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PROPERTY

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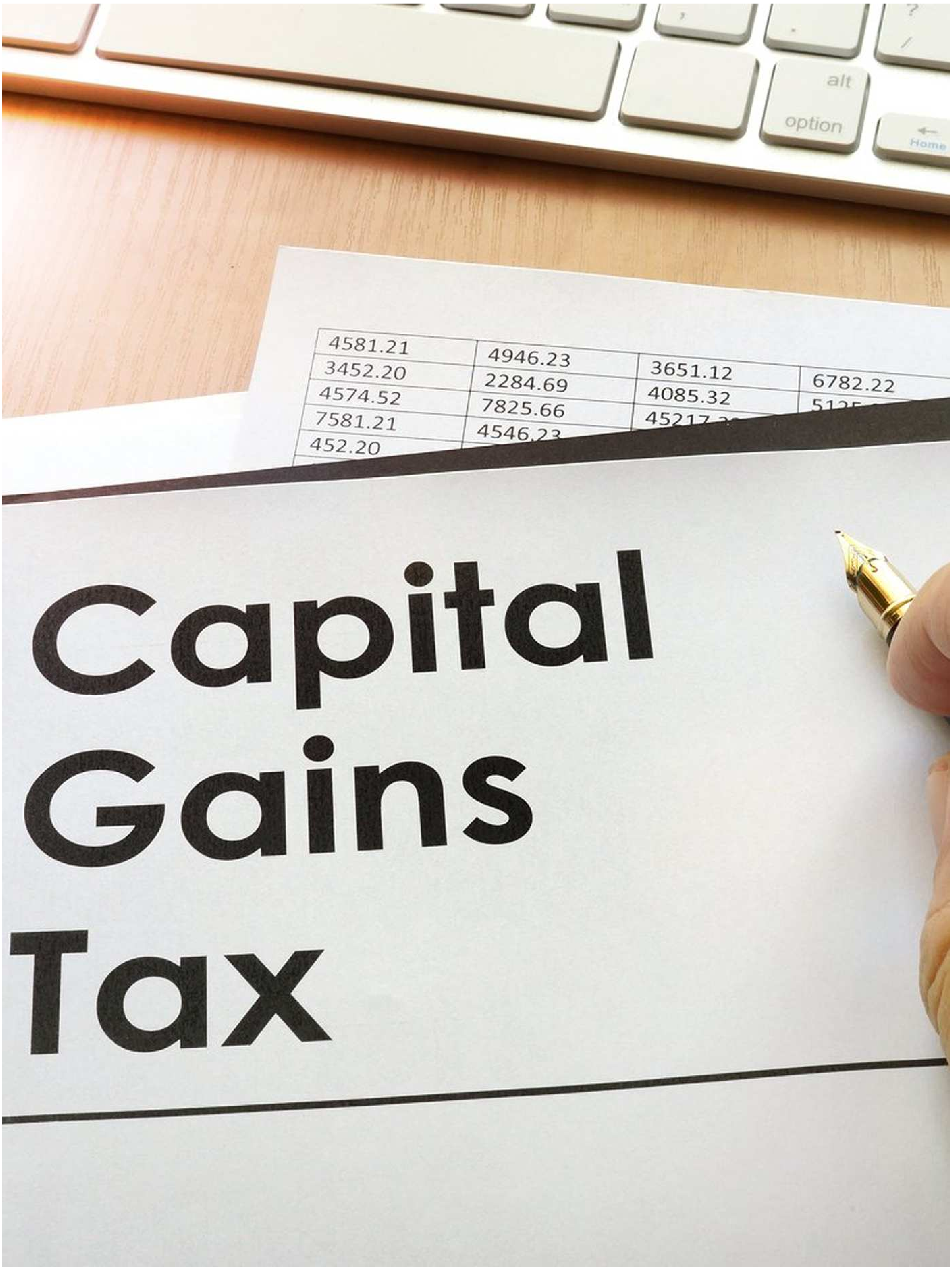

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What is Capital Gains TAX ?

