RURAL PROPERTIES AND CAPITAL GAINS TAX

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What is Capital Gains Tax?

The Australian Taxation Office defines Capital Gains Tax (CGT) as the tax paid on the net capital gain on assets that you sell.

The capital gain or loss is generally calculated by comparing the cost of purchasing the asset against the amount received for selling your asset. Adjustments are then made for certain other costs.

At the end of each financial year, you must calculate your overall capital gain or loss from all assets sold which are subject to CGT. Your accountant will then work out your net capital gain and add this to your taxable income.

If you derive a capital loss, you may be able to use it to reduce your other capital gain in the same, or future, income years.

Is your rural property subject to CGT?

- Does your home have over 2 hectares of land?
- Did you purchase it after 19 September 1985?

If you answered yes to the above, you will most likely be required to pay CGT when you sell your property for a profit.

How is my Capital Gain Calculated?

Though this is a complicated process, the calculation of your capital gain can be broken down into a few steps. Basically, the original purchase price and the sale price are apportioned between your house, 2 hectares and remaining land. However, there are many things that need to be taken into consideration. For instance:

- Generally, your home and 2 hectares of your choice will be exempt from tax. We recommend you choose your best 2 hectares and pay tax on the lower value land. For example, on a 20 hectare property which is not used for business purposes, we could include the area immediately around your house and any dams, cleared area and flat land. The 2 hectares you choose does not have to be adjacent but rather can be spread all around your property!
- To ensure an accurate valuation we suggest you consult a registered valuer to perform a retrospective valuation.
- If you purchased your property after 21 August 1991, adjustments can be made for a portion of your non-tax deductible costs like interest on your mortgage, council rates, improvements and incidental ownership costs.

I know I have to pay CGT, but what can I do to best benefit myself?

There are a number of adjustments you can make to your CGT calculation. Some things to consider include:

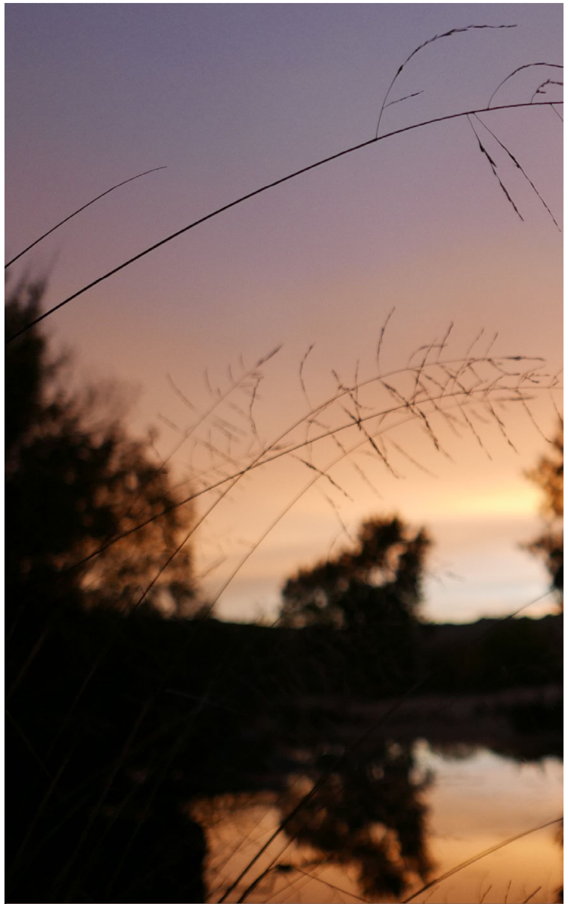
- The date of sale: this is the date contracts are exchanged, not the date of settlement. It is best not to exchange in June and settle in July as you will bring forward your tax debt by 12 months.
- If you own your property for more than 12 months you will only pay tax on half the gain - we generally recommend delaying the sale if it is a new property.
- Choose the best 2 hectares to claim your exemption on.
- Using a registered valuer can help to determine your cost base and sale price apportionment.
- Running a small business can actually save you tax when you sell your property. You may be entitled to extra concessions such as a full exemption if retiring or a further 50% reduction on your business land.
- Different rules apply if you inherited your property. Definitely something you need to discuss with us.
- You can rent your main residence for up to 6 years and still claim a full CGT exemption on your house and 5 acres. The ATO will only allow you to claim the main residence exemption on one dwelling at a time. This means if you purchase a new home, you cannot claim the exemption on both homes except in certain limited circumstances.

Need an Example?

Peter and Anne purchased a 20 hectare property at Ellalong in 2010 for $300,000. They paid $20,000 in legal fees and stamp duty when purchasing the property.

The property was sold in July 2019 for $600,000, with contracts exchanged in May 2019. Peter and Anne paid $15,000 in real estate agent commission and conveyancer fees. So what tax effects should they consider?

- Ignoring any CGT exemptions, the gross capital gain on sale of the property would be $295,000. As the property was owned jointly, this gain would be split equally between Peter and Anne. The actual tax payable would depend on what other income they earned.
- As the property was owned for more than 12 months they will be entitled to a 50% discount on the capital gain. The net gain would be $147,500 (ie. $73,750 each).
- For CGT, the date of sale is the date the contracts were exchanged—May 2019. This means the capital gain will be included in the 2019 tax returns even though the sale proceeds weren't received until 2020 tax year.
- If Peter and Anne had lived on the property since purchase, they could reduce the capital gain for the portion relating to their home and 2 hectares. They would need to apportion the purchase and sale values between the exempt area (house and 2 hectares) and the taxable 18 hectares. They can choose which 2 hectares they wish to claim the exemption on.
- If Peter and Anne had run a legitimate business on the property and used the land for that business, they could potentially claim a further 50% reduction as a “Small Business Active Asset” concession.



Have some more questions? Why not make an appointment to discuss all your options?

Contact us at:

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