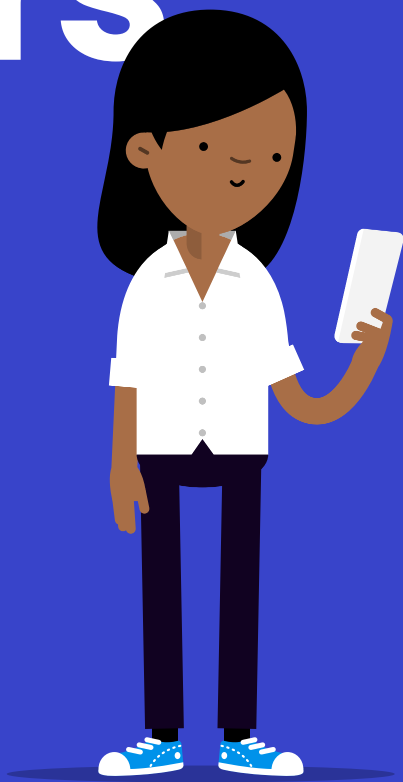
Australian Government
Australian Taxation Office

2022 Tax time toolkit for investors



We're here to help you and your clients with this year's tax time toolkit.

NAT 75780-06.2022 DE-39140

Welcome to the investor's toolkit for 2022

Our investors toolkit is a great resource for anyone earning money from their investments, whether you invest in property, shares or crypto assets.

We continue to be committed in providing support so all investors can lodge their returns accurately. The resources in the toolkit provide information to help investors keep the records they need to prepare their returns now and in the future. Getting your return right avoids costly follow up and amendments down the track.

This year, we have added new fact sheets on:

- capital gains tax on the sale of shares and units
- crypto assets
- rental properties, including body corporate fees and charges.

While we provide help and support, we also focus on ensuring the integrity of the tax system and take actions to ensure all taxpayers are paying the correct amount of tax. This means we continue to review returns where we have indicators that claims are incorrect or income has been omitted. We also deal with those who choose to do the wrong thing, which may include applying penalties and prosecution.

I encourage all investors and their agents to refer to this toolkit as they complete their returns. You can access other products we have available to assist, such as videos and our rental property guide at ato.gov.au/property

Adam O'Grady
Assistant Commissioner,
Individuals and Intermediaries,
Australian Taxation Office

Contents

A helpful directory for tax time

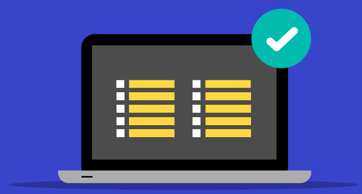
The ATO has a range of information, tools and services available to help Australians prepare and lodge their tax return every year:

- **Tax time essentials**
  an overview of the essential information individuals need to know for their tax return this year
- **Support in difficult times**
  specific advice to support people during crisis events and difficult times
- **COVID-19**
  specific advice for those affected by COVID-19
- **What's new for individuals**
  changes to be aware of before you complete your tax return
- **Do I need to lodge a tax return?**
  an easy tool to find out if you need to lodge a tax return this year
- **How to lodge your tax return**
  lodge using myTax or a registered tax agent. If you are going to lodge your own return, myTax is the quickest and easiest way to lodge
- **Rental properties (COVID-19)**
  specific advice for rental property owners affected by COVID-19
- **Residential rental properties**
  find out what you need to declare and what you can claim for your investment property
- **Deductions you can claim**
  it pays to know what you can claim at tax time
- **Occupation and industry specific guides**
  guides from specific industries and occupations to help you correctly claim your work-related expenses
- **myDeductions**
  a useful way to keep track of records throughout the year to make tax time easier
- **Income you must declare**
  find out what income you must declare in your tax return
- **Calculators and tools**
  a range of popular calculators and tools to help you work out the answers to questions to your tax and super circumstances
- **Correct (amend) your tax return**
  fix a mistake or amend your return
- **Online services**
  access a range of tax and super services in one place, including lodging your tax return, tracking the progress of your return and making a payment or entering a payment arrangement
- **ATO Community**
  ask your tax and super related questions over on the ATO's online community forum
- **Join the discussion online**
  keep up to date with the latest tax and super information on the go! Follow the ATO to get tax tips and updates in seconds, share information and stay informed
- **Tax Time Toolkits**
  full list of resources
- **Rental property video series**
  short videos will help you understand your record-keeping and tax obligations
- **Rental properties guide 2022**
  a guide on how to treat rental property income and expenses
- **Guide to capital gains tax 2022**
  how CGT works and help to calculate net capital gains or losses.

Australian Government
Australian Taxation Office

Top 10 tips

to help rental property owners avoid common tax mistakes



Whether you use a tax agent or choose to lodge your tax return yourself, avoiding these common mistakes will save you time and money.

1. Apportioning expenses and income for co-owned properties

If you own a rental property with someone else, you must declare rental income and claim expenses according to your legal ownership of the property. As joint tenants your legal interest will be an equal split, and as tenants in common you may have different ownership interests.

2. Make sure your property is genuinely available for rent

Your property must be genuinely available for rent to claim a tax deduction. This means:

- you must be able to show a clear intention to rent the property
- advertising the property so that someone is likely to rent it and set the rent in line with similar properties in the area
- avoiding unreasonable rental conditions.

3. Getting initial repairs and capital improvements right

Ongoing repairs that relate directly to wear and tear or other damage that happened while renting out the property can be claimed in full in the same year you incurred the expense. For example, repairing the hot water system or part of a damaged roof can be deducted immediately.

Initial repairs for damage that existed when the property was purchased, such as replacing broken light fittings and repairing damaged floorboards are not immediately deductible, but a deduction may be claimed over several years as a capital works deduction. These costs are also used to work out your capital gain or capital loss when you sell the property.

Replacing an entire structure like a roof when only part of it is damaged or renovating a bathroom is classified as an improvement and not immediately deductible. These are building costs that you can claim at 2.5% each year for 40 years from the date of completion.

If you completely replace a damaged item that is detachable from the house and it costs more than $300 (for example, replacing the entire hot water system) the cost must be depreciated over a number of years.

4. Claiming borrowing expenses

If your borrowing expenses are over $100, the deduction is spread over 5 years. If they are $100 or less, you can claim the full amount in the same income year you incurred the expense. Borrowing expenses include loan establishment fees, title search fees and costs of preparing and filing mortgage documents.

5. Claiming purchase costs

You can't claim deductions for the costs of buying your property. These include conveyancing fees and stamp duty (for properties outside the ACT). If you sell your property, these costs are used when working out if you need to pay capital gains tax.

6. Claiming interest on your loan

You can claim interest as a deduction if you take out a loan for your rental property. If you use some of the loan money for personal use, such as buying a boat or going on a holiday, you can't claim the interest on that part of the loan. You can only claim the part of the interest that relates to the rental property (your interest must be apportioned for the life of the loan).

7. Getting construction costs right

You can claim certain building costs, including extensions, alterations and structural improvements as capital works deductions. Generally, you can claim a capital works deduction at 2.5% of the construction cost for 40 years from the date construction was completed.

Where your property was previously owned by someone else and they claimed capital works deductions, ask them to provide you with the details so you can correctly calculate the deduction you're entitled to claim. If you can't get the details from the previous owner, you can use the services of a qualified professional who can estimate previous construction costs.

8. Claiming the right portion of your expenses

If part of your property is used to earn rent or you rent it out for part of the year, you must apportion your expenses to reflect the area and days rented. Your ability to claim rental property expenses depends on whether the property is genuinely available for rent, your private use of the property, or if you rent to family or friends at below market rates.

9. Keeping the right records

You must have evidence of your income and expenses to claim a deduction. Capital gains tax may apply when you sell your rental property, so keep all records for the period you own the property and for 5 years from the date you sell it.

10. Getting your capital gains right when selling

When you sell your rental property, you may make a capital gain or a capital loss. Generally, this is the difference between:

- what it cost you to buy and improve the property
- what you receive when you sell it.

Your costs must not include amounts already claimed as a deduction against rental income earned from the property, including depreciation and capital works.

If you make a capital gain, include the gain in your tax return for that income year.

If you make a capital loss, you can carry the loss forward and deduct it from capital gains in later years.

This is a general summary only.
For more information go to ato.gov.au/rental
Watch our short videos at ato.gov.au/rentalvideos
Download our free Rental properties guide at ato.gov.au/rentalpropertyguide
Read our Guide to capital gains tax at ato.gov.au/cgtguide

NAT 75205-05.2022 DE-39140

Australian Government
Australian Taxation Office

Tax-smart tips

for your investment property

Being tax-smart when investing in property means more than making the right property choices. If you use your property to earn income at any time, you have tax obligations and entitlements.

Getting record keeping right makes tax time easy

You need to keep proper records over the period you own the property.

Keep the right records for each stage of your journey to ensure you're able to claim everything you're entitled to.

Buying

- contract of purchase
- conveyancing documents
- loan documents
- costs to buy the property
- borrowing expenses

Owning

- proof of earned rental income
- all your expenses
- periods of private use by you or your friends
- periods the property is used as your main residence
- loan documents if you refinance your property
- efforts to rent the property out
- capital improvements

Selling

- contract of sale
- conveyancing documents
- sale of property fees
- calculation of capital gain or loss

Record keeping tips

- Set up an easy-to-use record-keeping system as a priority. This can be a digital record, like a spreadsheet or you can use professional software.
- Keep records of every transaction over the period you own the property. This includes contracts of purchase and sale, as well as conveyancing and loan documentation.
- Scan copies of your receipts to make it easier to store and access them.

Remember, keeping proof of all your income, expenses and efforts to rent out your property means you can claim everything you are entitled to.

Preparing your return

Rental property owners should remember 3 simple steps when preparing their return:

1. **Include all the income you receive**

   This includes income from short term rental arrangements (for example, a holiday home), sharing part of your home or other rental-related income such as insurance payouts and rental bond money you keep.

2. **Get your expenses right**

   - **Eligibility** – Only claim expenses for the period your property was rented or when you were actively and genuinely trying to rent it out.
   - **Timing** – Some expenses must be claimed over a number of years.

- **Apportionment** – Apportion your claims where your property was:
  - rented out for part of the year
  - only part of your property was rented out
  - used by yourself or rented below market rates.

  You must also apportion in line with your ownership interest.

3. **Keep records to prove it all**

   You should keep records of both income and expenses relating to your rental property, as well as purchase and sale records.

