return.

To calculate whether tax is payable on capital gains, the following information is needed:

- Has a CGT event happened (this is the question asked at Item 18G on the tax return)
- The time of the CGT event
- How to calculate the capital gain or capital loss
- Is there any exemption or roll over that allows a reduction or disregarding of the capital gain or capital loss.
- How to apply any capital losses
- Whether the CGT discount applies
- Whether there is an entitlement to any of the CGT concessions for small business.

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 while other CGT events relate directly to capital receipts (capital proceeds)

To calculate a capital gain or capital loss, you need to know which CGT event applies. The type of GCT event affects when the capital gain is included in assessable income and how the capital gain or capital loss is calculated.

The most common CGT event happens if an asset is disposed of to someone else- for example, if an asset is sold or given away. Some other CGT events from which a capital

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gain or loss is made include when:

- An asset the taxpayer owned is lost or destroyed (the destruction may be voluntary or involuntary)
- Shares owned are cancelled, surrendered or redeemed
- The taxpayer enters into an agreement not to work in a particular industry for a set period of time
- A trustee makes an non assessable payment to the taxpayer from a managed fund or other unit trusts
- A company makes a payment (not a dividend) to the taxpayer as a shareholder
- A liquidator declares that shares the taxpayer owns are worthless, e.g. HIH
- The taxpayer stopped being a Australian resident.
- The taxpayer disposed of a depreciating asset that was used for private purposes

Australian residents make a capital gain or loss if a CGT event happens to any of their assets anywhere in the world. As a general rule, non residents make a capital gain or loss only if a CGT event happens to a CGT asset that has a necessary connection with Australia. A non resident cannot make a capital gain or loss from various CGT events refer Sec 136-20 ITAA 1997.

TIME OF THE CGT EVENT

The timing of a CGT event is important because this relates to which income year a capital gain or loss from the events affects the taxpayer's income tax.

If a CGT asset is disposed of to someone else, the CGT event happens when the contract for disposal is entered into. If there is no contract, the CGT event generally happens when the taxpayer stops being the assets owner.

Example.....

Contract
In June 2023, Claudia enters into a contract to sell land. The contract is settled in October 2023.

Claudia makes the capital gain in the 2022-2023 income year when she enters into the contract and not the 2023-2024 income year when settlement takes place.

If a CGT asset is lost or destroyed, the CGT event happens when compensation for the loss or destruction is first received. If no compensation is received, the CGT event happens when the loss is discovered or the destruction occurred.

Example.....

Insurance policy.
Laurie owned a rental property that was destroyed by fire in June 2021. He received a payment under an insurance policy in October 2022.

The CGT event happened in October 2017, in the 2022-2023 tax year.

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ACQUIRING CGT ASSETS

Generally, a CGT asset is acquired when the taxpayer becomes an owner. A CGT asset may be acquired as a result of:

- A CGT event happening (for example, the transfer of land under contract of sale)
- Other events or transactions happening (for example, a company issuing shares, where their issue is not a CGT event) or
- Applying specific rules (for example if a CGT asset passes to the taxpayer as a beneficiary when someone dies).

Time of acquisition

The time a CGT asset is acquired is important for 4 reasons:

- CGT generally does not apply to pre-CGT assets – that is assets acquired before 20 September 1985.
- Different cost base rules apply to assets acquired at different times – for example, non-capital costs are not included in the cost base of an asset acquired before 21 August 1991
- The time of acquisition determines whether the cost base of a CGT asset is indexed to take account of inflation and the extent of that indexation.
- The time of acquisition also determines whether the taxpayer is eligible for the CGT discount- For example, one requirement is that the taxpayer needs to have owned a CGT asset for at least 12 months.

If a CGT asset is acquired as a result of a CGT event, certain rules determine when the taxpayer is taken to have acquired the asset. These rules depend on which CGT event is involved. For example, if a contract was entered into to purchase a CGT asset, the time of acquisition is when the contract is entered into. If someone disposes of an asset to the taxpayer without entering into a contract, the asset is acquired when the taxpayer starts being the assets owner. If a CGT asset is passed to the taxpayer as a beneficiary of someone who has died, the asset acquired on the date of their death.
If a CGT asset is acquired without a CGT event happening, different rules apply to determine when the asset was acquired. If for example, a company issues or allots shares, the taxpayer acquires the shares when they enter into a contract to acquire them, or if there is no contract, at the moment of there allotment.

