2021

Tax Time Toolkit

Investors

Australian Government

Australian Taxation Office

NAT 75780-06.2021 DE-35314

The 2021 Tax Time Toolkit for Investors

We encourage you to share this information with your staff, clients, members and networks.

Our Investors Toolkit is a great resource for anyone earning money from their investments, whether you invest in property, shares and units, or cryptocurrency.

While things look different this year, what hasn't changed is our commitment to provide further support for all investors to 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 rework down the track.

In addition to our rental property fact sheets we have expanded the topics to include information on:

- cryptocurrency
- pay as you go instalments
- capital gains tax for
  - marriage or relationship breakdowns and real estate transfers
  - inherited property
  - sale of a rental property.

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

Whilst this year has still had its challenges, your tax return doesn't need to be challenging. This toolkit has been designed to help investors and their agents understand their obligations and avoid costly mistakes in their returns. 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

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 2021** – an overview of the essential information individuals need to know for their tax return this year
- **Dealing with disasters** – specific advice for those affected by natural disasters
- **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 you 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 the work-related expenses you are entitled to
- **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 unique to your tax and super circumstances
- **Fixing a mistake in your 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
- **ATOCommunity** – 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

Information for rental property owners

The following pages contain fact sheets for rental property owners:

- Top 10 tips to help rental property owners avoid common tax mistakes
- Tax-smart tips for your investment property
- Rental properties – interest expenses
- Rental properties – borrowing expenses
- Rental properties – damaged or destroyed property
- Rental properties repairs, maintenance and capital expenditure
- Renting out a room?

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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 as a result of you 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 floor boards are not immediately deductible but a deduction may be claimed over a number of 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 which 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 (eg 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 five 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 any 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 then used when working out whether 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.

7. Getting construction costs right

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

Where your property was owned by someone else previously, 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 obtain those 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 your rental property is rented out to family or friends below market rate, you can only claim a deduction for that period up to the amount of rent you received. You can't claim deductions when your family or friends stay free of charge, or for periods of personal use.

9. Keeping the right records

You must have evidence of your income and expenses so you can claim everything you are entitled to. Capital gains tax may apply when you sell your rental property. So keep records over the period you own the property and for five years from the date you sell the property.

10. Getting your capital gains right when selling

When you sell your rental property, you may make either a capital gain or a capital loss. Generally, this is the difference between what it cost you to buy and improve the property, and 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, you will need to 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.

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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 will have tax obligations and entitlements.

Getting record keeping right makes tax time easy

Whether you use a tax agent to prepare your tax return or do it yourself, 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

Here are some record keeping tips:

- Set up an easy-to-use record-keeping system as your first priority. This can be as simple as 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.

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

1. Include all the income you receive
This includes income from short term rental arrangements (eg 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 – Claim only for expenses incurred for the period your property was rented or when you were actively trying to rent the property on commercial terms.
- 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 or only part of your property was rented out, where 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.

If you sell an investment property or your main residence that you have 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 have claimed 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.

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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. However, the property must be rented, or genuinely available for rent, in the income year for which you claim a deduction.

What can you claim?

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

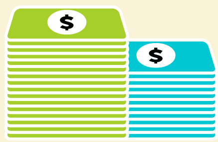
- purchase a rental property
- purchase a depreciating asset for the rental property (for example to purchase a new air conditioner for the rental property)
- make repairs to the rental property (for example roof repairs due to storm damage)
- finance renovations on the rental property
- you can also claim interest you have pre-paid for up to 12 months in advance.

What you can't claim?

You cannot claim interest:

- for the period you used the property for private purposes, even if it's for a short period of 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 do not use the new home 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.

If you have a loan you used to purchase a rental property and also for another purpose, such as to buy a car, you cannot repay only the portion of the loan related to the personal purchase. Any repayments of the loan are apportioned across both purposes.



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

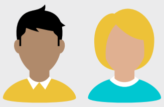
1. Include all the income you receive
This includes income from short term rental arrangements (eg a holiday home), sharing part of your home, and other rental-related income such as insurance payouts and rental bond money you retain.