Selling your property

If you sell an investment property or your main residence that you rented out, remember:

- You may have to pay capital gains tax, even if you transfer the property into someone else's name.
- A capital gain is the difference between your cost base (cost of ownership) and your capital proceeds (what you receive when you sell the property or the market value when you transfer the property).
- If your costs of ownership are greater than your capital proceeds, a capital loss should be included in your return and this amount may reduce future capital gains.
- If you claim a deduction for capital works or depreciation in any income year, your cost base should not include these amounts.
- If you own the property for more than 12 months, and you are an Australian resident, you may be entitled to a 50% discount on tax on the capital gain.

This is a general summary only.
For more information go to ato.gov.au/rental
Watch our short videos at ato.gov.au/rentalvideos
Download our free Rental properties guide at ato.gov.au/rentalpropertyguide
Read our Guide to capital gains at ato.gov.au/cgtguide

NAT 75206-05.2022 DE-39140

Australian Government
Australian Taxation Office

Rental properties

Interest expenses

If you take out a loan to purchase a rental property, you can claim the interest charged on that loan, or a portion of the interest as a deduction. The property must be rented, or genuinely available for rent, in the income year you claim a deduction.

What can you claim?

You can claim the interest charged on the loan you used to:

- purchase a rental property
- purchase a depreciating asset for the rental property (for example, to buy a new air conditioner for the rental property)
- make repairs to the rental property (for example, roof repairs due to storm damage)
- finance renovations on the rental property.

You can also claim interest you have pre-paid for up to 12 months in advance.

What you can't claim?

You can't claim interest:

- for periods you used the property for private purposes, even if it's for a short time
- on the portion of the loan you use for private purposes when you originally took out the loan or if you refinanced
- on a loan you used to buy a new home if you don't use it to produce income, even if you use your rental property as security for the loan
- on the portion of the loan you redraw for private purposes, even if you are ahead in your repayments
- on funds used to buy vacant land, until the time construction of your rental property is complete and available for rent.

If your loan was used to buy a rental property and another purpose, such as to buy a car, you can't repay only the portion of the loan related to the personal purchase. Any repayments of the loan are apportioned across both purposes.

Preparing your return

Remember these 3 steps when preparing your return:

1. **Include all the income you receive**

   This includes income from short term rental arrangements (for example, a holiday home), sharing part of your home and other rental-related income such as insurance payouts and rental bond money you keep.

2. **Get your expenses right**

   - **Eligibility** – only claim expenses incurred for the period your property was rented or when you were actively and genuinely trying to rent it out.
   - **Timing** – some expenses must be claimed over several years.
   - **Apportionment** – apportion your claim where your property was rented out for part of the year or only part of the property was rented out, when you used the property yourself or rented it below market rates. You must also apportion in line with your ownership interest.

3. Keep records to prove it all

You should keep records of both income and expenses relating to your rental property, as well as purchase and sale records.

Example: claiming all interest incurred

Kosta and Jenny take out an investment loan for $350,000 to buy an apartment they hold as joint tenants.

They rent out the property for the whole year from 1 July. They incur interest of $30,000 for the year.

Kosta and Jenny can each make an interest claim of $15,000 on their respective tax returns for the first year of the property.

Example: claiming part of the interest incurred

Yoko takes out a loan of $400,000, with $380,000 to be used to buy a rental property and $20,000 to buy a new car. Yoko's property is rented for the whole year from 1 July. Her total interest expense on the $400,000 loan is $35,000.

To work out how much interest she can claim as a tax deduction, Yoko must do the following calculation:

Total interest expenses × (rental property loan ÷ total borrowing) = deductible interest

That is:
$35,000 × ($380,000 ÷ $400,000) = $33,250

Yoko works out she can claim $33,250 as an allowable deduction.

Example: interest incurred on a mortgage for a new home

Zac and Lucy take out a $400,000 loan secured against their existing property to buy a new home.

Rather than sell their existing home they decide to rent it out.

They have a mortgage of $25,000 remaining on their existing home, which is added to the $400,000 loan under a facility with sub-accounts, this means the 2 loans are managed separately but are secured by the one property.

Zac and Lucy can claim an interest deduction against the $25,000 loan for their original home as it is now rented out.

They can't claim an interest deduction against the $400,000 loan used to buy their new home as it isn't being used to produce income, even though the loan is secured against their rental property.

Example: interest incurred on funds redrawn from the loan

Tyler has an investment loan for his rental property with a redraw facility. He is ahead on his repayments by $9,500, which he can redraw. On 1 July, Tyler decides to redraw the available amount of $9,500 and buys himself a new TV and a lounge suite.

The outstanding balance of the loan at end of the income year is $365,000 and total interest expense incurred is $19,000.

Tyler can only claim the interest expense on the portion of the loan relating to the rental property.

Total loan balance – redraw amount = rental property loan portion

That is: **$365,000 – $9,500 = $355,500**

To work out how much interest he can claim, he does the following calculation:

Total interest expenses × (rental property loan portion ÷ loan balance) = deductible interest

That is:
$19,000 × ($355,500 ÷ $365,000) = $18,505

As Tyler uses the redrawn funds for personal items the loan account is now a mixed purpose account. Tyler will need to apportion his interest expenses between the outstanding debt for the rental property and the personal items for the remainder of the life of the loan.

This is a general summary only.
For more information go to ato.gov.au/rental
Watch our short videos at ato.gov.au/rentalvideos
Download our free Rental properties guide at ato.gov.au/rentalpropertyguide
Read our Guide to capital gains at ato.gov.au/cgtguide

NAT 75207-05.2022 DE-39140

Australian Government
Australian Taxation Office

Rental properties

Borrowing expenses

What are borrowing expenses?

Borrowing expenses are directly incurred when taking out a loan to buy your rental property. They include:

- loan establishment fees
- lender's mortgage insurance (insurance taken out by the lender and billed to you)
- stamp duty charged on the mortgage
- title search fees charged by your lender
- costs for preparing and filing mortgage documents (including solicitors' fees)
- mortgage broker fees
- fees for a valuation required for a loan approval.

What is not included in borrowing expenses?

Borrowing expenses don't include:

- the amount you borrow for the property
- loan balances for the property
- interest expenses (these are claimed separately)
- repayments of principal against the loan balance
- annual loan package fees (claim these at Sundry expenses)
- stamp duty charged by your state/territory government on the transfer (purchase) of the property title (this is a capital expense and forms part of your cost base for CGT)
- legal expenses, including solicitors' and conveyancers' fees you incur to buy the property (this is a capital expense and forms part of your cost base for CGT)
- stamp duty you incur when you acquire a leasehold interest in a property, such as an Australian Capital Territory 99-year crown lease (you may be able to claim this as a lease document expense at Sundry expenses)
- insurance premiums where, under the policy, your loan will be paid out if you die, become disabled or unemployed (this is a private expense)
- borrowing expenses on any portion of the loan used for private purposes (for example, money you use to buy a car).

Preparing your return

Remember these 3 steps when preparing your return:

1. **Include all the income you receive**

   This includes income from short term rental arrangements (for example, a holiday home), sharing part of your home, and other rental-related income such as insurance payouts and rental bond money you retain.

2. **Get your expenses right**

   - **Eligibility** – only claim expenses for the period your property was rented or when you were actively and genuinely trying to rent it out.
   - **Timing** – some expenses must be claimed over a number of years.
   - **Apportionment** – apportion your claim where:
     - your property was rented out for part of the year
     - only part of your property was rented out
     - you used the property yourself
     - you rented it at below market rates.

You must also apportion in line with your ownership interest.

3. Keep records to prove it all

You should keep records of both income and expenses relating to your rental property, as well as purchase and sale records to assist with calculating your capital gain or loss on sale.

Claiming borrowing expenses

If your total borrowing expenses are more than $100, the deduction is spread over 5 years or the term of the loan, whichever is less.

If the total borrowing expenses are $100 or less, you can claim a full deduction in the income year they are incurred.

If you repay the loan early and in less than 5 years from the time you took it out, you can claim a deduction for the balance of the borrowing expenses in the final year of repayment.

If you got the loan part way through the income year, the deduction for the first year must be apportioned according to the number of days in the year you had the loan.

Example: apportionment of borrowing expenses

To secure a 20-year loan of $209,000 to buy a rental property for $170,000 and a private motor vehicle for $39,000, the Hitchman's paid a total of $1,670 in establishment fees, valuation fees and stamp duty on the loan.

As the Hitchman's borrowing expenses are more than $100, they must be apportioned over 5 years or the period of the loan, whichever is the lesser.

As part of the loan ($39,000) was used for personal purposes, the Hitchman's can't claim a deduction for its part of the borrowing expenses. They obtained the loan on 17 July 2021, they would work out the borrowing expense deduction for the first year as follows.

Borrowing expenses × (number of relevant days in year ÷ number of days in the 5-year period) × (amount of rental property loan ÷ total amount borrowed) = deduction for the year.

Their borrowing expense deductions in the following years should be worked out as follows:
Borrowing expenses remaining × (number of relevant days in year ÷ remaining number of days in the 5-year period) × (amount of rental property loan ÷ total amount borrowed) = deduction for the year.

Year	Calculation	Available deduction for the year
Year 1	$1,670 × (349 ÷ 1,826) × ($170,000 ÷ $209,000)	$260
Year 2	$1,351 × (365 ÷ 1,477) × ($170,000 ÷ $209,000)	$272
Year 3 (leap year)	$1,017 × (366 ÷ 1,112) × ($170,000 ÷ $209,000)	$272
Year 4	$682 × (365 ÷ 746) × ($170,000 ÷ $209,000)	$271
Year 5	$348 × (365 ÷ 381) × ($170,000 ÷ $209,000)	$271
Year 6	$15 × (16 × 16) × ($170,000 ÷ $209,000)	$12

This is a general summary only.
For more information go to ato.gov.au/rental
Watch our short videos at ato.gov.au/rentalvideos
Download our free Rental properties guide at ato.gov.au/rentalpropertyguide
Read our Guide to capital gains at ato.gov.au/cgtguide

NAT 75210-05.2022 DE-39140

Australian Government
Australian Taxation Office

Rental properties

Damaged or destroyed property

Types of income

Insurance payouts

Insurance payouts for loss of rental income and repairs need to be included in your income.

Disaster assistance payments

Most one-off assistance payments you receive from the government, charities or community groups are tax-free. You need to check the types of payments and how they affect your tax.