Becoming a resident

Special CGT rules apply to the assets the taxpayer owned when they became a resident of Australia. The taxpayer is taken to have acquired theses assets at the time they became a resident. The first element, and reduced cost base, of the asset at the time of becoming a resident at its market value.

This rule only applies to assets acquired on or after 20 September 1985 that did not have a necessary connection with Australia. For example, land in a foreign country. The general cost base rules apply to an asset that has a necessary connection with Australia (for example land in Australia) when the taxpayer becomes a resident.

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CAPITAL PROCEEDS

'Capital Proceeds' is the term used to describe compensation received from a CGT event. This is usually an amount of money and/or the value of any property received (or are entitled to receive) as a result of a CGT event.
In some cases, if no compensation is received in exchange for a CGT asset (for example, if the CGT asset is given as a gift) the taxpayer is taken to have received the market value of the asset at the time of the CGT event. In the case of shares in a company that has been declared bankrupt, the liquidator will determine the capital proceeds (in most cases nil)

From July 1, 2000 capital proceeds do not include the net GST (if any) on the supply (S116-20(5)).

Market value is not defined by the Act, however several court interpretations have been used. Market value can be loosely defined as the price agreed between a willing, but not over anxious buyer with a willing but not over anxious seller.

Market value is also used if the disposal was not an arms length transaction (that is, it was not a normal business transaction). The test as to whether a fair market value has been arrived at is to compare it with the open market price. In dealing with non arms length transactions the courts take the view that “What is asked is whether the parties behaved in the manner in which parties at arms length would be expected to behave in conducting their affairs.

A CGT ASSET

Many CGT assets are easily recognizable, for example, land, shares in a company and units in a unit trust. Other CGT assets are not so well understood- for example, contractual rights, options, foreign currency and goodwill. All assets are subject to the CGT rules unless they are specifically excluded.

A CGT asset is any kind of property and a legal or equitable right that is not property. The Act gives some examples, which includes land and buildings, shares, unit trusts, options, goodwill, a right to enforce a contractual obligation, an interest in an asset in a partnership, personal use assets and collectibles.

Property is both tangible asset (eg Building) and an intangible asset (eg a right). The asset can be transferred between two parties. Prior to 26/6/92 an intangible asset (legal or equitable right) that is not property was not caught in CGT.

An example of an intangible asset is the taxpayers “right to vote” at company meetings if the taxpayer is a shareholder. If their right to vote is violated they have the right to sue. This right is not considered property.

After 26/6/92 the definition of an asset was broadened to cover legal and equitable rights that were NOT considered property.

Example.....

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The right to freedom of trade

- ***Prior to 26/6/92 any compensation the taxpayer received as a result of legal action would not be subject to CGT***
- ***After 26/6/1992 it would be caught under the CGT provisions***

CGT assets fall into 3 categories:

- Collectibles
- Personal use assets
- Other Assets

COLLECTIBLES

Collectibles include the following items that are used or kept mainly for the personal use or enjoyment of the taxpayer or their associate:

- Paintings, sculptures, drawings, engravings or photographs, reproductions of these items or property of a similar description or use,
- Jewellery
- Antiques (an object of artistic or historical significance that is more than 100 years TD 1999/40.)
- Coins or medallions
- rare folios, manuscripts or books
- postage stamps or first day covers

A collectible is also:

- An interest in any of those items
- A debt that arises from any of these items or
- An option or right to acquire any of those items.

Any capital gain or capital loss made from a collectible acquired for $500 or less is disregarded. A capital gain or capital loss made from an interest in a collectible is disregarded if the market value of the collectible when interest was acquired was $500 of less.
If the taxpayer disposes of collectibles individually that they would usually dispose of as a set, they are exempt from paying CGT only if the acquired the set for $500 or less

Capital losses from collectibles can only be used to reduce capital gains (including future capital gains) from other collectibles.