If you are going to sell an investment or real estate that has been appreciated, it is essential to understand the concept of Capital Gain Tax (C.G.T.) and how it affects your finances. Capital gains tax refers to the techniques used by the Australian Taxation Office (A.T.O.) to calculate the tax payable on capital gains. Unlike your income tax imposed on your earnings, capital gains tax is applied to the profits you earn from selling capital assets.
As mentioned above, it is the profit that gets that is taxed, not the total amount you receive. For instance, you bought a painting for $ 4,000 and sold it later for $ 20,000. It means you made a gain of $16,000.

The A.T.O. considers such capital gains as income, which will be included on your income tax return and will be taxed at your marginal tax rate. Therefore, C.G.T. can be used to calculate income and further taxes. However, individuals, companies, and trusts can make capital gains and losses.
The concept of C.G.T was introduced on 21st September 1985. The gains or losses on earlier assets, known as pre-Capital Gains Tax, do not attract C.G.T.
Some assets are tax-free by not paying C.G.T. if your annual gains are under your tax-free allowance. Some of the most common tax exemptions are your principal residence, car or motorbike, or assets used solely to produce exempt income.

The most common operations on which C.G.T. is applied are real estate sales and shares. Capital loss means there is no capital gain. Hence where the capital loss occurs, no C.G.T. is paid.
Capital Gain Profit is calculated by using the following formula:

Selling Price – Purchasing Price = Capital Gain Profits

Whereas the net capital gain is the total of all capital gains for an income year, excluding the following possible deductions:

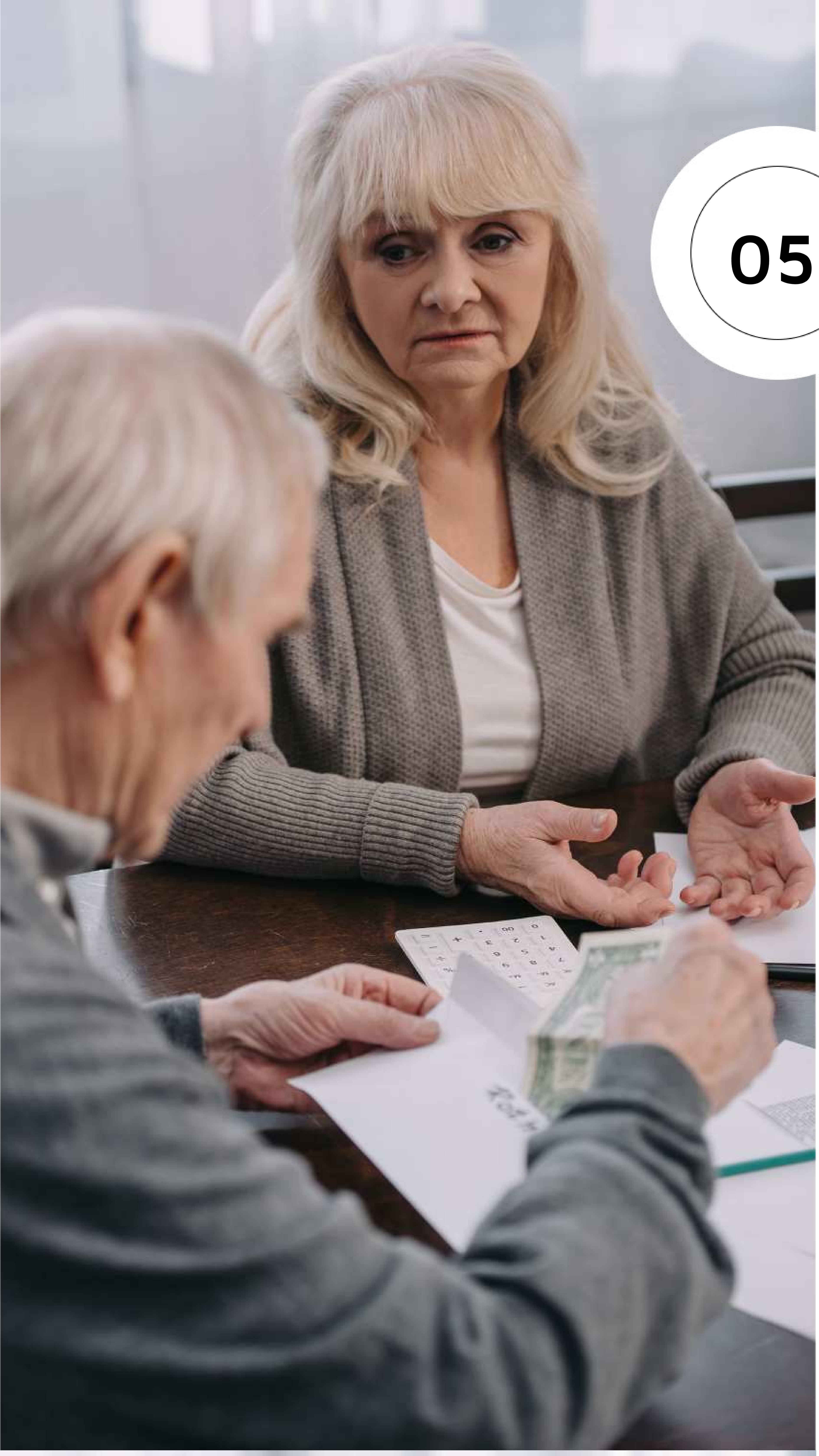
- All capital losses for the year
- All net capital losses carried forward
- Small business capital gains tax concession that taxpayer is entitled to.