Replacing depreciable assets

If the insurance payout you receive for your depreciating asset is more than its written down value, you need to include the balance as income. If the payout is less, you can claim a deduction for the difference.

Expenses

If you use an assistance payment or money from a relief fund to buy items for your rental property, the normal conditions for deductibility apply.

Capital works

If you replace an entire structure that was fully or partially damaged or destroyed, it's likely to be classed as **capital works**. For example, replacing **all** the fence, not just the damaged portion or replacing all kitchen cupboards. This may result in a capital gain or loss. See Involuntary disposal New assets are generally deductible at 2.5% over 40 years.

Repairs

If you fix something that is damaged or broken, it's likely to be classed as a **repair**. For example, fixing a leaking tap, or **part** of the fence damaged in the storm. Amounts for **repairs and maintenance** are claimed fully in the year the expense is paid.

Depreciating asset

If you install a brand new appliance or floor or window coverings, it's likely to be classed as a **depreciating asset**. For example, buying a new dishwasher or installing new carpet. If claiming the original item as a **capital allowance**, claim a deduction for the remaining balance (adjustable value) less any compensation received for the total loss of the asset. You claim a deduction over the effective life of the replacement asset (decline in value).

Go to Rental properties repairs, maintenance and capital expenditure for more information.

If your rental property can't be lived in

If your property is unable to be lived in and no longer earning rental income, you can claim a deduction for costs incurred while doing repairs or renovations. For example, council rates or interest charged on your mortgage. **You can't claim a deduction for your own labour**.

To be entitled to claim expenses while making repairs or renovations, the work needs to be completed in a reasonable timeframe and the property must have been rented or available for rent immediately before it was damaged or destroyed.

If the property is demolished and you're holding vacant land because of the damage, you can claim a deduction for holding costs (for example, land taxes and council rates) if the exceptional circumstances exemption applies.

There is a limit of 3 years from the date of the exceptional circumstances to continue to claim deductions using this exemption.

Capital gains tax (CGT) implications for damaged or destroyed assets

If you receive an insurance payout, it may need to be considered when calculating your capital gain or loss. A capital gain arises if the insurance payout is more than the asset's cost base if the insurance payout is less than the reduced cost base you have a capital loss.

You choose to rebuild or replace your rental property

You may be entitled to roll over any capital gain you make and delay paying the gain until later. To defer the gain, you must incur expenditure within one year after the end of the income year the property was destroyed. For more information, see Involuntary disposal

You choose not to rebuild your rental property

You need to calculate your capital gain or loss.

Any insurance payout you receive must be counted as capital proceeds when calculating your gain or loss.

If you don't receive an insurance payout there are no capital gains tax consequences until the property is sold. The CGT event occurs when the property is sold at a future date.

Main residence exemption

If the property was previously your main residence, you can treat it as your main residence for up to 6 years after you move out, even if the property is destroyed. Your main residence is exempt from CGT, but you generally only have one main residence at a time and can't treat any other property as your main residence for the same period.

Important things to remember

Timing of a CGT event

If your CGT asset is lost or destroyed, a CGT event happens on the date you receive compensation for the loss or destruction.

If you don't receive any compensation, the CGT event happens when the loss is discovered or the destruction occurred.

Get record keeping right

Keep records of every transaction including insurance payout documents, receipts for any new purchases or repairs. If you borrow, keep all loan documents and statements.

Note: Before and after photos of destroyed assets may be helpful but they aren't sufficient records on their own.

Example: deduction for repairs while property was unoccupied

Ben's rental property was tenanted when it was severely damaged by a cyclone. Due to the damage, the tenants had to move out. Ben carried out repairs in a reasonable time and then advertised the property for rent.

Even though the property wasn't available for rent while being repaired, he is able to claim for the repairs because it was rented immediately before the damage occurred.

Example: deduction for replacement of depreciable items

Josh's rental property was covered in smoke and ash from bushfires. He had the home thoroughly cleaned and had to replace all carpets and curtains. Josh can claim a deduction for the:

- cleaning
- remaining value of the pre-existing carpet and curtains
- decline in value of the new carpet and curtains.

If Josh decided to repair the damaged carpet and curtains instead of replacing them, he would claim the immediate deduction as a repair.

Example: no capital works deduction

Zahli owns a rental property that was damaged in a severe hailstorm. Because of this, her insurance company replaced the entire roof.

Zahli can't claim a capital works deduction for the new roof that was carried out by the insurer.

NAT 75309-05.2022 DE-39140

Australian Government
Australian Taxation Office

Rental properties

Repairs, maintenance and capital expenditure

Quick reference guide

Repair

If you replace something that is worn out, damaged or broken because of renting out the property, it's likely to be a **repair**. For example, replacing part of a fence damaged in a storm or getting in a plumber to fix a leaking tap. This should be claimed at **Repair and Maintenance** on the rental schedule.

Maintenance

If you do work to prevent deterioration or fix existing deterioration to keep property in a tenantable condition, it's likely to be **maintenance**. For example, getting faded interior walls repainted or having a deck re-oiled. This should be claimed at **Repair and Maintenance** on the rental schedule.

Initial repair

If you repair damage that existed when the property was bought (whether it was known about at the time of purchase or not), it's likely to be an **initial repair**. For example, fixing floorboards or repairing deteriorated window frames and the damage existed when the property was bought. This should be claimed in your **cost base** at **Capital Works** or **Capital Allowances** on the rental schedule.

Capital works

If you replace an entire structure that is partly damaged or renovate or add a new structure to the property, it's likely to be **capital works**. For example, replacing all the fencing, not just the damaged portion, or adding a carport. This should be claimed at **Capital Works** on the rental schedule.

Depreciating asset

If you install a new appliance or floor or window covering, it's likely to be a **depreciating asset**. For example, buying a new dishwasher or installing new carpet. This should be claimed at **Capital Allowance** on the rental schedule.

Repairs and maintenance

The cost of repairs and maintenance may be deductible in full in the year you incur them if both:

- the expense directly relates to wear and tear or other damage that occurred while renting out the property
- the property either
  - continues to be rented on an ongoing basis
  - remains available for rent, but there's a short time when the property is unoccupied (for example, where unseasonable weather causes cancellations of bookings or advertising is unsuccessful in attracting tenants).

Repairs

Generally, repairs must relate directly to wear and tear or other damage that occurred while renting out the property.

Examples of repairs include:

- replacing broken windows
- repairing electrical appliances or machinery
- replacing part of the guttering damaged in a storm
- replacing part of a fence damaged by a falling tree branch.

Maintenance

Maintenance generally involves keeping your property in a tenantable condition. It includes work to prevent deterioration or to fix existing deterioration.

Examples of maintenance include:

- repainting faded or damaged interior walls
- oiling, brushing or cleaning something that is otherwise in good working condition (for example, oiling a deck or cleaning a swimming pool)
- maintaining plumbing.

Capital expenditure that may be claimable over time

Capital allowances

Depreciable assets are items that can be described as plant, which don't form part of the premises. These items are usually:

- separately identifiable
- not likely to be permanent and expected to be replaced within a relatively short period
- not part of the structure.

When claiming a deduction for decline in value for each asset, you can choose to use either:

- the effective life the Commissioner has determined for these types of assets
- your own reasonable estimate of its effective life.

Where you estimate an asset's effective life, you must keep records to show how you worked it out.

Examples of assets that deductions for decline in value can be applied to include:

- floating timber flooring
- carpets
- curtains
- appliances like a washing machine or fridge
- furniture.

Capital works

Capital works describes certain kinds of construction expenditure used to produce income.

The rate of deduction for these expenses is generally 2.5% per year for 40 years following construction.

Capital works include:

- building construction costs
- the cost of altering a building
- major renovations to a room
- adding a fence
- building extensions such as garages or patios
- adding structural improvements like a driveway or retaining wall.

Improvements

An improvement can be anything that makes the property better, more valuable or more desirable, or changes the character of the item the works are being carried out.

Improvements include work that:

- provides something new – for example, adding a gazebo or carport
- generally improves the income-producing ability or expected life of the property
- goes beyond restoring the efficient functioning of the property.

Improvements can be either capital works, where it's a structural improvement or capital allowances where the item is a depreciable asset. It's important to correctly categorise each expense incurred to ensure it's treated correctly for tax purposes.

Initial repairs

Costs you incur to remedy defects, damage or deterioration that existed at the time you acquired the property are capital in nature. These costs may form part of the cost base of property for capital gains tax purposes (but not generally to the extent that capital works or capital allowance deductions have been or can be claimed for them).

The costs to make a property suitable to be rented out are capital in nature and not immediately deductible. To be deductible, the necessity for repairs must have been caused by the rental activity of the person making the claim, not from a previous owner.

However, if your new property was rented or made available for rent and has been affected by special circumstances beyond your control, such as a natural disaster or deliberate damage by tenants, you can claim a deduction of the cost of repairs incurred to restore the property to its original condition.

Example: initial repairs not deductible (existing damage)

Lisa buys a property with the intention of renting it out. At the time of purchase Lisa knew that she would need to repair the roof (replace all roof tiles) and part of the ceiling as they were in a poor condition.

When carrying out the works, Lisa discovered there was extra structural damage that required her immediate attention. The repair to the ceiling costs her $2,000, the replacement of roof tiles cost her $9,000 and the structural work cost her a total of $15,000.

The 'initial' repair of the ceiling of $2,000 isn't deductible, but it may form part of her cost base for CGT purposes, the replacement of the entire roof and the structural work can be claimed as capital works expenses.

Example: repairs cost (special circumstances beyond your control)

Dimitri buys a property with the intention to rent. Unexpectedly, after 10 weeks being available for rent, a heavy storm damaged the entire roof and minor parts of the ceiling.

As the property was genuinely available for rent before the storm and the expenses were done to restore the property to its original condition, Dimitri will be able to claim repairs cost for the ceiling and capital works deduction for replacing the roof with a more storm resistant roof.

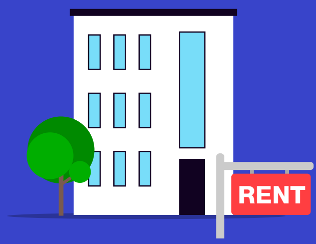
This is a general summary only.
For more information go to ato.gov.au/rental
Watch our short videos at ato.gov.au/rentalvideos
Download our free Rental properties guide at ato.gov.au/rentalpropertyguide
Read our Guide to capital gains at ato.gov.au/cgtguide

NAT 75208-05.2022 DE-39140

Australian Government
Australian Taxation Office

Rental properties

Body corporate fees and charges



Strata title body corporates are constituted under the strata title legislation of the various states and territories. The body corporate maintains, manages and controls the common property on behalf of owners.

