EVANS EDWARDS

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What is Capital Gains Tax and When Might I Have to Pay It?

Capital gains tax is charged on the profit you make from the sale of certain assets. These could be assets that you've purchased or inherited. To give you a few examples, capital gains tax might apply to things such as shares, investments, land and property (unless it's your primary residence), and it may even apply to certain collectibles and personal items, depending on what you paid for them. The good news is, if you understand the general ins and outs of capital gains tax in Australia, which we explain in more detail below, you could reduce the amount you may have to pay.

WHEN IS CAPITAL GAINS TAX PAYABLE?

When you make a capital gain, the amount is included as part of your personal income for tax purposes. While capital gains tax has its own name, it's not a standalone tax. What that means is, any capital gains you've received will need to be declared when you lodge your annual tax return and will then be assessed as part of your total income for the year. The amount of tax you pay on that income will then vary depending on what income bracket you fall into.

In the instance you have a shared asset, you need to work out each owner's individual interest in the asset, as this is how capital gains and losses are determined for each party involved.

HOW ARE CAPITAL GAINS CALCULATED?

Generally, you can calculate your net capital gain by adding up your capital gains over the financial year and subtracting your capital losses (including any net capital losses from previous years that haven't been claimed already) and any capital gains discounts or small business capital gains tax concessions you may be entitled to. The important thing to note is a capital gain is typically reduced by 50% when an asset has been held for at least 12 months. So, if you sell an asset you've owned for less than a year (an investment property or shares in a business for example), the entire gain will need to be included in your taxable income.

WHAT ASSETS DOES CAPITAL GAINS TAX NOT APPLY TO?

If you make a profit on an asset, there are instances where you won't be hit with capital gains tax. Capital gains tax generally doesn't apply to:

- Assets acquired before 20 September 1985
- A property that is your main residence
- A car, motorcycle or similar vehicle
- Personal-use assets, which you paid under $10,000 for
- Winnings or losses from gambling and prizes.

The Australian Tax Office (ATO) has further details as to which assets are subject to capital gains tax and which assets are exempt on its website.

HOW IMPORTANT IS KEEPING RECORDS?

You must keep records of everything (every transaction, event or circumstance) that may be relevant to working out whether you've made a capital gain or loss from an asset for a period of five years. Also note, there's no time limit on how long you can carry forward a net capital loss and it can be deducted against capital gains in future years, helping to reduce the tax you pay in future years.

Source: AMP

If you have any questions around your particular circumstances, give Shaun or Vicky a call on 4927 4588 (Rockhampton) or 4939 1766 (Yeppoon).

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