Your total capital losses for the year and any unapplied net capital losses from earlier years. − Any CGT discount and small business CGT concessions to which you are entitled = **Net Capital Gain**

After calculating net capital gain, the taxpayer who disposed of the property includes this increase in his assessable income when his income tax return is filed.

One of the most significant concepts to understand is ‘Capital Gains Tax Events’, defined in the next section. If it is verified that such an event took place and there are no valid exemptions, an assessment will be done at the level of liability.

The decision is made by considering both the purchase costs and the earnings on the sale of the assets.



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Capital Gains Tax Events

A capital gain tax event occurs when you sell or dispose of an asset. This is when you make a capital gain or capital loss.

Keeping a record of this event is vital as it determines your capital gain or loss, further affecting the calculations of your tax liability.

The most common form of capital gain tax event occurs when a capital gain tax asset is sold or there is a change of asset ownership.

As an “A1 event”, The event occurs when a contract of sale is made or the person is no longer the lawful owner of the property.

The detail of C.G.T. events is revealed in the Income Tax Assessment Act 1997 (Cth) Div 104.

It states common capital gain tax events such as the disposal of a C.G.T asset, the loss or destruction of a C.G.T. asset, an asset passing to a tax-advantaged entity, and transferring a C.G.T to a trust or when an individual or Company stops being an Australian resident.

Other capital gain tax events can be accessed at the A.T.O. website.

Capital Gains TAX Assets

Capital gain tax assets are categorised into three groups by the Australian Taxation Office, that is listed below
- Collectables
- Personal use assets
- Other assets

'Collectables' can be any physical asset appreciated over time since it is rare or longed for by many. Most people think of it as coins, stamps, sports cards or fine art, but there is no strict rule regarding what is or is not a collectible.

For instance, a collection of political campaign buttons and badges can be a collectible. Alternatively, if you possess an antique item, it is probably collectible.
The second category is 'personal use asset', a property that an individual does not use for business purposes or investments.

- The third type is 'other assets'. It is the most important for a property investor as it includes the following items
:
- Convertible notes
- Licenses
- Land
- Units of a Trust goodwill
- Shares of a company
- Commercial property
- Contractual rights foreign currency
- Leading capital enhancements made to certain land or pre-capital gains tax assets.