It decides the amounts to be paid by the owners to make sure the body corporate can operate (body corporate fees). You may be able to claim a deduction for body corporate fees and charges you incur for your rental property.

What you can claim

- You may be able to claim a deduction for body corporate fees and charges incurred for your rental property, however not all body corporate fees are deductible in full in the financial year you incur them. If the funds are used for a capital expense the expense can be claimed over a number of years.

Administrative funds

Payments you make to body corporate for administration funds.

These funds are used by the body corporate to cover day-to-day expenses to maintain and manage the building. For example, insurance premiums, maintenance of gardens and management of the body corporate itself. You can claim an immediate deduction for these fees.

General purpose sinking fund

Payments you make to a general-purpose sinking or reserve fund that covers non-routine but anticipated expenses such as the painting, or roof repairs of common property.

If amounts for gardening, deductible repairs or building insurance costs have been charged and included as part of your body corporate fees, you can claim the sinking fund contribution, but you **can't claim** a separate deduction when completing these rental schedule labels in your tax return.

What you can't claim

- Certain body corporate fees may not be deductible in the financial year you incur them, such as payments to a:
  - special purpose fund, which is established to cover a specified, generally significant expense that is not covered by ongoing contributions to a general-purpose sinking fund
  - special purpose fund to pay for a one-off unexpected major capital expense
  - special contribution to pay for major capital expenses out of the general-purpose sinking fund.

  These payments cover the cost of capital improvements or repairs of a capital nature and are not immediately deductible. You may be able to claim a capital works deduction for your share of the expense once the work is completed and the cost has been charged to the fund.

Example: Immediate deduction body corporate fees

Charlie owns a strata title interest, which is a unit in an apartment block. Charlie currently rents out the unit to Karl. Part of the strata entitlement includes a right to use or have access to strata title body common property. This consists of:

- the garden area
- the lifts, stairwells and passageways
- depreciating assets.

Charlie pays a body corporate fee of $2,500 annually for the general upkeep of the building's common areas.

Charlie is entitled to claim $2,500 for body corporate fees in his income tax return.

Example: Non-deductible capital works costs

Joe rents his unit to Meredith and has been paying a body corporate fee of $2,500 annually for the last 2 years.

Unexpectedly, the council notified the body corporate that the common veranda needed to be completely replaced because it had not been maintained to compliance standards.

As a result, the body corporate issued an enforcement notice to each unit owner to pay the amount of $10,000 into a special purpose fund to cover this emergency cost.

Joe can claim an immediate deduction for the $2,500 body corporate fee but he cannot claim a deduction for the $10,000. This expense is for future capital works and can be claimed at 2.5% for 40 years once the work is completed.

Example: Non-deductible capital works costs

Sophia rents her unit to Steve and has been paying a body corporate fee of $3,000 annually for the last 2 years. Her body corporate contacted each unit owner and advised of a new charge to pay an additional $1,000 per year to a special purpose fund for future works to upgrade the building lifts.

Sophia can claim an immediate deduction for the $3,000 body corporate fee but cannot claim a deduction for the additional $1,000. This expense is for future capital works and can be claimed as a capital works deduction once the work to upgrade the lifts has been completed.

If Sophia pays $1,000 each year over the period of 5 years to upgrade the lifts, she can claim a capital works deduction of $125 ($5,000 × 2.5%) for 40 years from the date the works were completed.

This is a general summary only.
For more information go to ato.gov.au/rental
Watch our short videos at ato.gov.au/rentalvideos
Download our free Rental properties guide at ato.gov.au/rentalpropertyguide
Read our Guide to capital gains at ato.gov.au/cgtguide

NAT 75375-05.2022 DE-39140

Australian Government
Australian Taxation Office

Renting out a room?

How to work out the expenses you can claim

If you rent out all or part of your home including through the sharing economy, for tax purposes you need to:

- keep records of all rental income earned and declare it in your tax return
- keep records of expenses you can claim as deductions
- calculate your capital gain or loss when you sell the property.

Income you need to declare

- all income before fees and commissions
- insurance payouts – for example, compensation for damage caused by renting
- bonds or security deposits you become entitled to retain
- letting and booking fees you charge, including cancellation fees.

Expenses you may be able to claim include

- council rates
- interest on a loan for the property
- electricity and gas
- property insurance
- cleaning and maintenance costs
- fees or commission charged by the platform
- other expenses that directly relate to the earning of your rental income.

How much of the expense you can claim will depend on:

- the number of days you rent out the room or whole property during the year
- the portion of the property you have rented out – for example, a room or the whole property.

Working out the deductions you can claim

- How big is the property?
- How big is the rented room?
- How big are the shared or common areas?
- How many days was the room rented out?

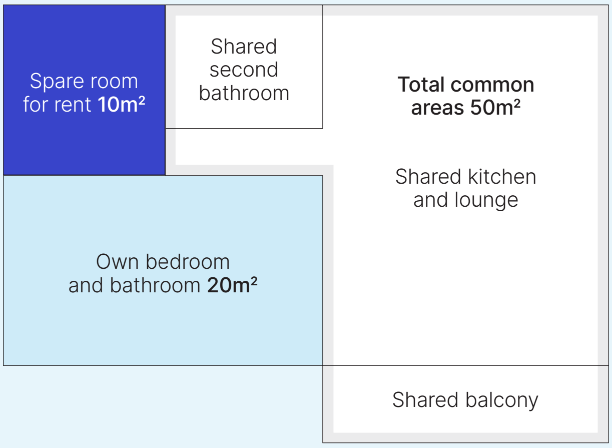
How to work it out

Rented room (claim 100% for days rented)
(Rented rooms size ÷ Total size of house or unit) × (Number of days rented ÷ Total days in the year) × 100 = Percent of expenses claimable

Common areas (claim 50% for days rented)
(Total common areas ÷ Total size of house or unit) × (Number of days rented ÷ Total days in the year) × 50% × 100 = Percent of expenses claimable

Example: how to work out deductions you can claim

($80m^2$ unit, $10m^2$ room rented for 150 days)



Rented room
(10 ÷ 80) × (150 ÷ 365) × 100 = 5.13%

Common areas
(10 ÷ 80) × (150 ÷ 365) × 50% × 100 = 12.84%

Total percentage of expenses you can claim = 17.97%

This is a general summary only.
For more information, go to ato.gov.au/sharingeconomy or speak to a registered tax professional.

Australian Government
Australian Taxation Office

Capital gains tax on sale of rental properties

When you sell or dispose of a rental property you may make a capital gain or loss. This will depend on when you acquired the property.

If you bought property before 20 September 1985

You are exempt from capital gains tax (CGT). CGT came into effect from 20 September 1985.

However, an addition or improvement, such as renovating a house, is a major capital improvement and treated as a separate CGT asset if its original cost is both:

- **more than** 5% of the amount you receive when you dispose of the asset
- **more than** the improvement threshold for the income year in which you dispose of the asset.

Calculate the capital gain or loss by comparing the cost base of the improvements to the proceeds of sale that are reasonably attributable to the improvements.

If you bought the property on or after 20 September 1985

You may make a capital gain or capital loss when you dispose of a rental property.

If the capital proceeds (sale price) are **more than** the cost base, the difference is a capital gain. If they are **less than** the cost base, you need to calculate the reduced cost base.

If the reduced cost base is **more than** the capital proceeds, the difference is a capital loss. If it is **less than** the capital proceeds, there isn't a capital gain nor a capital loss.

Working out cost base or reduced cost base

The cost base is usually the cost of the property when you bought it, plus any costs associated with acquiring, holding and selling it. The cost base is made up of 5 elements

Element 1 – Money paid or property given for CGT asset

This includes the total money paid (or required to be paid) for the rental property and the market value of property given (or required to be given) to acquire the asset. For example, the purchase price to acquire the asset.

Element 2 – Incidental costs of acquiring, selling or disposing of the asset

For example, stamp duty, legal fees, valuation fees.

These costs are **not included** if you:

- claimed a tax deduction for them in any year, or
- can claim a tax deduction for them because the period for amending the relevant income tax assessment has not expired.

Element 3 (cost base) – Costs of owning the CGT asset

For example, insurance costs, rates and land taxes.

Balancing adjustment amount.

These costs are **not included** if you:

- can claim a tax deduction for them in any income year

- can claim a tax deduction for them because the period for amending the relevant income tax assessment has not expired
- acquired the asset before 21 August 1991.

Element 4 – Capital costs to increase or preserve the value of your asset or to install or move it

For example, costs for building a new pergola.

Element 5 – Capital costs of preserving or defending your title or rights to your CGT asset

For example, legal fees to defend your ownership of the rental property.

These costs are **not included** if you:

- acquired the asset after 31 May 1997, and
- can claim a tax deduction for them in any income year, or
- can claim a tax deduction for them because the period for amending the relevant income tax assessment has not expired.

How to calculate a reduced cost base:

1. Include all elements of the cost base except the third element, which changes to be the balancing adjustment amount – for example, the sale of depreciating assets in the rental property would be part of the balancing adjustment.
2. Don't apply indexation to any elements of the reduced cost base.

Capital works deductions

You need to subtract any capital works deductions if you acquired the rental property after 13 May 1997 and you either:

- claimed a deduction for them in any income year
- have not yet claimed a deduction because the period for amending the relevant income tax assessment has not expired.

Depreciating assets

A depreciating asset is considered a separate asset from the property for CGT purposes. When calculating your capital gain or loss, the value of a property's depreciating assets at the time of purchase and at sale are removed from the cost base and capital proceeds.

Working out your capital gain

There are 3 methods for working out your capital gain. If eligible for more than one of the calculation methods, you can choose the method that gives you the best result – that is, the smallest capital gain.

These are:

1. **Discount method** – reduce your capital gain by 50% for resident individuals where the asset was **held for 12 months or more** before the CGT event.
2. **Indexation method** – increase the cost base by applying an indexation factor based on the consumer price index (CPI). This method is only available for assets purchased **before** 11.45am (legal time in the Australian Capital Territory) on 21 September 1999 and held for 12 months or more **before** the relevant CGT event.
3. **The 'other' method** – subtract the cost base from the capital proceeds if the asset was owned for **less than 12 months**. In this case, the indexation and discount methods do not apply.

