Reducing your Australian CGT

In every investment, there might come a time that you want to sell off your investment and realise your gain. When this happens, you will need to pay capital gains tax (CGT) on the sale of your investment. Generally, CGT is applicable to most capital assets purchased after 19 September 1985. Since 12 December 2006, there have been changes in the CGT legislation for foreign residents and replaces the previous terminology of ‘assets having the necessary connection with Australia’ with ‘taxable Australian property’. From a foreign property investor’s perspective, there are no implications.

Reducing your Australian CGT as an individual foreign resident

Usually, the three key questions a foreign resident property investor asks are:

1) What is taxable?
2) How do I reduce my tax payable?
3) How much tax is payable?

1) What is taxable?
Capital gains tax is the tax that you need to pay when you make a capital gain as a result of selling your capital asset. In simple terms, capital gain is the profit you make after deducting the costs of the capital asset.

2) How do I reduce my tax payable?
The most effective way to reduce your CGT is to increase the cost base of the investment property. Note that the price paid on the property is not the only amount that constitutes the cost base of your investment property. There are other components of costs and expenses that can be included as part of the cost base. You may recall that in our ‘Reducing your Australian income tax’ publication, we mentioned that certain expenses cannot be claimed through income tax but can be claimed through CGT.

Costs / expenses to be included in the cost base
- Acquisition cost of the property
- Legal fees on the purchase and sale of the investment property
- Stamp duty paid on the purchase of the investment property
- Real estate agent’s commission paid on the sale of the investment property
- Renovation costs etc.

Also, it might be a worthwhile exercise to determine the market value of your investment property as at 7 May 2012 because you will be entitled to a CGT discount of 50% when you hold the property for more than 12 months. The CGT discount is applicable until 7 May 2012.

3) How much tax is payable?
On 30 June 2018, John sold his investment property A in Melbourne for $800,000 in order to buy another two new properties in Melbourne. He bought property A on 1 Jan 2011. His cost base for this investment property A is $500,000 and is made up as follows:

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<table>
<thead>
<tr>
<th>Cost base</th>
<th>Amount ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition cost</td>
<td>429,530</td>
</tr>
<tr>
<td>Legal fees</td>
<td>4,400</td>
</tr>
<tr>
<td>Stamp duty</td>
<td>25,070</td>
</tr>
<tr>
<td>Real estate agent’s commission</td>
<td>16,000</td>
</tr>
<tr>
<td>Renovation costs</td>
<td>25,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$500,000</strong></td>
</tr>
</tbody>
</table>

Since he made a $300,000 capital gain on the sale, he needs to include $300,000 capital gain in his income tax return for the financial year ended 30 June 2018. As John owned the property for more than 12 months, he is entitled to CGT discount of 50% until 7 May 2012. As at 7 May 2012, the market value of his investment property was $700,000 which means he is entitled to CGT discount of 50% which immediately reduces his taxable capital gain from $200,000 to $100,000. From 8 May 2012 onwards, capital gains is taxed as per the normal rules. Therefore, he needs to pay $71,685 in tax. The effective tax rate from the sale of property A is only 24%.

**Conclusion**

The key to reducing your Australian CGT is by identifying the costs and expenses incurred that should be included as part of the cost base. Also, it is always a good idea to remember that you will be entitled to a CGT discount of 50% until 7 May 2012 when you hold your property for more than 12 months. Remember that these are your legitimate entitlements and it can significantly reduce your CGT.

We would like to speak to you and assist if you have any questions or concerns. Contact us now for your complimentary and no obligation first meeting to discuss on how we can assist in reducing your CGT.

**Your contact**

**Choon Chong**  
Partner  
T: +61 (3) 9021 6876  
E: choon.chong@ascendpoint.com.au  
W: www.ascendpoint.com.au

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