Capital Gains TAX And Real Estate

Spending little time to acquire accurate property-specific information is a good idea since most of the C.G.T. liabilities are linked to selling residential or commercial properties. It is important to seek an accountant's advice before lodging tax returns as there may be instances where the calculation of cost base or the reduced cost base of assets will be the total capital gain. For example, the depreciation of your assets reduces the cost base (i.e. the purchase prices of the asset), thus increasing the C.G.T amount based on the extra "profit".

Let's talk about the residence first. Any dwelling house which is said to be the primary residence of taxpayers will be exempted from the C.G.T. If a house that is used for purposes other than as a business is sold, the concept of a capital gain or loss will not be applied.

To determine whether a residence can be classified as a primary residence, you must examine the following aspects.

• The overall period you have resided there
• Whether your family lives in that residence
• The address where your mail has been sent
• Whether you have shifted your stuff over there
• Your address mentioned on the electoral roll
• Your purpose for residing in that house
• The address for the connection of services

To summarise, if you moved into your house as soon as it was purchased, it will be considered your primary residence from when you started living there.

Alternatively, the situation will become complicated if you are the owner of an investment property since you will be liable for C.G.T the instant you sell the property.

Buying an investment property in different formats will have different C.G.T. calculations applied to them.

EXAMPLE

Buying in your name, John and Jenny may be entitled to a 50% discount on the capital gain before the amount is applied to your marginal tax rate.

Alternatively, a property purchased by a company sold after 12 months will pay a capital gains tax of 30% of the total gain.

Yet, if a superannuation purchases a property, it will only pay 10% C.G.T. after the first 12 months and potentially pay no capital gains tax, depending on John and Jenny's member's status in retirement.

There are various general issues of C.G.T. relating to real estate. For example, there are many costs other than the purchase price, subtracting the selling price and then paying tax on this amount. The cost of owning and cost base adjustment associated with capital works can be included in this cost. The previous capital losses can also be deducted under certain situations. Moreover, the formulas for making deductions can be complex to a certain extent and differ from one case to another. It depends on the conditions under which the property was purchased. It is recommended once again to seek advice from an experienced tax advisor while calculating the appropriate deductions.

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Calculating Your Capital Gains Tax Liability

Many methods are available to calculate the amount of C.G.T. liability that will be added to your income tax return. The most basic form is presented below:

1. Calculate the cost base for each asset or part mentioned first.

2. Calculate the assessable capital gains:
Assessable capital gains= Disposal price (excluding the cost of sale) - The cost base

3. Offset capital losses, if there are any.
Offset by any discount. E.g. the 50 % allowance for assets held more than 12 months)

4. Then, add the capital gain to the other assessable income to determine the overall tax liability.

You can also determine the tax liability by applying other methods, such as a frozen cost base method. Your eligibility for this approach will rely upon other factors, such as when the asset was purchased or business type.

However, to identify the correct formula for your situation, a tax advisor will guide you in the right direction.

Paying Capital Gains Tax.

As mentioned earlier, for most of the C.G.T. situations, your capital gain is the difference between your capital profits and the cost base of your C.G.T. assets. This is where you make earnings on investments. To pay capital gain tax, you need to figure out first whether you are liable to pay capital gain tax or not. You must keep all the following factors in mind when deciding if you will be liable for C.G.T. as told by the A.T.O. :

- Did the purchase take place before the introduction of C.G.T. legislation?
- Do your assets fall under the category of Capital Gain Tax?
- How do the calculations of capital gain and capital loss affect the liability of taxation?

Capital gains are good, but the taxes you must pay are not. You will know if you need to pay capital gain tax after discovering the answers to the abovementioned points.

Minimising Capital Gains Tax Liability

C.G.T will be applied to any asset you sell at a higher cost than purchased. I am sure that none of us likes to pay taxes; hence, here are some valuable tips on reducing capital gains tax using legitimate ways when selling off your property, shares or other assets.