2. Get your expenses right

- Eligibility – Claim only for expenses incurred for the period your property was rented or when you were actively trying to rent the property on commercial terms.
- 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 or only part of your property was rented out, where 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 purchase 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 from which $380,000 is to be used to buy a rental property and $20,000 is to be used 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.

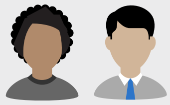
To work out how much interest she can claim as a tax deduction, Yoko must do the following calculation:

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 home to purchase 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 loan facility with sub-accounts, that is, the two 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 cannot claim an interest deduction against the $400,000 loan used to purchase their new home as it is not being used to produce income even though the loan is secured against their rental property.

Example:

Interest incurred on funds redrawn from the loan halfway through the year

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.

Halfway through the year, 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 that time is $365,000 and total interest expense incurred until then is $9,300.

The total interest for the year is $19,000.

Tyler can only claim the interest expense on the portion of the loan relating to the rental property using the following calculation:

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 in respect of the period following the redraw:

Total interest expenses x (rental property loan portion ÷ loan balance at the time of the redraw) = deductible interest

That is:
$9,700 x ($355,500 ÷ $365,000) = $9,448

Tyler can claim interest of $18,748 being $9,300 plus $9,448.

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Rental properties
Borrowing expenses

What are borrowing expenses?

These are expenses directly incurred in taking out a loan for the purchase of 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
- stamp duty charged by your state/territory government on the transfer (purchase) of the property title (this is a capital expense)
- legal expenses, including solicitors' and conveyancers' fees for the purchase of the property (this is a capital expense)
- 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)
- insurance premiums where, under the policy, your loan will be paid out in the event that you die, become disabled or unemployed (this is a private expense)
- borrowing expenses on any portion of the loan you use for private purposes (for example, money you use to buy a car).

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

1. **Include all the income you receive**
   This includes income from short term rental arrangements (eg 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 – Claim only for expenses incurred for the period your property was rented or when you were actively trying to rent the property on commercial terms.
   - 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 or only part of your property was rented out, where 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.

Claiming borrowing expenses

- If your total borrowing expenses are more than $100, the deduction is spread over five 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 five 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 obtained the loan part way through the income year, the deduction for the first year will 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 purchase a rental property for $170,000 and a private motor vehicle for $39,000, the Hitchmans paid a total of $1,670 in establishment fees, valuation fees and stamp duty on the loan. As the Hitchmans' borrowing expenses are more than $100, they must be apportioned over five years, or the period of the loan, whichever is the lesser.

Also, because the loan was for both income-producing and personal purposes, only the income-producing portion of the borrowing expenses is deductible. As they obtained the loan on 17 July 2017, 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	=	maximum amount for the income year	×	rental property loan / total borrowings	=	deduction for year
Year 1	$1,670	×	349 days / 1,826 days	=	$319	×	$170,000 / $209,000	=	$260

Their borrowing expense deductions for subsequent 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	=	maximum amount for the income year	×	rental property loan / total borrowings	=	deduction for year
Year 2	$1,351	×	365 days / 1,477 days	=	$334	×	$170,000 / $209,000	=	$272
Year 3 (leap year)	$1,017	×	366 days / 1,112 days	=	$335	×	$170,000 / $209,000	=	$272
Year 4	$682	×	365 days / 746 days	=	$334	×	$170,000 / $209,000	=	$271
Year 5	$348	×	365 days / 381 days	=	$333	×	$170,000 / $209,000	=	$271
Year 6	$15	×	16 days / 16 days	=	$15	×	$170,000 / $209,000	=	$12

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Rental property – Damaged or destroyed

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. To understand the types of payments and how they affect your tax, check with us at: ato.gov.au/Assistance

Replacing depreciable assets

If the insurance payout you received for your depreciating asset is more than its written down value you need to include the balance as income. Where 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 purchase items for your rental property, the normal conditions for deductibility apply.