Timing of a CGT event

The timing of a CGT event tells you which income year to report your capital gain or loss and may affect how you calculate your tax liability. The date of the CGT event for your property is the date you enter a contract for the sale of disposal, **not** the settlement date. If there is no contract, the CGT event takes place when the change of ownership occurs.

Inherited property

If you inherit property, there are special rules for calculating your Cost base of inherited assets

Apportioning gain or loss

If you are a co-owner of an investment property, any capital gain or loss is apportioned to your share of the ownership interest in the property.

Main residence

If your rental property was your main residence

Generally, your main residence is exempt from CGT. A property stops being your main residence once you stop living in it. However, you can choose to continue treating it as your main residence for CGT purposes even though you no longer live in it:

- for up to 6 years if it is used to produce income (the 6 year rule)
- indefinitely, if it is not used to produce income.

You can't treat any other property as your main residence for the same period (except for a limited time if you're moving to a new house – up to 6 months).

You make the choice to treat a property as your main residence when you prepare your tax return for the income year you enter a contract to sell the property.

If you use your former home to produce income for more than 6 years in one absence, it's subject to CGT for the period after the 6 year limit.

If your property is your main residence and you use part of it to produce income

If you rent out part of your home or run a business from home, you do not get the full main residence exemption from capital gains tax (CGT). You aren't entitled to the full main residence exemption when you:

- acquire the property on or after 20 September 1985 and used it as your main residence, and
- would be allowed a deduction for interest (had you incurred it) on money borrowed to acquire the property (interest deductibility test).

Value of home when first used to produce income rule

To work out your capital gain, you need to know the market value of your property at the time you first used it to produce income if **all** of the following apply:

- you acquired the property on or after 20 September 1985
- you first used the property to produce income after 20 August 1996
- when a CGT event happens to the property, you would get a partial exemption as you used the property to produce assessable income during the period you owned it (and the 6 year rule doesn't apply).
- you would have been entitled to a full exemption if the CGT event happened to the property immediately before you first used it to produce income.

Use our Capital gains tax property exemption tool to calculate the percentage of your exemption.

Note: Remember if you have used your property to earn income and are eligible for a CGT exemption or rollover, including the main residence exemption, you need to make the election in your tax return.

Record keeping

You must keep records relating to your ownership and all the costs of acquiring, holding and disposing of property such as, contract of purchase and sale, stamp duty and major renovations.

Records are generally required to be held for at least 5 years after the sale of the property (or year you declare a capital gain). If you make a capital loss, once you've offset the loss against a capital gain, keep your records for a further 2 years.

For more information on record keeping, refer to Tax-smart tips for your investment property.

Foreign resident

There are special CGT rules if you're a foreign resident for tax purposes. These rules come into effect when you sell residential property in Australia.

Example: sale of a rental property

Brett purchased a residential rental property on 1 July 1998, for $350,000 of this $12,000 was attributed to depreciating assets. He also paid $20,000 for pest and building inspections, stamp duty and solicitor's fees.

For the next few years, Brett incurred the following expenses on the property:

Interest on money borrowed	$10,000
Rates and land tax	$8,000
Deductible (non-capital) repairs	$15,000
Total	**$33,000**

Brett can't include the expenses of $33,000 in the cost base, as he claimed a deduction for them.

When Brett decided to sell the property, a real estate agent advised him that if he spent around $30,000 on renovations, the property would be valued at around $600,000. The renovations were completed on 1 October 2019 costing $30,000, while the property was still rented.

On 1 February 2020, he sold the property for $600,000 (of which $4,000 was attributed to depreciating assets).

Brett claims a capital works deduction of **$254** (**$30,000 × 2.5% × 124 ÷ 366**) for the renovations.

Brett works out his cost base as follows:

- Purchase price of property (less depreciating asset $12,000) — $338,000

plus

- Pest and building inspections, stamp duty and solicitor's fees on purchase of the property — $20,000
- Capital expenditure (renovations) $30,000 less capital works deduction $254 — $29,746
- Real estate agent's fees and solicitor's fees on sale of the property — $12,500

Cost base unindexed — $400,246

Brett deducts his cost base from his capital proceeds (sale price):

- Proceeds from selling the house (less depreciating assets $4,000) — $596,000

less

- Cost base unindexed — $400,246

Capital gain — $195,754

He decides the discount method gives him the best result, so he uses it to calculate his capital gain:

$195,754 × 50% = $97,877

Brett must also make balancing adjustment calculations for his depreciating assets. Because he used the property **100%** for taxable purposes, he won't make a capital gain or capital loss from the depreciating assets.

Example: main residence for part of the ownership period

Vrinda bought a house on 1 July 2005 for $350,000 and moved in immediately. On 1 July 2015, she moved to a new house (that she treated as her main residence) and began to rent out her old house. She had a valuation done at the time for $500,000 for her old house.

She sold the old house (rental property) for $650,000. Its contract for sale was signed on 1 July 2018. Vrinda acquired the old house on 1 July 2015 and uses its market value of $500,000 (value at the time of first use for producing income) as the first element of her cost base.

Virinda also has incidental costs for $15,000 for acquiring/selling the property. Virinda makes a capital gain of $135,000. Since she owned her old house for at least 12 months, she chooses to use the discount method to calculate her net capital gain of $67,500.

Note: The 3rd and 4th elements costs are not included in this example.

Example: renting out part of a home

Thomas purchased a house 1 July 1999 and sold it on 30 June 2020. The house was his main residence for the entire time.

Throughout the period Thomas owned the home, a tenant rented one bedroom (20% of the home). Both Thomas and the tenant used the living room, bathroom, laundry and kitchen (30% of the home). Thomas used the rest of the home.

Thomas is entitled to a 35% (20% + half of 30%) deduction for interest on money borrowed to acquire his home.

Thomas made a capital gain of $120,000 when he sold the home. Of this total gain, the following proportion is not exempt:

Capital gain x percentage of floor area = taxable portion

$120,000 × 35 % = $42,000

Thomas can use either the indexation or the discount method to calculate his capital gain.

As this is a complex topic, it may not meet your individual circumstances.

If you are uncertain, you should get appropriate professional advice relevant to your circumstances.

This is a general summary only.
For more information go to ato.gov.au/rental
Watch our short videos at ato.gov.au/rentalvideos
Download our free Rental properties guide at ato.gov.au/rentalpropertyguide
Read our Guide to capital gains at ato.gov.au/cgtguide

NAT 75443-06.2022 DE-39140

Australian Government
Australian Taxation Office

Marriage or relationship breakdown and real estate transfers

Capital gains tax (CGT) generally applies to any change in ownership of an asset, such as real estate. However, if you transfer real estate to your spouse due to the breakdown of your marriage or relationship, you may be eligible for a CGT marriage or relationship breakdown rollover.

Marriage or relationship breakdown rollover

A marriage or relationship breakdown rollover may apply when the transfer of property (by you, a company or the trustee of a trust) results from a court order, a binding financial or formal agreement or an award.

This rollover means that you disregard any capital gain or loss made when you transfer the property to your spouse.

For the **transferor** (the person, company or trustee of a trust that transfers an asset to their spouse):

- Your interest in the property is transferred to your spouse.
- You disregard any capital gain or loss.

For the **transferee** (the spouse who receives the asset):

- The property and cost base are transferred to you.
- You make a capital gain or loss when you dispose of the property.
- If you already had a legal interest in the property, you must calculate your capital gain or loss separately to the interest transferred from your spouse.
- If the transferred property was acquired by your spouse (or a company or trustee) before 20 September 1985, CGT doesn't apply. However, if they made a major capital improvement to the dwelling on or after 20 September 1985 the improvements are a separate asset and you may be subject to CGT.

If a rollover doesn't apply

The rollover doesn't apply to property that is divided under a private or informal arrangement. This includes anything outside of a court order or binding financial or formal agreement.

For the **transferor** (the person, company or trustee of a trust who transfers an asset to their spouse):

- Your interest in the property is transferred to your spouse. You must consider any capital gain or loss made when working out your net capital gain (or net capital losses carried forward to future years) on your tax return for that year.
- Where the dealings are not arm's length, you are taken to have received the market value of the property for CGT purposes.

For the **transferee** (the spouse who receives the asset transfer):

- The property is transferred to you and you're taken to have acquired it at the time of transfer. You will make a capital gain or loss when you dispose of the property.

- Where the dealings are not arm's length, you are taken to have acquired the property at market value for CGT purposes.
- If you already had a legal interest in the property, you must calculate your capital gain or loss separately to the interest transferred from your spouse.

Note: An arm's length dealing is where each party acts independently and without influence or control over the other. It is dependent on the nature of your relationship and the bargaining between you.

To determine the property's market value at the time of transfer, you should obtain a professional market valuation

Record keeping

Keep records relating to your ownership and all costs of acquiring, holding and disposing of property including:

- contract of purchase and sale
- stamp duty
- major renovations.

Make sure you have records from your spouse if you don't already have a copy, including records that show:

- how and when they acquired the dwelling (or the interest in a dwelling)
- its cost base when they transferred it to you
- the extent (if any) that it was used to produce income during their ownership period (for example, the periods when it was rented out or available for rent) and the portion of the dwelling used for that purpose
- the number of days (if any) it was their main residence during their ownership period.

You must hold records for at least 5 years after the sale of the property, or the year you declare a capital gain.

If you make a capital loss, once you've offset the loss against a capital gain, keep records for another 2 years.

Example: pre-CGT assets and main residence exemption

After marrying, Sergio and Nina bought a home on 1 February 1985 for $175,000. 10 years later, they bought a larger home on 1 January 1996 for $325,000, which became their main residence.

They converted the original home into a residential rental property. This means they each owned 50% of the interest in the following assets:

Asset	Purchase price	Purchase date
Rental property	$175,000	1 February 1985
Family home	$325,000	1 January 1996

Sergio and Nina's marriage broke down and, on 1 April 2017, a court order was made that:

- Nina transferred her interest in the rental property to Sergio
- Sergio transferred his interest in the family home to Nina.

After the court order, Nina continued living in the family home and Sergio moved into the rental property.

The CGT implications are:

Rental property – as the couple acquired the property before the introduction of CGT on 20 September 1985, Sergio is taken to have acquired Nina's interest in the property before that date. As the property is a pre-CGT asset, there are no capital gain or loss obligations for either party, unless major capital improvements were made to the property after 19 September 1985.

