Mansfield Accounting
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Capital Gains Tax

If you make a taxable capital gain on an asset in a tax year, you will need to pay tax on that gain. This is called Capital Gains Tax. However, it is not actually a separate tax from your normal tax, but extra tax that is added to your annual tax bill. It is payable at whatever marginal tax bracket the gain from the sale of the Capital asset puts you in.

So, if your normal income is $25,000 per annum, your normal tax bracket for the 2015 tax year would be 19%. However, if you sold your rental property in the 2015 tax year and made a taxable capital gain of $40,000, then this would make your taxable income $65,000 and put you in the 32.5% tax bracket. Thus most of your capital gain would be taxed at 32.5%.

Capital gains are made when you sell a taxable capital asset for a profit. Conversely, capital losses are made when you sell a taxable capital asset for a loss. Capital losses can only be offset against capital gains, not any other assessable income.

So what are capital assets? Capital assets are those assets invested in by you, which you purchased because you hoped that over time they would increase in value and you could then sell them and make a profit. They include, but are not limited to, the following:

- Shares
- Units in a trust or managed fund.
- Assets for personal use (eg. furniture or boats over a certain value).
- Real Estate (eg. land, investment and holiday properties)
- Other assets (eg. forfeited rights).
- Your business

Sometimes you may make a taxable capital gain without meaning to, for example, if you purchased a block of land to build a house on and then decided to sell the land without going ahead with the building. This would be a capital disposal and thus subject to capital gains. You may also receive a capital gain distribution from a managed fund that you have invested n. This will appear on your annual managed fund tax statement for the year.

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Capital Gains Tax continued

A capital gain will only occur if you make a profit upon disposing of an asset. So, the mere fact that your shares, for example, have increased in value, does not mean that you have made a taxable capital gain. This will only occur if you dispose of your shares after they have increased in value.

A disposal can occur a number of ways. Obviously if you sell the assets, that is a disposal, but also if you transfer the asset to someone else, perhaps a child or partner, or transfer an asset to your superannuation fund. These would all be considered a disposal of the asset by the ATO and they would treat the disposal as if it occurred at market value. Disposals can also occur if a compulsory acquisition occurs or an item is written off by an insurance company.

The ATO allows significant tax advantages with regards to the treatment of capital gains, such as discounts for assets held for more than one year and concessions for small business owners.

If in doubt, it is always advisable to seek advice as this is quite a complex are of tax law.