Event	Classification	Example	Claim: old asset (destroyed)	Calculation for expenditure
Replacing an entire structure that was fully or partially damaged or destroyed	Likely to be **CAPITAL WORKS**	Replacing **ALL** the fence, not just the damaged portion or replacing all kitchen cupboards	This may result in a capital gain or loss. See **ato.gov.au/Involuntary-disposal**	New asset generally deductible at 2.5% over 40 years
Fixing something that is damaged or broken	Likely to be a **REPAIR**	Fixing a leaking tap, or **PART** of the fence damaged in the storm	Not applicable	Amounts for **REPAIRS AND MAINTENANCE** are claimed fully in the year the expense is paid
Installing a brand new appliance or floor or window coverings	Likely to be a **DEPRECIATING ASSET**	Buying a brand new dishwasher or installing new carpet	If claiming the original item as **CAPITAL ALLOWANCES**, claim a deduction for the remaining balance (adjustable value) less any compensation received	Claim a deduction over the effective life of the asset (Decline in value)

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

What happens if my 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 some costs you incur while doing repairs or renovations. For example, council rates or interest charged on your mortgage. **You cannot claim a deduction for your own labour.**

However, the repairs or renovations need 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 as a result 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 three years from the date of the exceptional circumstances to continue to claim deductions using this exemption. See ato.gov.au/Exceptions-vacantland

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

If you receive an insurance payout, it may need to be taken into account when calculating your capital gain or loss. A capital gain will arise if the insurance payout is more than the asset's cost base, if the insurance payout is less than the reduced cost base you will 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 a later point in time.

To defer the gain you must incur expenditure within one year after the end of the income year the property/asset was destroyed. For more information on involuntary disposal of a CGT asset, see ato.gov.au/Involuntary-disposal

You choose not to rebuild your rental property

You will need to calculate your capital gain or loss.

Any insurance payout you receive will 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 will occur 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 six years after you move out, even if the property is destroyed. Your main residence is exempt from CGT, however you 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 for these amounts retain all loan documents and statements.

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

Examples

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 within a reasonable time and then advertised the property for rent. Even though the property was not available for rent while being repaired, he is able to claim for the repairs because it was rented immediately before the damage occurred.

Deduction for replacement of depreciable items

Josh's rental property was covered in smoke and ash from recent bushfires. He had the home thoroughly cleaned and needed to replace all of the 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 had decided to repair the damaged carpet and curtains instead of replacing them, he would claim the immediate deduction as a repair.

No capital works deduction

Zahli owns a rental property that was damaged in a severe hailstorm. As a result of the storm damage Zahli's insurance company replaced the entire roof.

Zahli is not entitled to a capital works deduction for the new roof which was carried out by the insurer.

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Rental properties repairs, maintenance and capital expenditure

Quick reference chart

If you replace something that is worn out, damaged or broken as a result of renting out your property	This is likely to be a **REPAIR**	Eg, replacing part of the 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
If you are preventing or fixing deterioration of an item that occurred while renting out your property	This is likely to be **MAINTENANCE**	Eg, getting faded interior walls repainted or having a deck re-oiled	This should be claimed at **Repair and Maintenance** on the rental schedule
If you repair damage that existed when the property was bought (whether it was known about at the time of purchase or not)	This is likely to be an **INITIAL REPAIR**	Eg, fixing floorboards or repairing a broken window that had damage when the property was bought	This should be claimed in your **cost base** (capital gains tax) or claimed at **Capital Works** or **Capital Allowances** on the rental schedule
If you replace an entire structure that is only partly damaged, or renovate or add a new structure to the property	This is likely to be a **CAPITAL WORKS**	Eg, replacing all the fencing, not just the damaged portion, or adding a carport	This should be claimed at **Capital Works** on the rental schedule
If you install a new appliance or floor/window covering	This is likely to be a **DEPRECIATING ASSET**	Eg, buying a brand 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 as a result of your renting out the property
- the property either
  - continues to be rented on an ongoing basis
  - remains available for rent but there is a short period 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 as a result of your 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 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 which may be claimable over time

Capital Allowances

Depreciable assets are those items that can be described as plant, which do not 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.

For each asset that you claim a deduction for decline in value, you can choose to use either:

- the effective life the Commissioner has determined for such 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 is used to describe 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 is considered anything that makes an aspect of the property better, more valuable or more desirable, or changes the character of the item on which works are being carried out.