Example: pre-CGT assets and main residence exemption (continued)

Family home – Sergio and Nina lived here from the time of purchase until the court order. It remained Nina's main residence after Sergio transferred his interest to her.

As the property was transferred to Nina under a court order, Sergio is entitled to the marriage or relationship breakdown rollover and he doesn't have to record a capital gain or loss.

Nina is taken to have acquired Sergio's interest in the family home. Nina's cost base includes Sergio's cost base at the time of transfer, as well as the cost base of her own original interest. This means, the full purchase price of the property ($325,000) forms part of the cost base for Nina.

Nina considers how she and Sergio used the property during their respective ownership periods to determine if a main residence exemption applies. The property was their main residence since purchase and they didn't use it to produce income at any time, so Nina is entitled to the main residence exemption. The property isn't subject to any CGT on sale.

Example: transferor is entitled to rollover

Sam and Alex jointly bought a holiday home on 1 March 2007 for $400,000. The home was never used to produce assessable income, or as their main residence.

Sam and Alex's relationship broke down and on 1 March 2017 Sam's ownership interest in the property was transferred to Alex under the terms of a binding agreement.

Alex moved into the property on 1 March 2017. He lived there until he sold it on 28 February 2019 for $600,000.

During the ownership period, the property was used as:

Property classification	Dates	Ownership interest
Holiday home	1 Mar 07 to 28 Feb 17	50% Sam + 50% Alex
Alex's main residence	1 Mar 17 to 28 Feb 19	100% Alex

Sam is entitled to the relationship breakdown rollover and doesn't have to report a capital gain or loss.

Alex must consider how he and Sam used the property during their respective ownership periods to determine if a partial main residence exemption applies.

Alex calculates the capital gain on his original interest in the property separately to the interest Sam transferred to him.

As this is a complex topic, it may not meet your individual circumstances.

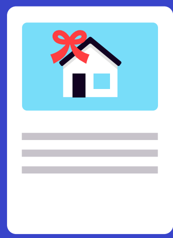
If you are uncertain, you should get appropriate professional advice relevant to your circumstances.

This is a general summary only.
For more information go to ato.gov.au/rental
Watch our short videos at ato.gov.au/rentalvideos
Download our free Rental properties guide at ato.gov.au/rentalpropertyguide
Read our Guide to capital gains at ato.gov.au/cgtguide

NAT 75393-05.2022 DE-39140

Australian Government
Australian Taxation Office

Capital gains tax on inherited property



The property you inherit is a capital asset you acquire on the day a person dies. Generally, capital gains tax (CGT) doesn't apply at the time you inherit the dwelling. However, CGT will apply when you later sell or dispose of the dwelling, unless an exemption applies.

This depends on whether:

- the deceased person acquired the property before or after 20 September 1985
- it was the deceased person's main residence immediately before they died and wasn't being used to produce income at the time
- the deceased person was an excluded foreign resident at the time of death
- you were an Australian resident when you inherited the property
- it was your main residence, or
  - the main residence of anyone with the right to occupy it under the will
  - the main residence of the spouse of the deceased person immediately before their death
  - wasn't used to produce income
- you dispose of an inherited property within 2 years of the person's death and either
  - the deceased acquired the property before 20 September 1985
    - this exemption applies whether or not you used the dwelling as your main residence or to produce income during the 2 year period
  - the deceased acquired the property on or after 20 September 1985
    - the dwelling passed to you after 20 August 1996, and it was the deceased person's main residence and not used to produce income just before the date they died.

Note: If you dispose of the property outside of the 2 year period, the exemption can still apply if the Commissioner of Taxation grants an extension to the 2 year ownership period

CGT main residence exemption rules when you sell a dwelling that was passed to you after 20 August 1996

1. **Did the deceased person acquire the dwelling before 20 September 1985?**
   - Yes – continue to question 2
   - No – continue to question 5
2. **Did settlement of your contract to sell the dwelling:**
   - happen within 2 years of the person dying, or
   - did the Commissioner allow you more time?
   - Yes – no CGT event
   - No – continue to question 3
3. **From the deceased person's death until settlement, was the dwelling the main residence of either:**
   - you
   - an individual who had a right to occupy the dwelling under the will
   - the spouse of the deceased person

- Yes – continue to question 4
- No – CGT applies (you may qualify for a part exemption)

4. **Was any part of the dwelling used to produce income, from the deceased person's death until settlement?**
   - Yes – CGT applies (you may qualify for a part exemption)
   - No – no CGT event
5. **Was the dwelling the deceased person's main residence just before they died?**
   - Yes – continue to question 6
   - No – CGT applies (you may qualify for a part exemption)
6. **Just before they died, was the dwelling being used to produce income?**
   - Yes – CGT applies (you may qualify for a part exemption)
   - No – continue to question 2

When the deceased person died before 20 September 1985

If the deceased person died before 20 September 1985, the property is exempt from CGT when you sell it (it is a pre-CGT asset). However, if you made a major capital improvement to the dwelling on or after 20 September 1985 the improvements are a separate asset and may be subject to CGT.

How to determine the value of an inherited property

The acquisition cost of the property is the market value of the property at the date of death, if any of the following apply:

- the property was acquired by the deceased before 20 September 1985
- the property was passed to you after 20 August 1996 (but not as a joint tenant), and
  - it was the deceased person's main residence just before they died
  - it wasn't used to produce income
- the dwelling was passed to you as the trustee of a special disability trust.

In all other circumstances, your acquisition cost is the deceased's cost base on the day they died. This means:

- the deceased's original purchase price, and
- any other costs incurred then and afterwards (by the deceased) – for example, legal fees on that purchase and any capital improvements.

You may need to contact the trustee or the deceased's tax advisor to get these details.

Joint tenants and tenants in common

If 2 or more people acquire a property together, it can be either:

- tenants in common
- joint tenants.

Tenants in common

If a tenant in common dies, their interest in the property becomes the asset of their deceased estate. This means it can be:

- transferred to a beneficiary of the estate (only)
- sold (or otherwise dealt with) by the legal personal representative of the estate.

Joint tenants

For CGT purposes, if you are a joint tenant you:

- are treated as if you are a tenant in common
- own equal shares in the asset.

However, if you are a joint tenant and another joint tenant dies, on that date their interest in the asset is:

- taken to pass in equal shares to you and any other surviving joint tenants
- as if their interest is an asset of their deceased estate and you are beneficiaries.

This means, if the dwelling was the deceased's main residence, you may be entitled to the main residence exemption for the interest you acquired from them.

Example: surviving joint tenant

In 1999, Ming and Lee buy a residential property for $250,000 as joint tenants. Each one has a 50% interest in it. They live in it as their main residence.

On 1 May 2018, Lee dies. Ming acquires Lee's interest for an amount equal to Lee's cost base on that day (1 May 2018).

Ming continues to use the property as his main residence after Lee's death. He is entitled to the main residence exemption for the interest he acquired from Lee, as well as for his original interest.

Inherited dwelling from, or as, a foreign resident

The law for foreign residents changed on 12 December 2019. This may affect your entitlement to claim the main residence exemption on an Australian residential property you inherit from a foreign resident.

The changes may also apply to you if:

- you inherit an Australian residential property
- you have been a foreign resident for more than 6 years when you sell or dispose of the property

Inheriting a dwelling from someone who inherited it themselves

If you inherit a deceased persons property, who also acquired the interest in the property on or after 20 September 1985 as a beneficiary (or trustee) of a deceased estate, you may be entitled to a partial main residence exemption. This is calculated on the number of days the property was your and the previous beneficiary's main residence.

Example: fully exempt – deceased acquired the dwelling on or after 20 September 1985 and beneficiary sold it within 2 years of death

Rodrigo was the sole occupant of a flat he bought in April 1990. He has only ever lived in it and not used it to produce income.

Rodrigo died in January 2018. He leaves the flat to his son, Petro. Petro initially rents out the flat and then sells it 15 months after his father died.

Petro is entitled to a full exemption from CGT. This is because Rodrigo lived in it when he died and Petro disposed of it within 2 years of his father's death.

Example: partial exemption – inherited rental property – main residence of beneficiary

Vicki bought a house for $400,000 on 12 February 1995 and uses it as a rental property. She dies on 17 November 1998 (owning the home for a total of 1,375 days). The house passes on to her beneficiary, Lesley, who uses it as his main residence.

As the property was purchased by Vicki after 20 September 1985 and used solely for income producing purposes, Lesley's acquisition cost is Vicki's cost base on the day she died of $408,000. The cost base includes $400,000 + legal fees and solicitor fees on purchase.

Lesley sells the property for $650,000 on 27 November 2018. He owned it for a total of 7,316 days. As the house was not Vicki's main residence just before she died, Lesley can't claim exemption from CGT for the period Vicki used the house to produce income.

However, Lesley is entitled to exemption from CGT for the period he used the house as his main residence. This is throughout his ownership period of 7,316 days only.

Example: partial exemption – main residence of deceased but then rented out for more than 2 years after death by beneficiary

Lucy buys a home on 1 April 1997 for $250,000. It is her main residence from the time she acquired it until her death on 31 March 2009 (a total of 4,383 days). The property passes on to her beneficiary, Amy.

Amy lets the home as a rental property throughout her ownership period. After 8 years she decides to sell. Amy sells the rental property for $685,000 on 30 June 2017 (3,014 days after Lucy's death).

The acquisition cost of the property for Amy is its market value at Lucy's date of death, which was $258,000. This is because it was:

- passed to Amy after 20 August 1996
- Lucy's main residence immediately before her death
- not producing income at Lucy's date of death.

Amy needs to declare the capital gain as follows:

- calculate CGT
  - sale price $685,000
  - acquisition cost (total cost base) $258,000
- deduct cost base from sale price
  - total capital gain $427,000.

Amy's taxable portion of the capital gain is calculated as:

capital gain amount × (non-main residence days ÷ total days)

The non-main residence days is the number of days Lucy and Amy used the dwelling to produce income, which is 3,014 (0 for Lucy and 3,014 for Amy). Total days is the number of days Lucy and Amy owned it, which is 7,397.

Amy's capital gain is:

$427,000 × 3,014 ÷ 7,397 = $173,986

Amy can use the CGT discount method to reduce her capital gain by 50%. This reduces her capital gain to $86,993.