PERSONAL USE ASSETS

A personal use asset is:

- A CGT asset, other than a collectible, that is kept mainly for the personal use or enjoyment of the taxpayers associate
- An option or a right to acquire a personal use asset

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Personal assets include such items as:

- Boats
- Furniture
- Electrical Goods
- Household items

Land and buildings are not personal use assets.

Any capital gain made from the asset or part of the asset is disregarded if the asset was acquired for $10,000 or less. The $10,000 threshold excludes any CGT net input tax credit.

Any capital loss made from a personal asset is disregarded.

OTHER ASSETS

Assets that are not collectibles or personal use assets include:

- Land
- Shares in a company
- Rights and options
- Leases
- Units in a unit trust
- Instalment receipts
- Goodwill
- Licences
- Convertible notes
- The taxpayers home
- Contractual rights
- Foreign currency
- Any major capital improvement (above the improvement threshold) made to certain land or pre-CGT assets. Improvement thresholds are listed in the table on page 13-20.

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 proportionate share of each CGT asset.

Joint tenants

For CGT purposes, individuals who own an asset jointly are each treated as if they own an equal interest in the asset.

GENERAL EXEMPTIONS to CGT

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- Asset was acquired before 20 September 1985
- Main residence (subject to certain conditions- discussed later)
- Collectibles acquired for $500 or less
- Personal use assets acquired for $10000 or less or sold at a loss
- A car (this is a motor vehicle designed to carry a load of less than one tonne and fewer than 9 passengers) or motor cycle or similar vehicle
- Compensation or damages received for any wrong, injury or illness the taxpayer or their relatives suffered
- Compensation or damages received for any wrong or injury suffered in their occupation
- Life insurance and superannuation policies

There are other specific exemptions (discussed later in the chapter)

Keeping records

Records must be kept of everything that affects capital gains an capital losses. Records must be kept for at least 5 years after the relevant CGT event. If a net capital loss is made, records may need to be kept for a longer period.- for 5 years after any CGT event where a capital gain is made and applied to reduce the net capital loss.

Records that must be kept

Records must be kept of every act, transaction, event or circumstance that may be relevant to calculating whether a capital gain or a capital loss has been made from a CGT event. It does not mater whether the CGT event has already happened or whether it may happen in the future.
The records must be in English (or be readily accessible or convertible to English) and must show:

- The nature of the act, transaction, event or circumstances
- The day it happened
- Who did the act or who were the parties to the transactions
- How the act, transaction, event or circumstance is relevant to working out the capital gain or the capital loss

The following are examples of records that must be kept:

- Receipts of purchase or transferee Details of interest on money borrowed relating to this asset
- Records of agent, accountant, legal and advertising costs,
- Receipts for insurance costs and land rates or taxes
- Any market valuations
- Receipts for the cost of maintenance, repairs or modifications
- Accounts showing brokerage fees on shares.

Records should also be kept to establish whether an income tax deduction for an item of

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expenditure has been claimed. In many cases if a deduction for an amount has been claimed it cannot be taken into account for CGT purposes.

COST BASE

For most CGT events, the cost base of a CGT asset is what it has cost.

Elements of the cost base

The cost base of a CGT asset is made up of 5 elements. All these elements need to be added together to calculate the cost base for each CGT asset.

The cost base of a CGT asset is the total of:

- The cost (or deemed cost) of acquiring the asset
- Incidental cost, associated with acquiring the asset and incidental costs associated with disposing of the asset.
- Non capital costs for asset acquired on or after 21/8/91 (eg interest, rates)
- Capital costs of maintaining a right over or title to the asset.
- The cost of any capital improvements made on or to the asset.

From July 1 2000, the first, second and third element of the cost base are reduced by the amount of any input tax credits (GST claimed)

1st element: money paid for an asset

This element includes money paid (or required to be paid) for the asset and the market value of the property given (or required to be given) to acquire the asset.

2nd element: incidental cost of acquiring the CGT asset or incidental costs of the CGT event

Costs associated with acquiring or disposing of a CGT asset includes the following types of expenditures:

- Agent commissions
- The cost of advertising to find a seller or buyer
- Stamp duty and fees paid for professional services (for example, to an accountant, professional tax advisor, valuer or lawyer).