Improvements include work that:

- provides something new
- generally furthers the income-producing ability or expected life of the property
- goes beyond just restoring the efficient functioning of the property.

Improvements can be either capital works where it is a structural improvement or capital allowances where the item is a depreciable asset. It is important to correctly categorise each expense you incur to ensure it is 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 considered capital in nature. These costs may form part of the cost base of the property for capital gains tax purposes (but not generally to the extent that capital works or capital allowances deductions have been or can be claimed for them). The costs to make a property suitable to be rented out are of a capital nature and not immediately deductible. To be deductible, the necessity for repairs must have arisen from the rental activity of the person making the claim, not that of some 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 for the cost of repairs incurred to restore the property to its original condition.

Example 1:

Initial repairs not deductible (existing damage)

Lisa purchased 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 that 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 is not 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 2:

Repairs cost (special circumstances beyond your control)

Dimitri purchased a property with the intention to rent. Unexpectedly, after ten weeks of the property 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 undertaken 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 damaged roof tiles.

This is a general summary only

For more information go to ato.gov.au/rental
Watch our short videos at ato.gov.au/rentalvideos
wnload our free Rental properties guide at ato.gov.au/rentalpropertyguide
Read our Guide to capital gains at ato.gov.au/cgtguide

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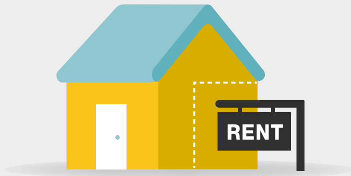
Australian Government
Australian Taxation Office

Renting out a room?

How to work out the expenses you can claim

If you rent out all or part of your home 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, eg 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 (eg 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/common areas?
- How many days was the room rented out?

How to work it out

Rented room (claim 100% for days rented):

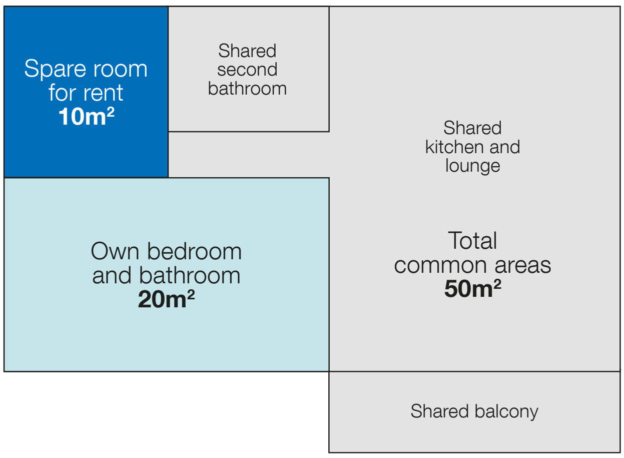
$$\frac{\text{rented room size}}{\text{total size of house/unit}} \times \frac{\text{number of days rented}}{\text{total days in the year}} \times 100 = \%\text{ of expenses claimable}$$

Common areas (claim 50% for days rented):

$$\frac{\text{total common areas}}{\text{total size of house/unit}} \times \frac{\text{number of days rented}}{\text{total days in the year}} \times 50\% \times 100 = \%\text{ of expenses claimable}$$

Example

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



Rented room: $\frac{10}{80} \times \frac{150}{365} \times 100 = 5.13\%$

Common areas: $\frac{50}{80} \times \frac{150}{365} \times 50\% \times 100 = 12.84\%$

Total percentage of expenses you can claim = **17.97%**

Capital Gains Tax

When selling the property, you may have to pay capital gains tax (CGT).

This is a general summary only

For more information, speak with your tax agent or visit **ato.gov.au/sharingeconomy**

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Information about capital gains tax for rental property owners

The following pages contain fact sheets about capital gains tax for rental property owners:

Australian Government
Australian Taxation Office

CGT on sale of rental properties

Capital gains tax obligations when selling your rental property

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, if you made major capital improvements to the property after 19 September 1985, they are treated as a separate CGT asset if the cost base of the improvements are both:

- **more than** 5% of the amount you receive when you dispose of the property
- **greater than** the **improvement threshold**

You can 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
- **less than** the cost base, you'll need to calculate the reduced cost base.