Example: partial exemption – main residence deceased – rental property and main residence beneficiary

Mary acquired a dwelling on 1 June 2002 for $650,000. It is her main residence until she dies on 31 August 2007 (a total of 1,918 days). Her son, Steve, inherits the dwelling and rents it out.

After renting the dwelling until 31 August 2010 (a total of 1,097 days), Steve begins living in it as his main residence. On 31 August 2019 he sells it for $900,000 (owning it for a total of 3,288 days).

Mary acquired the main residence after 19 September 1985 and didn't use it to produce income. On her death, the house was passed to Steve as a beneficiary after 20 August 1996.

This means, Steve acquired the dwelling at its market value of $720,000 at the time he first used it to produce income.

The house was Mary's main residence just before she died and Steve used the property as his main residence as well as a rental property. Steve can't claim an exemption from CGT for the period he used the house to produce income. However, he can claim an exemption from CGT for the period Mary and Steve used the house as their main residence in their ownership period.

This is a general summary only.
For more information go to ato.gov.au/deceasedestatescgt
Watch our short videos at ato.gov.au/rentalvideos
Download our free Rental properties guide at ato.gov.au/rentalpropertyguide
Read our Guide to capital gains at ato.gov.au/cgtguide

NAT 75356-06.2022 DE-39140

Australian Government
Australian Taxation Office

Capital gains tax on sale of shares or units

When you sell or dispose of shares or units you may make a capital gain or capital loss. This will depend on when you bought or acquired the shares or units.

If you bought the shares or units:

- **before 20 September 1985** – you are exempt from capital gains tax (CGT), because CGT came into effect from 20 September 1985
- **on or after 20 September 1985** – you may make a capital gain or capital loss when you dispose of the shares or units.

Calculating CGT on the sale of your shares or units

A capital gain or loss is the difference between your:

- Cost base
- Capital proceeds

Cost base

When buying or selling shares or units you need to work out your cost base. The elements of the cost base relating to shares or units are generally:

- what you paid for your shares or units
- certain incidental costs of buying and selling the shares or units:
  - brokerage or agent fees
  - legal fees
  - investment adviser's fees (but not investment seminar costs)
- the costs of owning the shares or units, such as interest on monies borrowed to acquire the asset (generally this won't apply to shares or units because you will usually have claimed or be entitled to claim these costs as a tax deduction).
- capital costs of preserving or defending your title or rights to your shares or units.

Capital proceeds

The amount you receive or the market value of what you should have received when you disposed of your shares or units.

Share parcels

A parcel of shares is a distinct number of shares that you own. You can buy different parcels of shares in the same company at different times. Each parcel of shares that you own added together make up your 'holding' or equity in the stock of that company. For example, you may buy 2 parcels of 500 AZY shares at different times. You have a total of 1,000 AZY shares in your portfolio, made up of 2 parcels.

Parcel selection methods

Shares can be described as 'fungible' because one share is identical to and interchangeable with any other share. As one share is functionally identical to all the others of the same share class (for example ordinary shares, preference shares) in that company, it is difficult to identify which shares were disposed of. The shares that are disposed of need to be identified in order to work out the cost base when calculating CGT.

There are 3 common ordering methods for parcel allocation when calculating CGT on shares:

- FIFO (first-in, first out), where the shares bought first are sold first, regardless of cost
- LIFO (last-in, first-out), where the shares bought last are sold first, regardless of cost
- HIFO (highest-in, first-out), sometimes also referred to as HCFO (highest-cost, first-out), the most expensive shares bought are sold first, regardless of timing.

A different method of parcel selection may be applied for each parcel of shares sold. Most people use FIFO because it is the easiest to keep track of, however you can choose any of these 3 methods.

Capital losses

It is important to report all capital losses in your tax return, so they carry forward and can be applied against future capital gains.

Note: You can only claim a loss for shares or units you have disposed of. You can't claim a 'paper loss' on investments you continue to hold because they may have decreased in value.

If you make a capital loss from the sale of your shares or units, the loss:

- can only be offset against capital gains
- can be carried forward indefinitely to offset against future capital gains
- can't be offset against your other income such as salary and wages
- can't be converted to revenue losses in future years, even if you haven't been able to offset it against a capital gain.

You can also make a capital loss on your shareholding when an administrator or liquidator makes a written declaration that a company's shares are worthless.

Working out your net capital gain

There are 3 methods for working out your net capital gain. If eligible for more than one of the calculation methods, you can choose the method that gives you the best result. This is the method that gives you the smallest capital gain.

The 3 methods are:

- **Discount method** – reduce your capital gain by 50% for resident individuals where the asset was held for 12 months or more before the CGT event.
- **Indexation method** – increase the cost base by applying an indexation factor based on the consumer price index (CPI). This method is only available for assets bought at or before 11.45am (legal time in the Australian Capital Territory) on 21 September 1999 and held for 12 months or more before the relevant CGT event.
- **The 'other' method** – subtract the cost base from the capital proceeds if the asset was owned for less than 12 months. In this case, the indexation and discount methods don't apply.

Timing of a CGT event

The timing of a CGT event is important because it determines the income year you report your capital gain or capital loss in:

- If you sell or dispose of the shares or units, the CGT event happens when you enter the contract of sale
- If there's no contract, the CGT event happens when you stop being the owner of the shares or units
- If you receive a distribution of a capital gain from a managed fund, you make the capital gain in the income year shown on your statement from the managed fund.

Disposing of shares or units

You can dispose of your shares or units:

- by selling them
- by giving them away
- by transferring them to a spouse due to a breakdown in your marriage or relationship
- through share buy-backs
- through mergers, takeovers and demergers
- because the company goes into liquidation.

Disposal of shares or units includes the sale, exchange or gifting of all or part of a share or unit holding. Before selling your shares or units, ensure you identify the correct date of disposal.

- If you dispose of shares or units you received as a gift, you must use the market value on the day that you received them. Use the market value as the first element of your cost base when working out your capital gain or loss.
- If you give shares or units away as a gift, treat them as if you disposed of them at their market value on the date you gave this gift. This means a CGT event has occurred. You must include any capital gain or loss in your tax return for the income year you gave them away.

Scrip for scrip rollover relief enables a shareholder to disregard a capital gain made from a share that is disposed of as part of a corporate take-over or merger if the shareholder receives a replacement share in exchange. However, scrip for scrip rollover is only available when the original and replacement interests being exchanged are of the same type.

Disposing of inherited shares

When you sell shares or units you have inherited, the normal rules for calculating CGT apply. Depending on the circumstances, the cost base and acquisition date may be based on either:

- when the deceased acquired it
- when they died.

If the deceased acquired the asset:

- before 20 September 1985
  - you are taken to have owned it since the deceased died
  - your cost base is the market value of the asset on the day the deceased died, plus any other elements of their cost base
- on or after 20 September 1985
  - you are taken to have owned it since the deceased acquired the asset
  - your cost base is the deceased's cost base for the asset on the day they died.

Record keeping

You need to keep records of all your transactions associated with acquiring, holding and disposing of your shares or units.

Records may include:

- receipts of purchase, sale or transfer – for example, documents that show price, date and volume
- interest on money you borrowed relating to the asset
- accountant and legal costs
- brokerage fees on purchase and sale.

Records are generally required to be held for at least 5 years after the disposal of the shares or units (or year you declare a capital gain). If you make a capital loss, once you offset the carried forward loss against a capital gain, you should keep your records for a further 2 years.

Foreign and temporary residents

Foreign and temporary residents are only subject to CGT if a CGT event happens to a CGT asset that is taxable Australian property. Shares in widely held, publicly listed companies aren't generally considered to be taxable Australian property.

Temporary residents:

- hold a temporary visa granted under the *Migration Act 1958*
- aren't an Australian resident within the meaning of the *Social Security Act 1991*
- don't have a spouse who is an Australian resident within the meaning of the *Social Security Act 1991*.

The *Social Security Act 1991* defines an 'Australian resident' as a person who resides in Australia and is an Australian citizen or the holder of a permanent visa. A person with a protected special category visa and who was in Australia on or before 26 February 2001 is also considered an Australian resident for the purposes of the Act. This is different to the standards used to determine tax residency.

Anyone who is an Australian resident for tax purposes on or after 6 April 2006 but isn't a temporary resident can't later become a temporary resident, even if they later hold a temporary visa.

If a taxpayer ceases to be a temporary resident but remains an Australian resident (for example becomes a permanent resident or citizen), they are taken to have acquired the shares (excluding pre-CGT shares) for their market value at the time they ceased being a temporary resident.

Example: capital gain

On 6 November 1997 Ellie bought a parcel of 10,000 shares in AZY at $2.50 per share.

Ellie was charged $50 brokerage for the purchase transaction.

On 14 October 2021 Ellie decided to sell all her AZY shares due to their excellent price of $6.40 per share. Ellie sold 10,000 shares at $6.40 per share and her capital proceeds from the sale were $64,000. She was charged $30 brokerage for the sale transaction.

The cost base of the shares was $25,080 (10,000 × $2.50 price per share + $80 brokerage).

Ellie made a total capital gain of $38,920 on the sale of her AZY shares ($64,000 minus $25,080).

As Ellie held her shares for more than 12 months prior to the CGT event she was able to apply the discount method, reducing her total capital gain by 50%.

Ellie reported the sale of her AZY shares in her 2022 tax return by recording a:

- $38,920 gross capital gain
- $19,460 net capital gain.

Example: capital loss

On 10 November 2021 Trevor purchased a parcel of 18,000 shares in XYZ at $3.60 per share.

Trevor was charged $50 brokerage for the purchase transaction.

A few months later, Trevor's circumstances changed and he decided to sell his shares, even though the current price of the shares was lower than when he purchased them.

On 6 March 2022 Trevor sold all his 18,000 XYZ shares for a price of $2.70 per share and his capital proceeds from the sale of the shares were $48,600. He was charged $40 brokerage for the sale transaction.

The reduced cost base of the shares was $64,890 (18,000 × $3.60 price per share + $90 brokerage).

Trevor made a total capital loss of $16,290 on the sale of his XYZ shares ($48,600 minus $64,890).

Trevor can't offset his capital loss against his income earned from salary and wages in his tax return, however the capital loss can be carried forward indefinitely to offset against future capital gains.

Trevor reported the sale of his XYZ shares in his 2022 tax return by recording a $16,290 capital loss.