Expenditure for advice concerning the operation of the tax law can be included as an incidental cost only if it was provided by recognized professional tax advisor and the taxpayer incurred the expenditure after 30 June 1989.

Do not include expenditure for which the taxpayer has or may have a deduction for income tax purposes in any year.

3rd element : non-capital costs associated with owning the asset

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Examples of these non capital costs include:

- Interest
- Rates
- Land taxes
- Repairs and insurance premiums.

They also include non-deductible interest on borrowings to refinance a loan used to acquire a CGT asset and on loans used to finance capital expenditure incurred to increase an assets value.

Non capital costs of ownership can be included only in the cost base of assets acquired on or after 21 August 1991. If the asset was purchased before 21 August 1991 these non capital costs cannot be included in the cost base.

Non capital costs cannot be included in the cost base of any collectibles or personal use assets.
These costs cannot be indexed or used to work out a capital loss.

Do not include expenditure which has or may have a deduction for income tax purposes in any year.

4th element: capital costs associated with increasing the value of an asset.

This element is relevant only if the expenditure is reflected in the state or nature of the asset at the time of the CGT event- For example, if the taxpayer paid for a carport to be built on their rental property.

Example.....

A block of land was purchased on 12/7/97 and a fence was erected on the 12/08/99. The land was sold on the 15/7/04. Both the cost of the land and the fence will be indexed\discounted as the underlying asset was purchased over 12 months before the sale.

EXEMPTIONS:-

- Incidental costs on the sale if they have not occurred 12 months prior to a sale and are not indexed or discounted,
- Assets held for less than 12 months are not indexed or discounted.

5th element: capital costs to preserve or defend the title or rights to the asset

This element includes capital expenditure incurred to preserve or defend the title or rights to the asset- For example if the taxpayer paid a call on shares.

In some cases, a deduction claimed on a CGT asset can be partly or wholly “reversed” that is the value of part or all of the deduction may be declared as income in the year the CGT event happens. In this case, the capital gains cost base of the CGT asset is increased by the amount to include in assessable income.
Any expenditure recouped does not form part of the cost base of a CGT asset except if

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the recouped amount is included in assessable income.

Example.....

Recouped expenditure
Eric bought a building in 2001 for $20000 and incurred $10000 in legal costs associated with the purchase. As part of a settlement, the vendor agreed to pay $4000 of the legal costs. Eric did not claim a tax deduction for any part of the $6000 he paid in legal costs.

He later sells the building. As he received reimbursement of $4000 of the legal costs, in working out his capital gain he includes only $6000 as the cost base.

3 METHODS OF CALCULATING CAPITAL GAIN

The 3 methods of calculating capital gain are explained and compared in the table below:

The "Other" method is the method used when neither the indexation nor discount method applies. It applies for example, to any CGT asset brought and sold within 12 months. As a general rule, to calculate capital gain using the other method, subtract the cost base from the capital proceeds.

The "Indexation" method is used to calculate a capital gain for assets acquired before 21 September 1999 and owned for 12 months or more. This method allows an increase amount in the amount of the cost base (and reduces the capital gain) by an inflation factor based on increases in the Consumer Price Index (CPI) up to September 1999.

The "Discount" method can be used to calculate a capital gain for any asset owned for 12 months or more. If this method is used the indexation factor is not applied to the cost base but a reduction of the capital gain may be gained by the CGT discount (50 per cent for individuals and trusts, 33 and a third percent for complying superannuation funds). Generally, the discount method does not apply to companies.

In some cases either the discount method or the indexation method may be chosen to calculate a capital gain. In this case use the method that gives the taxpayer the better result.

OFFSETTING CAPITAL LOSSES

A capital loss can be used to reduce any capital gains made during the income year. The capital losses not used to offset current year capital gains can be carried forward to offset against capital gains in future income years.

Capital losses are offset against capital gains in a way that produces the smallest net capital gain result, subject to the following rules:

- Current year capital losses are first offset against current year capital gains
- Capital losses carried forward from previous years must be offset in the order they are made.
- Capital losses on collectibles can only be offset against capital gains made on other collectibles.