If the reduced cost base is:

- **more than** the capital proceeds, the difference is a capital loss
- **less than** the capital proceeds, there is neither 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 **five 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: purchase price

Element 2

Incidental costs of acquiring, selling or disposing 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 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

(Reduced cost base)

Balancing adjustment amount

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

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

Working out your cost base or reduced cost base (cont)

How to calculate a reduced cost base:

1. Include all elements of the cost base except the third element which changes to now be the balancing adjustment amount, for example a balancing adjustment relates to the sale of the depreciable assets in the rental property.
2. Do not 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 yet expired.

Depreciating assets

A depreciating asset is considered a separate asset from the property for the purpose of CGT. 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 three 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 asset **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 into the contract for the sale or 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. (Go to **ato.gov.au/costbaseinheritedproperty**)

Apportioning gain or loss

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

Main Residence

If your rental property was your main residence

As a general rule, 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 six years, if it is used to produce income
- 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 six months).

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

If you use any part of your main residence to produce income, during all or part of the period you owned it (such as renting out a room or running a business), you are not entitled to the full main residence exemption where you:

- acquired your 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).

This would not include a home study to undertake work usually done at your place of work.

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 only a partial exemption, because you used the property to produce assessable income during the period you owned it
- 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.

Search for our Capital gain tax property exemption tool on **ato.gov.au** 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, 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 five years after the sale of the property (or year in which you declare a capital gain). If you make a capital loss, once you've offset the loss against a capital gain, you should keep your records for a further two years.

For more information with recording 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 will impact you when you sell residential property in Australia. Refer to **www.ato.gov.au/foreignresidentsmainresidenceexemption**

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 (which she treated as her main residence) and began to rent out her old house. She had a valuation done at that 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 is taken to have 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.

Vrinda also has incidental costs of $15,000 for acquiring/selling the property. Vrinda makes a capital gain of $135,000. Since Vrinda 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.

Example: Renting out part of a home

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

Throughout the period Thomas owned the home, a tenant rented one bedroom, which represented 20% of the home. Both Thomas and the tenant used the living room, bathroom, laundry and kitchen, which represented 30% of the home. Thomas used the rest of the home. Therefore, Thomas would be entitled to a 35% (20% + half of 30%) deduction for interest if he had incurred it 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 × percentage of floor area = taxable portion

$120,000 × 35% = $42,000

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

Example: Sale of a rental property

Brett purchased a residential rental property on 1 July 1998, for $350,000 of which $12,000 was attributable 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 cannot include the expenses of $33,000 in the cost base, as he was able to claim 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 at a cost of $30,000.

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

Brett could claim 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 will give him the best result, so he uses this method 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 will not make a capital gain or capital loss from the depreciating assets.

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**

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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) is a result of 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. See also, **agreements if the rollover applies**

If a rollover applies

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 disregard any capital gain or loss.

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

- The property and cost base are transferred to you.
- You will 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 those 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, that is 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 you make in 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 dependant 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 **valuation**.

See also: **Rollovers**

Record keeping

You must 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) to which 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 proportion of the dwelling that was 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 five years after the sale of the property, or the year in which you declare a capital gain.

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

Example – Pre-CGT assets and main residence exemption

After marrying, Sergio and Nina bought a home on 1 February 1985 for $175,000. Ten years later, they bought a larger home on 1 January 1996 for $325,000.

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.

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 does not 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 now includes Sergio's cost base at the time of transfer, as well as the cost base of her own original interest. Therefore, the full purchase price of the property ($325,000) forms part of the cost base for Nina.

Nina must take into account how she and Sergio used the property during their respective ownership periods to determine whether any main residence exemption apply. As the property has been their main residence since purchase, and they didn't use it to produce income at any time, Nina is entitled to the main residence exemption. The property will not be subject to any CGT upon sale.

However, CGT obligations may arise if, in the future, Nina:

- no longer treats the property as her main residence
- uses the property to earn rental income
- uses the property to run a business.

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 does not have to report a capital gain or loss.