Always keep your details updated

Ensure your broker always has your correct personal details, such as full name, date of birth and tax file number (TFN). This helps you because:

- your dividends won't be subject to the 47% no TFN withholding tax
- we can pre-fill more of your information for tax time.

If you bought shares on behalf of your self-managed super fund (SMSF), make sure your broker set up your account using the super fund's details. Otherwise, the shares may be incorrectly matched to you as an individual.

This is a general summary only.
For more information go to ato.gov.au/shares or speak to a registered tax professional.

NAT 75444-06.2022 DE-39140

Australian Government
Australian Taxation Office

Tax-smart tips for crypto asset investments

If you exchange crypto assets (crypto) for goods, cash or other crypto assets then this is normally considered a disposal for the purposes of capital gains tax. You may need to include a capital gain or capital loss in your income tax return.

Make tax time easier by remembering these 3 tips:

1. Disposal of crypto assets
2. Calculating capital gains tax (CGT) on crypto assets
3. Keep records

1 Disposal of crypto assets

You must report a disposal of crypto assets for capital gains tax purposes if you:

- exchange one crypto for another crypto
- trade, sell or gift crypto
- convert crypto to a fiat currency – for example, to Australian dollars (A$).

If you only transfer crypto from one wallet to another wallet while maintaining ownership, it's not considered a disposal of crypto for tax purposes. If your crypto holding reduces during this transfer to cover the network fee, the transaction fee is a disposal and has capital gain consequences.

You have a CGT reporting obligation even if you:

- use the proceeds from selling crypto to buy more crypto
- don't convert the proceeds into fiat currency (for example, A$).

2 Calculating capital gains tax (CGT) on crypto assets

Convert your crypto asset purchases and sales into A$ to calculate your capital gain or capital loss. A capital gain or capital loss is the difference between your:

- cost base (cost of ownership – including the purchase price of the coin plus certain other costs associated with acquiring, holding and disposing of it)
- capital proceeds (what you receive or the market value of what you receive) when you dispose of your crypto.

If you purchase crypto using AUD, the amount you pay is included in your cost base (see example 1). If you acquire a crypto asset by exchanging it for another crypto asset, your cost base is the market value in A$ of the crypto you used at the time you purchased the coin (see example 2).

Note: You can use a current year net capital loss to reduce your future capital gains. Report the loss in your tax return so you have it available for future investments.

3 Keep records

You need to keep records of all your transactions associated with acquiring, holding and disposing of crypto assets. You need to keep records for 5 years after you dispose of your crypto.

Buying (acquiring)	Owning (holding)	Selling (disposing)
• receipts of transactions • documents that display: – the crypto asset – the purchase price in A$ – the date and time of the transaction – what the transaction was for • commission or brokerage fees on the purchase • agent, accountant and legal costs • exchange records	• software costs related to managing your tax affairs • digital wallet records and keys • documents that show the date and quantity of crypto assets received via staking or airdrop	• receipts of sale or transfer • documents that display: – the crypto asset – the sale or transfer price in A$ – the date and time of the transaction – what the transaction was for • commission or brokerage fees on the sale or transfer • exchange records • calculation of capital gain or capital loss

To help calculate any capital gain or loss:

- Set up an easy-to-use record keeping system as a priority. This can be as a simple as a spreadsheet, or you can use professional software.
- Scan digital copies of your records to make it easier to store and access them.

Personal use assets and crypto assets

A crypto asset is not a personal use asset if it's kept or used mainly as either:

- an investment
- part of a profit-making scheme
- while carrying on a business.

In most situations, crypto is not a personal use asset and will be subject to capital gains. However, limited exceptions apply.

Crypto is a personal use asset if it's kept or used mainly to purchase items for personal use or consumption (see example 3).

The longer you hold crypto, the less likely we consider it a personal use asset.

Note: Only the capital gains you make from disposing of personal use crypto acquired for less than $10,000 are disregarded for capital gains tax purposes.

Example 1: disposing of crypto assets purchased with fiat currency

(a currency established by a country's government regulation or law)

Tim purchased 400 XRP for **$800** AUD. A few days later Tim exchanged his 400 XRP for 2 Ether (ETH). Tim needs to report his capital gain or capital loss from the disposal of the crypto (XRP) in his tax return.

Tim's receipt shows he:

- used **$800** AUD to purchase 400 XRP
- was charged **$5** for brokerage.

Tim's cost base is **$800 + $5**, which totals **$805**.

Tim's exchange provides a receipt for the purchase of 2 ETH but it doesn't include prices in AUD. According to his exchange records, Tim exchanged 400 XRP for 2 ETH on 25 June 2021 at 1:30pm.

At the time of this transaction, the market value of 2 ETH was **$900** A$. Tim's capital proceeds are **$900**.

Tim subtracts his cost base **$805** from his capital proceeds **$900**, which results in a capital gain of **$95**.

$900 – $805 = $95

Tim is not eligible for a CGT discount or exemption.

Tim keeps a record of his net capital gain **$95** to fill in his capital gains in his 2021 tax return.

Example 2: exchanging crypto assets for other crypto assets

A few months later, Tim exchanged his 2 Ether (ETH) for 0.08 YFI.

Tim's exchange records show he acquired 2 ETH on 25 June 2021 at 1:30pm for 400 XRP. At the time of the transaction, the XRP had a market value of **$900** AUD.

Tim's exchange charges him a **$10** brokerage fee to trade 2 ETH for 0.08 YFI.

Tim's cost base is **$900 + $10**, which totals **$910**.

Tim's exchange provides a receipt for the acquisition 0.08 YFI but it doesn't include prices in AUD. Tim's receipt shows he disposed of his 2 ETH for 0.08 YFI on 13 July 2021 at 2:00pm.

At the time of this transaction, the market value of 0.08 YFI is **$1,055**. Tim's capital proceeds from the exchange of 2 ETH for 0.08 YFI is **$1,055**.

Tim subtracts his cost base **$910** from his capital proceeds **$1,055**, which results in a capital gain of **$145**.

Tim isn't eligible for a discount or exemption.

Tim keeps a record of his net capital gain **$145** to fill in his capital gains in this 2022 tax return.

Example 3: personal use asset

Josh pays **$50** to acquire crypto assets each fortnight to buy computer games. Josh uses the crypto in the same fortnight to enter directly into transactions (there is no conversion to a fiat currency first) to buy computer games. Josh doesn't hold any other crypto.

In one fortnight, Josh sees a computer game he wants to buy from an online retailer that doesn't accept crypto. Josh uses an online payment gateway to buy the game.

In these circumstances, the crypto (including the amount used through the online payment gateway) is a personal use asset for this isolated transaction.

Example 4: investment in crypto assets

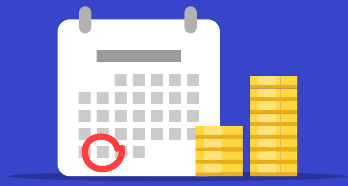
Rose buys crypto assets with the intention of selling later at a favourable exchange rate. She decides to buy some goods and services directly with some of her crypto. Because Rose's intention was to use the crypto as an investment, the disposed crypto isn't a personal use asset.

This is a general summary only.
For more information go to ato.gov.au/cryptoassets
If you need help working out your capital gain go to ato.gov.au/CGT

NAT 75362-06.2022 DE-39140

Australian Government
Australian Taxation Office

Pay as you go (PAYG) instalments



If you earn income from investments such as interest, dividends, rent or royalties, it's important to plan ahead. Use PAYG instalments to help reduce any potential tax bill when you lodge your tax return.

How PAYG instalments work

Pay as you go (PAYG) instalments allow you to make regular payments during the income year towards your expected end of year tax liability. By paying regular instalments throughout the year, you will reduce any potential amount you may have to pay when you lodge your tax return.

Automatic entry

We will enter you into PAYG instalments if you meet all of the following criteria:

- your instalment income – including investment income – from your latest tax return is $4,000 or more
- the tax payable on your latest notice of assessment is $1,000 or more
- your estimated (notional) tax is $500 or more (your estimated or notional tax is the amount payable after applying current income tax rates to your instalment income, excluding capital gains, in your most recent tax return).

We will send you a letter explaining how PAYG instalments work and what you have to do.

Voluntary entry

If you're expecting to make a profit from your investments, it's a good idea to voluntarily enter PAYG instalments

You will need to estimate your annual instalment income and your allowable tax deductions so you can work out the amount of tax to pay by instalments.

You can voluntarily enter using your myGov account linked to the ATO's online services:

- go to **Tax**
- select **Manage**
- then **Enter PAYG instalments**.

You can also enter through your registered tax agent by phoning us on **13 28 61**.

Calculating your PAYG instalments

You can choose from 2 options to work out how to pay:

- **instalment amount** is the simplest option as you pay the amount we calculate for you
- **instalment rate** is when you work out the amount you pay using your investment income and allowable tax deductions and the rate we provide.

Calculating by **instalment rate** is best if your instalment income changes a lot, and you want to manage your cashflow. You will need to apply the rate to your income for each period.

Varying PAYG instalments

You can vary your PAYG instalments on your instalment notice if you think using the current amount or rate will result in you paying too much or too little in instalments for the year. This may happen if your investment income reduces or increases compared to the prior tax year.

Your variations must be lodged:

- on or before the day your instalment is due
- before you lodge your tax return for the year.

Your varied amount or rate will apply for the remaining instalments for the income year or until you make another variation.

Use the PAYG instalment calculator at ato.gov.au/paygicalc to help you work out your new instalment amount or rate.

Example: PAYG instalment system

Fiona sells her home in 2019–20 and decides to rent while she invests her profits from the sale, rather than buying a new home straight away.

Fiona lodges her 2020–21 tax return and reports $10,000 of interest and dividends earned on her investments. She receives her notice of assessment with a tax debt of $1,200.

Fiona is entered into the PAYG instalments system and starts paying her instalments quarterly. In April 2022, Fiona makes the decision to buy a new home with the money she invested. She can either use myGov or phone the ATO to advise that she no longer has her investments (and therefore no longer has instalment income). Fiona logs onto her myGov account and exits the system.

The exit will be effective from 1 April 2022 because she continued to receive instalment income for the January– March 2022 quarter. She lodges her March 2022 quarter instalment notice on the due date of 28 April 2022.

This is a general summary only.
For more information on:
- PAYG instalments go to ato.gov.au/paygi
- how to start paying PAYG instalments go to ato.gov.au/paygientry
- varying PAYG instalments go to ato.gov.au/varypaygi

NAT 75372-05.2022 DE-39140