CAPITAL GAINS TAX (INDIVIDUALS)

Capital Gains Tax (CGT) is a form of income tax that is levied on the profits generated from selling an asset that was acquired after September 19, 1985.

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Capital Gains Tax (CGT) is a form of income tax that is levied on the profits generated from selling an asset that was acquired after September 19, 1985. The amount of any assessable capital gain is combined with your taxable income and then subject to taxation at your applicable marginal tax rate.
Additionally, CGT may be relevant in cases involving transfers to another entity, such as in-specie transfers to a Self-Managed Superannuation Fund (SMSF) or changes in ownership of insurance policies. When you have a managed investment that frequently buys and sells assets, any capital gains tax liability may be included in the distribution you receive and should be considered when filing your tax return.
It's important to note that CGT does not apply to assets that were acquired before September 20, 1985. Generally, it also doesn't apply to personal use assets like your primary residence, car, furniture, or assets used solely for taxable purposes, such as business equipment or fixtures in a rental property.

How it works

A capital gain arises when the proceeds from selling an asset (acquired after September 20, 1985) exceed the initial purchase costs. The calculation of a capital gain takes into account the purchase and sale dates, and it applies to assets sold anywhere in the world for Australian residents.

When you incur a capital loss, it can be used to offset any assessable capital gain made within the same tax year. If your capital losses exceed your capital gains in a given year, you can typically carry forward the loss and deduct it against capital gains in future years.
If an asset is held for more than 12 months, the capital gain assessed for tax purposes is generally halved for individuals. There may be additional discounts available if an individual seeks to access the Small Business CGT concessions. Again, any assessable capital gain is added to your taxable income and then taxed at your individual applicable marginal tax rate.

Capital Gains Tax Discounts for Superannuation and Pensions:
Within superannuation funds, the 12-month capital gains discount is typically one-third. No CGT is applicable if income streams, such as account-based pensions, are paid from superannuation-sourced funds. Any assessable capital gain will be considered within the income of the superannuation fund.

Assessable Capital Gain

Total Capital Gain for the tax year (including capital gains distributed by a managed investment)

Less Total Capital Losses (including Net Capital losses from previous years))

Less Any CGT Discount and small business concession that you are entitled to

= *Assessable Capital Gain to be added to Assessable Income*

Key considersations

- When you acquire a CGT asset, it's crucial to maintain records of all transactions, events, or circumstances that might be relevant to calculating capital gains or losses in the future. These records should include the acquisition date, contract date (if immediate possession is not taken), or date of inheritance if applicable.
- If you own a managed investment, like a managed fund, index fund, or exchange-traded fund, you should be mindful of potential CGT implications. These can arise when the fund sells investments to maintain its desired asset allocation, realise profits, or fund regular distributions.
- Timing the sale of assets with consideration for applicable capital gains is important. An additional capital gain could increase the tax on your salary and other income or be deferred until a time when you expect to earn less income.
- Assess how assessable capital gains might affect your eligibility for other government payments, such as the Age Pension, Newstart, family tax benefits, and child support.
- Be aware that CGT can apply to your family home if you rent it out or use a portion for business purposes. Additional information can be found on www.servicesaustealia.gov.au/what-adjusted-taxable-income

References

You may wish to refer to the following websites for further information about CGT:

- www.moneysmart.gov.au
- www.ato.gov.au

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