Sell off assets with poor performance to offset your tax

Since your original purchase, the assets that have fallen in value should be sold first. It will realise a capital loss that could offset a capital gain from another asset you may trade in the same financial year.

Delay sale or Stay away from selling properties.

Current formulas suggest you will likely pay more tax on a property held for less than 12 months before selling it. Hence, avoid selling such assets in hunger of a quick profit as it will result in you giving your profit directly to the tax man.

If you are searching for the easiest way to reduce C.G.T., then the best way is to avoid selling properties. You have to stop the capital gain tax from taking place, as the capital gain tax only applies to realised capital gains. However, this is not a realistic approach for every taxpayer, so other ways to reduce capital gains tax should also be considered.

Maintain detailed records.

You must maintain detailed records to minimise the C.G.T. for example, the cost of possessing property can be offset against the C.G.T. liability. Still, the only problem here is that the A.T.O. will not acknowledge rough estimates of this cost. You should thus maintain a thorough record and keep every piece of paper associated with your ownership of the assets. Some of these scraps may be irrelevant regarding the liability workout, but it is best to keep all the records because you might need them.

HARVEST CAPITAL LOSSES.

Capital losses are an alternative way to reduce your C.G.T. liabilities. In most cases, they are carried forward to the next tax year. Consequently, the year in which you have made a capital loss would be the best time to sell off a property from which you will probably earn a profit.

GET ADVICE BEFOREHAND.

Before selling off an asset for profit purposes, you should seek professional help as C.G.T. is extremely complex. The experts will help you estimate the potential C.G.T and discuss how you can reduce it within the limits of the law. You can look at the official Australian Tax Office and Capital Gain Tax guidelines to get an idea. It tells you the rules, exceptions, timeframes, concessions and formulas.

Other ways you can minimise the C.G.T you pay by: Check if there is any exemption that lets you lessen the capital gain or capital loss. Discover whether the C.G.T. discount is applicable or not. Find out if any small business concessions are applicable.

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AUSTRALIA

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conclusion

Property investments can be immensely profitable and an excellent way to create wealth. However, there are some associated risks. Predicting profits and guessing taxation is highly complicated, and it requires expertise when you are planning for negatively geared investments. It would be best if you relied on a professional financial advisor who can understand your financial position and guide you according to them to maximise your profits and make a successful wealth-generating plan. You will make progress on your road to financial independence with the support of the right advisor.

BUILDING ASSISTANCE AUSTRALIA

DISCLAIMER ON OUR UNIQUE SKILLS.

Our team members are specialist investment planners in property, and what we do is different to that of a financial planner. We are licenced to deal in real estate, not financial planning.

Financial planners and accountants often buy into us to assist their clients in starting a successful property portfolio. We have no specialist skills in family succession, shares, or testaments. We do not hold an Australian Financial Services or Credit Licence. Until we learn more about your uniqueness, the opinions published here can only be general.

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The data in the following graphs and tables are from third-party authoritative sources, all listed at the rear of this document.
These use historical data. Of course, past performance is not necessarily indicative of near- future results. We use this data to highlight long-term trends.

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We believe that any financial commitment is a big step in your journey, so we strongly recommend obtaining independent advice before making financial decisions arising from this document.

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The law compels us to state that we make no warranty as to the accuracy, completeness, or reliability of the information, including the tools used to compute the information, nor do we accept any liability and responsibility arising in any way from omissions or errors contained in this document.
All arguments herein are made in good faith, and all data has been obtained in good faith from the most accurate sources we could find, much from government agencies

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Feel free to contact us to set up an initial complimentary meeting and find out how we can help you on your quest to develop your property portfolio that can change your future.

The steps include:
Step one. Relationship.
Step two. Knowing the numbers.
Step three. The choices.
Step four. Recommendations.
Step five. Plan into action.
Step six. Working together as a team.

CONTACT US TO START YOUR RELATIONSHIP WITH OUR LICENSED TEAM MEMBERS