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When applying capital losses, the method that gives the best result to reduce current year capital gains can be chosen. While each situation will need to be considered, for most people the order that usually gives the greatest benefit and the smallest net capital gain is to apply the capital losses against:

- Capital gains calculated using the other method
- Capital gains calculated using the indexation method
- Capital gains calculated using the discount method.

When offsetting a capital loss against a gain that qualifies for the discount for the CGT discount the loss must be applied before the discount.

Example (Capital Losses).....

During the income year Trish has made:
- ***A capital loss of $5000***
- ***A gain of $3000 from an asset held for less than 12 months***
- ***A gain of $6000 that qualifies for the CGT discounted***

If Trish offset her capital loss against the capital gain that did not qualify for the CGT discount, her net capital gain would be $2000 calculated as follows:

(3000-3000) = [(6000-2000)x 50 %]= $2000

If Trish offset her capital loss against the capital gain eligible for discount, her net capital gain would be $3500 calculated as follows:
[(6000-5000)x 50%] + 3000 = $3500

The first method produces the smaller net capital gain and the one Trish should use.

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 the taxpayer acquired any shares or units on or after 20 September 1985, they may have to pay tax on any capital gain made when a CGT event happens to them. This would usually be when sold or otherwise disposed of.

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

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

Identifying shares or units sold

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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 any part of their investment is how to identify the particular shares or unit they have disposed of.

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

If the relevant records (for example share certificates) are held, the taxpayer may be able to identify which particular shares or units they have disposed of. In other cases, the commissioner will accept their selection of the identity of shares disposed of.

Alternatively, a first in first out, basis may be used where the first shares or units bought are treated as being the first disposed of.

In limited circumstances, the ATO will also accept an average cost method to determine the cost of the shares dispose of. This average cost method can be used only when:

- The shares are in the same company
- The shares are acquired on the same day
- The shares have identical rights and obligations
- There is no requirement to use market value for cost purposes.

PRACTICE 2C.1

Penny buys 10 shares on 01/12/86 for $4500 and sells them for $10500 on 01/10/2017.

On 20 August 2004 Sonya bought 1000 shares in Tulip Ltd for $5100 including broker's fees and sold them in 15 July 2017 for $2300.

On 3 May 1999 Andrew brought 1200 units in Share Trust for $1275 including brokerage fees. He sold the units in 4 August 2017 for $1595.

On 1 October 1984 Mario purchased 2500 shares in Machinery Manufactures Ltd for $2700 including brokerage costs. He sold the shares on 13 March 2018 for $2300. Mario also made a capital loss of $350 on some shares he sold in the 2011-2012 income year but had not made any capital gain since then that he could use to offset his capital losses.

Trust Distributions

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Distributions from trust can include different amounts but the following 2 types of amounts are relevant for CGT purposes:

- Capital Gains
- Non-assessable payments.

In Chapter 2 - Income we looked at income from trusts and how trust income is entered at different items on the tax return (Item 13 – Australian income; Item 20 – foreign income and Item 18 – capital gains).

OTHER NON-ASSESSABLE INCOME

Tax-exempted amounts

Tax-free amounts

Tax-deferred amounts

These are needed when you sell the units in the trust as they reduce the cost base of the asset.

MAIN RESIDENCE

Special rules apply to the taxpayer's main residence.

CGT does not apply to the taxpayer's own main residence.

Exception:

If the taxpayer has been conducting income producing activities the proportion used for these activities will be subject to CGT. Examples of this are renting out part of the residence or running a business from taxpayer's main residence.

The proportion of the main residence will be subject to CGT irrespective of whether or not tax deductions have been claimed for interest, rates, etc.

The taxpayer can only have one main residence at any one-time e.g the taxpayer cannot claim their home as the main residence and the spouse claim the holiday home as the main residence.

Exceptions:

Where a taxpayer acquires another main residence before disposing of an original main residence – dwellings can be classed as their main residence for up to 6 months.
If a taxpayer ceases to use this dwelling as their main residence they can still elect to have it treated as their main residence. The main residence may be rented out for a period of up to 6 years before being subject to CGT. If they purchase another house in that time they must elect which house is their main residence.