Alex must take into account how he and Sam used the property during their respective ownership periods to determine whether a partial main residence exemption applies. Therefore, Alex must calculate the capital gain on his original interest in the property separately to the interest Sam transferred to him.

See also:

- Relationship breakdown refer to **ato.gov.au/relationshipbreakdown**
- Treatment of assets other than real estate refer to **ato.gov.au/cgtotherassets**
- Calculating the CGT asset cost base refer to **ato.gov.au/cgtpartialexemption**
- Calculating the CGT asset cost base refer to **ato.gov.au/cgtcostbase**
- Tax smart tips refer to **ato.gov.au/taxsmarttips**

This is a general summary only

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Read our Guide to capital gains at **ato.gov.au/cgtguide**

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Australian Government
Australian Taxation Office

Capital gains tax on inherited property

This factsheet provides a summary and general information only. As this is a complex topic, it may not meet your individual circumstances. If you are uncertain, you should obtain appropriate professional advice relevant to your circumstances. You can also find more information at ato.gov.au/deceasedestatesCGT

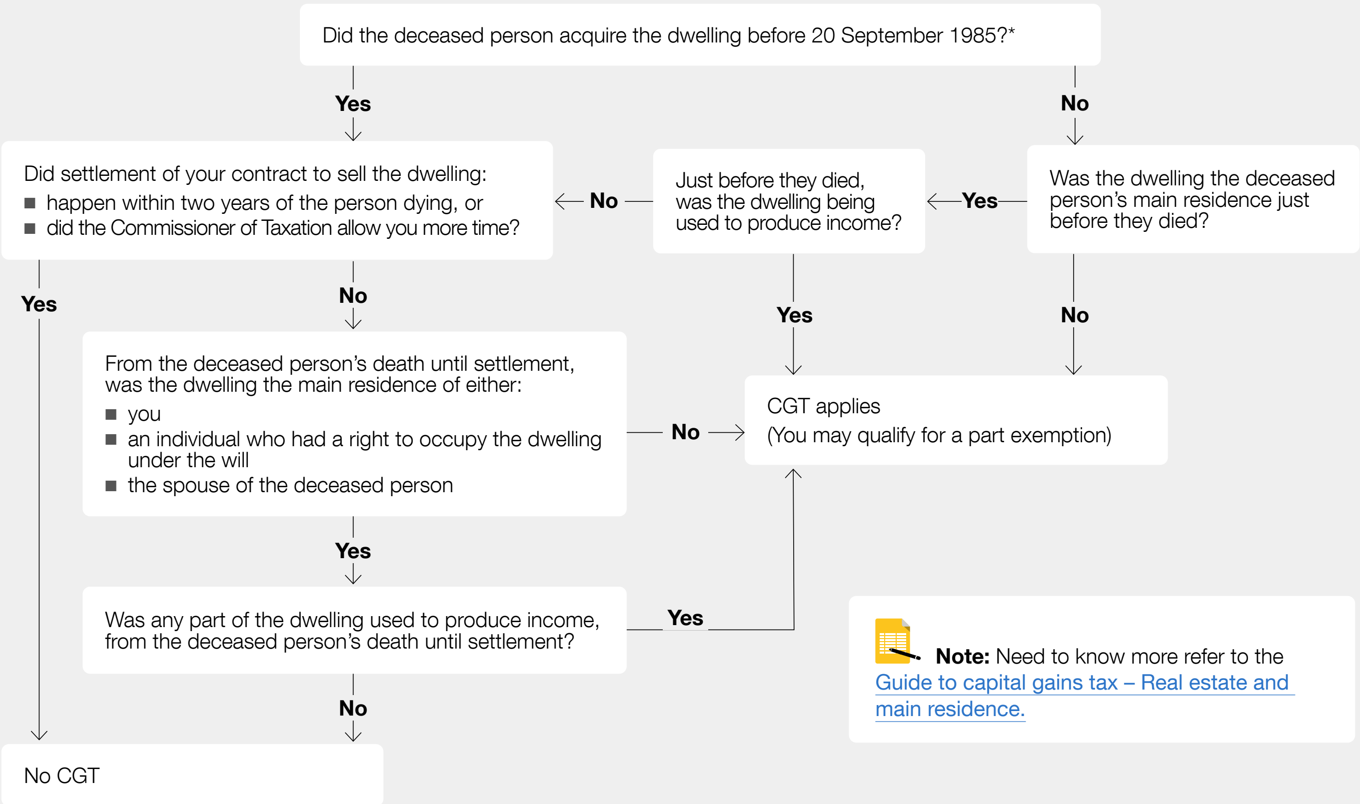
The property you inherit is a capital asset that you acquire on the day the person dies. Generally, capital gains tax (CGT) doesn't apply at the time you inherit the dwelling. However, CGT will apply when you later sell or dispose of the dwelling, unless an exemption applies.

