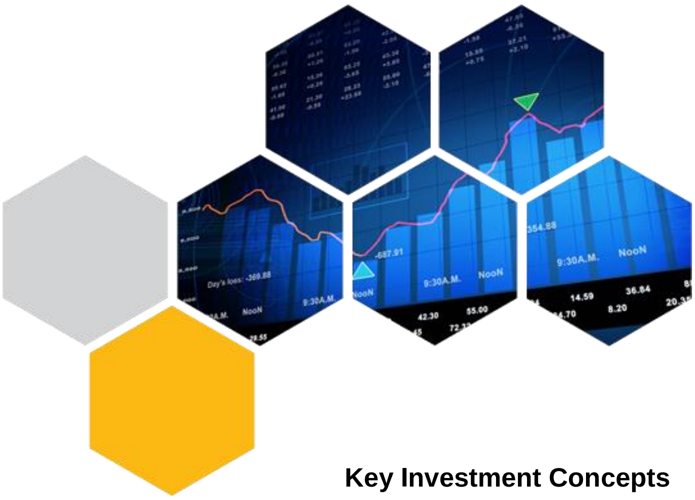

Key Investment Concepts

Capital Gains Tax (CGT)

Aon Hewitt Financial Education Series

Capital Gains Tax (CGT) is payable on the capital growth of an asset, which is effectively the sale price of the asset less the cost. To encourage you to hold assets for longer, if you have held the asset for 12 months or more, you may be entitled to a CGT discount of 50%.

When is CGT payable?

If you purchased an asset after 20 September 1985, CGT will be payable if you sell the asset for more than you paid for it.

An asset is acquired when a person buys, inherits, constructs or receives it as a gift. An asset is disposed of when a CGT event occurs, such as selling it, giving it away or when it is lost or destroyed.

If you invest in a managed fund you may also receive capital gains as part of the annual income. This is because the managed fund will have bought and sold assets, and the capital gains linked to those assets will be passed on to you the unit holder.

Other examples of assets that may incur CGT include transferring an insurance policy, selling an investment property and moving your direct shares into a self managed superannuation fund.

Example 1

William invested $30,000 in a managed fund on 1 April 2004. He then sells the managed fund for $50,000 on 1 April 2017. William has a capital gain of $20,000 ($50,000 minus $30,000).

As William has held the managed fund for more than 12 months he is eligible for the 50% discount, which reduces his capital gain to $10,000.

What about capital losses?

A capital loss occurs when the sale price is less than the cost of the asset. A capital loss can only be used to reduce capital gains; it cannot be used to reduce your other income such as your salary. If you make a capital loss in a year and have no capital gains to use it against, you can carry the capital loss forward until you have a capital gain to offset the loss.

Example 2

Harry purchased shares on 1 June 2007 for $5,000, which he then sold on 1 June 2017 for $4,000. Harry has made a capital loss of $1,000 ($4,000 minus $5,000). Harry didn't sell any other assets that year, so he is able to carry the capital loss forward until he makes a capital gain.

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Example 3

Charles invested $30,000 in a managed fund on 1 April 2004 and sells the managed fund for $50,000 on 1 April 2017. He also purchased shares on 1 June 2007 for $5,000, which he then sold on 1 June 2017 for $4,000.

Charles has a capital gain of $20,000 from the managed fund and a capital loss of $1,000 from the shares. Charles has to reduce his capital gain of $20,000 by the loss of $1,000 before he can apply the 50% discount. This results in a net capital gain of $9,500.

What is the CGT tax rate?

The amount of CGT that is payable will depend on your marginal tax rate.

Capital gains are reduced by capital losses including any prior year capital losses. The 50% discount is then applied if you have held the asset for more than 12 months. The net gain is then added to your taxable income and tax is payable based on your marginal tax rate.

What assets are excluded?

Your principal place of residence (your home) is specifically excluded from CGT. The only time CGT may be payable on the sale of your home is if you have used it to generate income – for example you have rented out all or part of the property. The rules around this area are quite complex and we suggest that if you have rented out your home at any time that you seek professional tax advice.

Personal use items are also excluded from CGT, for example your fridge, washing machine, as is your car. If you are in doubt, please talk to your financial adviser.

What is Indexing?

For investments acquired between 20 September 1985 and 21 September 1999, you have a choice of calculating the CGT under either the new or old method. The new method is where you are entitled to a 50% discount if the asset has been held for more than 12 months. The old method is where the original cost base of the asset was increased using an indexation rate based on the CPI rate, however this was frozen as at 30 September 1999. In most cases the 50% discount method will result in the smaller capital gain.

Your tax agent will help you determine the most appropriate method for you.

What if the asset isn’t held in my name?

If the investment is held in the name of a company then CGT is payable at the company rate of tax. There is no discount available if you invest via a company.

If the investment is held in the name of a discretionary trust, the beneficiary receiving the income is taxed at their marginal tax rate. If the trust held the asset for 12 months then the capital gain can be discounted by 50%.

If the asset is held in the name of a super fund then CGT would be payable at 15%. If the asset had been held for more than 12 months, a 33.3% discount would apply, making the effective tax rate 10%. If the super fund was in pension phase, the CGT rate would be zero, meaning that if you invest via a self-managed super fund it is tax-effective to wait until you commence a pension before selling assets.

One thing to note with self-managed super funds is that assets purchased before 20 September 1985 are also liable for CGT. Self-managed super funds that held an asset as at the end of 30 June 1998 are deemed to have acquired the asset at that date, irrespective of when the asset was originally purchased.

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