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Main residence (Dwelling)

A "dwelling" is defined as including a unit of accommodation constituted by or contained in a building. The unit of accommodation must consist in whole, or in a substantial part, of residential accommodation. Additionally, the term "dwelling" includes a caravan, houseboat or other mobile home, as well as any land immediately under the unit of accommodation.

A structure built underground (e.g. an underground home at Coober Pedy) would constitute a dwelling. A yacht may, in some circumstances, constitute a dwelling – provided the facilities on board make the yacht habitable. As a dwelling implies a substantial permanent structure, a tent is un-likely to qualify (TD 92/158).

Determination TD 1999/69 provides that a "dwelling" can include more than 1 unit of accommodation if the units are used together as one place of residence. However, if 2 separate dwellings are owned on the one property, the taxpayer will generally only qualify for a partial exemption for each dwelling, subject to the rules dealing with changing residences or constructing a new residence. The exemption does not apply to land under a unit of accommodation if they are sold separately.

Marriage breakdown

As a general rule, CGT applies to all changes of ownership of assets on or after 20 September 1985. However, if an asset is transferred to a spouse as a result of a marriage breakdown, there is automatic roll-over in certain cases (you cannot choose whether or not it applies).

This roll-over allows the transfer spouse to disregard 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 dispose of the asset. The cost base and other attributes of the asset are transferred to the transferee spouse.

Conditions for marriage breakdown roll-over:

For the roll-over conditions to be met, a CGT event must happen 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 maintenance agreement approved by a court under section 87 of that Act or a similar agreement under a foreign law, or
- a court order under a State, Territory or foreign law relating to de facto marriage breakdowns.

Please note that maintenance agreements registered under section 86 of the *Family Law Act 1975* are excluded.

Where an asset is transferred

Where an asset is transferred, the consequences of roll-over are:

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- for assets acquired before 20 September 1985; any capital gain or capital loss is disregarded
- for assets acquired on or after 20 September 1985; marriage breakdown roll-over enables any capital gain or capital loss made from the CGT event that involves the transferor spouse and the transferee spouse to be disregarded.

Where there is no court approval

If the taxpayer and their spouse divide their property by some means other than by a court order or an agreement approved by the court, normal CGT rule apply – not the rules explained in this chapter. The taxpayer must include on their tax return for that year any capital gain or capital loss made on the transfer of a CGT asset. 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 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 are not dealing at arm's length. In these cases, for CGT purposes, they are taken to have paid or received the market value of the property.

EXPLANATION OF TERMS

Assessable Income
This is all the income received that should be included on the 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. The taxpayer 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.

Capital Gain
A capital gain (or profit) is made as a result of a CGT event – example, when an asset is sold for more than the purchase price. A capital gain can also be made if a managed fund or other unit trust distributes a capital gain.

Capital Gains Tax
Capital gains tax (CGT) is the tax on any capital gain made and included on the annual income tax return. For example, when a taxpayer buys (or otherwise acquires) or sells (or otherwise dispose of) an asset as part of a CGT event, they are subject to CGT.

Capital Improvements
A capital improvement is made of an asset when expenditure is incurred 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

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Generally, a capital loss may be made as a result of a CGT even if an asset is sold for less than was paid for it. The capital loss is the difference between the reduced cost base and the capital proceeds.

Capital Proceeds
Capital proceeds is the term used to described the amount of money or the value of any property received or are entitled to be received as a result of a CGT event. For shares or unit, capital proceeds may be:

- the amount received from the purchaser
- the amount received from a liquidator
- the amount received on a manager/takeover or
- the market value if given away.

CGT Asset
CGT assets include shares, units in a unit trust, collectibles (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 if the amount (or percentage) by which a capital gain may be reduced under the discount method.

CGT Event
A CGT even 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 made in a company or unit trust. A convertible note earns interest on the amount paid to acquire the note until the note's expiry date. On expiry of the note, either the money paid can be returned or converted that amount to acquire new shares or units.

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

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

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

Debt Forgiveness

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A debt is forgiven is the taxpayer is freed from the obligation to pay it. A commercial debt that is forgiven may reduce a capital loss, a cost base or a reduced cost base.

Demutualisation

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

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

Discount Method

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

- the CGT event happened after 11.45 am on 21 September 1999
- the asset is acquired at least 12 months before the CGT event.

If the discount method is used, the cost base is not indexed but the capital gain may be able to be reduced by the CGT discount. However, the capital gains must first be reduced by the amount of all available losses (both current year and prior years) before any remaining capital gain can be discounted.

If the asset is acquired before 11.45 am on 21 September 1999, the choice can be made between either the discount method or the indexation method, whichever gives the better result.

Discounted Capital Gains

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 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 Plant

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, it is treated as if a cash dividend is received and then used 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.

Dwelling

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

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18 Capital gains

Did you have a capital gains tax event during the year? **G** Y

Have you applied an exemption or rollover? **M** / CODE

Net capital gain **A** 0

Total current year capital gains **H** 0

Net capital losses carried forward to later income years **V** 42739

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

Quick access to Tax Office CGT schedule?

For calculation of estimate only

Net foreign capital gain included at label A

Net foreign capital gain included at label A

Enter foreign tax paid on this foreign capital gain in the Foreign income worksheet selecting code L;

Amount of gain on which no foreign tax paid

Excepted net capital gain

Type '**Y**' at Label G > click '**A**' to open schedule.

An example of CBA share portfolio:

ACW - A 3 IOGEN MEDICAL FPO (ORDINARY FULLY PAID)

Date	Type	Quantity	Unit Price	Trade Value	Brokerage+GST	GST	CNote	Total Value
11-Jun-2020	Sell 6	-74,074	$.0280	-$2,074.07	$19.95	$1.81	101278218	7 -$2,054.12
10-Jun-2020	Buy 4	74,074	$.0280	$2,074.07	$19.95	$1.81	101127530	5 $2,094.02
				Sub Total	**$39.90**	**$3.62**		**$39.90**

ALL - ARISTOCRAT LEISURE FPO (ORDINARY FULLY PAID)

Date	Type	Quantity	Unit Price	Trade Value	Brokerage+GST	GST	CNote	Total Value
05-Jun-2020	Sell	-19	$27.6000	-$524.40	$10.00	$0.91	100885678	-$514.40
21-May-2020	Buy	19	$25.9800	$493.62	$10.00	$0.91	99967596	$503.62
				Sub Total	**$20.00**	**$1.82**		**-$10.78**

ALU - ALTIUM LIMITED FPO (ORDINARY FULLY PAID)

Date	Type	Quantity	Unit Price	Trade Value	Brokerage+GST	GST	CNote	Total Value
24-Jun-2020	Sell	-17	$33.7500	-$573.75	$10.00	$0.91	101981573	-$563.75
22-Jun-2020	Buy	17	$32.1000	$545.70	$10.00	$0.91	101841210	$555.70
				Sub Total	**$20.00**	**$1.82**		**-$8.05**

APT - AFTERPAY LIMITED FPO (ORDINARY FULLY PAID)

Date	Type	Quantity	Unit Price	Trade Value	Brokerage+GST	GST	CNote	Total Value
26-May-2020	Sell	-12	$48.7800	-$585.36	$10.00	$0.91	100244775	-$575.36
12-May-2020	Buy	12	$42.1700	$506.04	$10.00	$0.91	99541168	$516.04
				Sub Total	**$20.00**	**$1.82**		**-$59.32**

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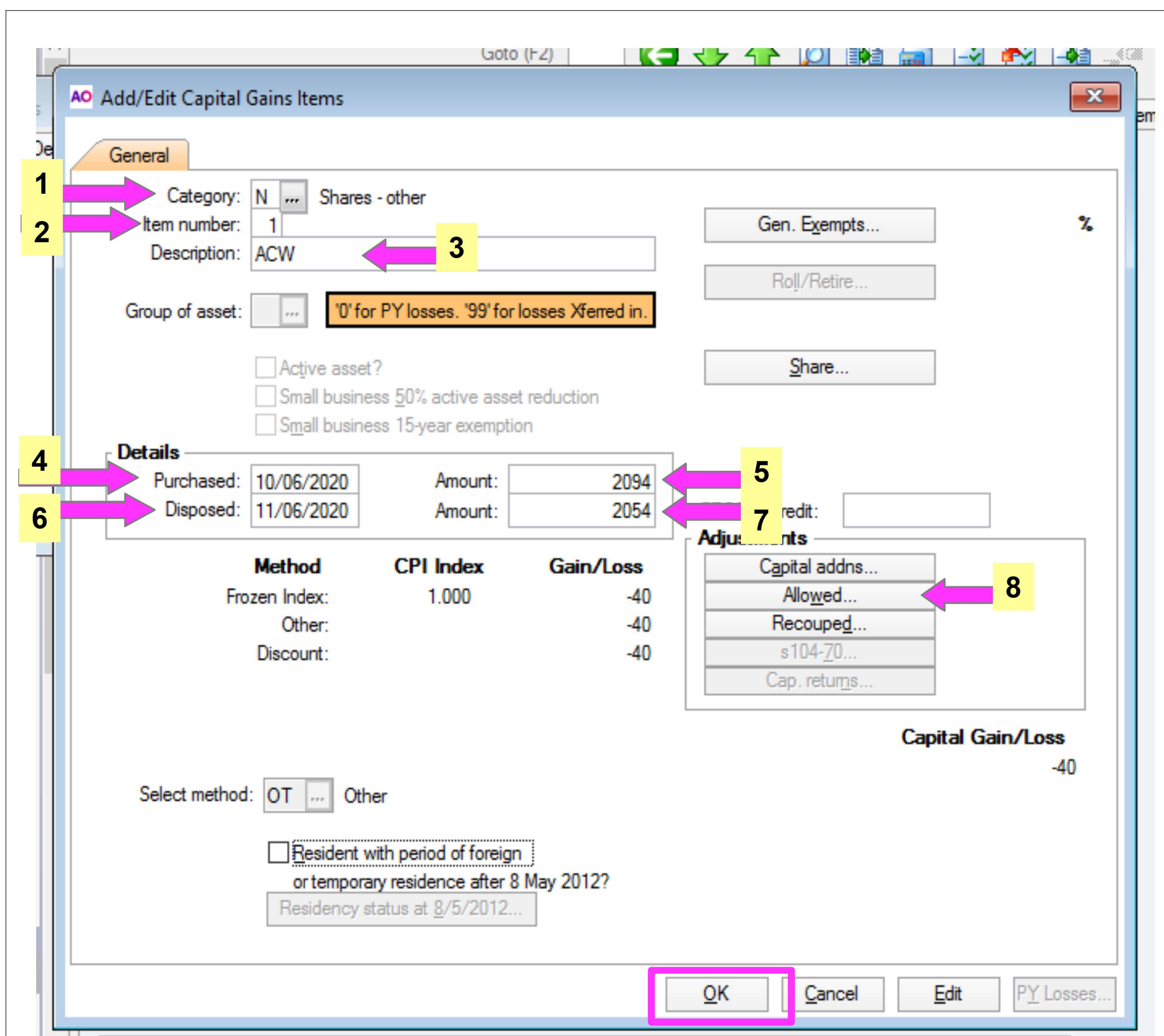

1) Category – Click on the grey box with three dots > choose the relevant category eg: Shares, Real estate, etc
2) Item Number – Start at 1 and work your way up
3) Description – Name of the asset eg: Share name or property name
4) Purchased – Enter date purchased
5) Amount – Enter amount paid including incidental costs such as commission, stamp duty etc
6) Disposed – Enter date sold
7) Amount – Enter amount sale amount less any incidental costs such as commission, stamp duty, etc
8) Allowed... - If 5 & 6 above are just the purchase and sale price, click here to add incidental costs on purchase and sale.

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9) Click '**OK**' to close schedule > click '**New**' for another CGT schedule or '**Close**' to close CGT schedule.

Sometimes you will need to calculate the CGT manually therefore do NOT open the CGT schedule (ie do not click on Label A). Enter the amounts directly into Item 18A, 18H and 18V.

Quick Access to ATO CGT Schedule – Click here if CGT is over $10,000.

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