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 was not being used to produce income at that 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 any individual who had the right to occupy it under the will, or the main residence of the spouse of the deceased person immediately before their death and it was not being used to produce income
- you dispose of an inherited property within two 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 two-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 being used to produce income just before the date they died.

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

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



Note: Need to know more refer to the Guide to capital gains tax – Real estate and main residence.

Where 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 those improvements are a separate asset and may be subject to CGT. (*refer to flow chart)

How to determine the value of an inherited property

Your 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 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 was not being used to produce income
- the dwelling passed to you as the trustee of a special disability trust.

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

- 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 obtain these details.

Joint tenants and tenants in common

If two or more people acquire a property together, it can be as 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 either 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 that 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 that you inherited 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 six years when you sell or dispose of the property.

For more information, refer to disposing of assets from a deceased estate at ato.gov.au/deceasedestateforeignresident

Inheriting a dwelling from someone who inherited it themselves

If you inherit a deceased person's 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.

For more information, refer to Guide to capital gains tax 2020 – Inheriting a dwelling from someone who inherited it themselves

Examples

Example 1: Fully exempt – deceased acquired the dwelling on or after 20 September 1985 and beneficiary sold it within two years of death

Rodrigo is 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 dies 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 two years of his father's death.

Example 2: Partial exemption – main residence of deceased but then rented out for more than two 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 acquires it until her death on 31 March 2009 (a total of 4,383 days). The property then passes to her beneficiary, Amy.

Amy lets the home as a rental property throughout her ownership period. After eight 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:

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

Amy will need 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 (if any) 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.

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

Example 3: Partial exemption – inherited rental property – main residence of beneficiary

Vicki buys a house for $400,000 on 12 February 1995 and uses it solely as a rental property. She dies on 17 November 1998 (owning the home for a total of 1,375 days). The house then passes 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 selling.

Lesley later sells the property for $650,000 on 27 November 2018. He has 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 4: Partial exemption – Main residence deceased – rental property and main residence beneficiary

Mary acquires 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 this main residence after 19 September 1985 and did not use it to produce income. Upon her death, the dwelling passed to Steve as a beneficiary after 20 August 1996. Therefore, Steve is taken to have 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 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 or speak to a registered tax professional.
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

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Information about cryptocurrency

The following page contains a fact sheet about cryptocurrency:

- Tax-smart tips for your cryptocurrency investment

Australian Government
Australian Taxation Office

Tax-smart tips for your cryptocurrency investment

If you exchanged cryptocurrency for goods, cash or other cryptocurrencies then this is normally considered a disposal for the purposes of capital gains tax and you may need to include a capital gain or loss in your income tax return.

Make tax time easier by remembering these three tips:

1. Disposal of cryptocurrency

You must report a disposal of cryptocurrency for capital gains tax purposes if you either:

- exchange one cryptocurrency for another cryptocurrency
- trade, sell or gift cryptocurrency
- convert cryptocurrency to a fiat currency, for example to Australian dollars (AUD).

If you only transfer cryptocurrency from one wallet to another wallet while maintaining ownership of the coin, it is not considered a disposal of cryptocurrency for tax purposes.

If your cryptocurrency holding reduces during this transfer to cover the network fee, the transaction fee is a disposal and has capital gain consequences.

2. Calculating capital gains tax (CGT) on cryptocurrency

Convert your cryptocurrency purchases and sales into AUD to calculate your capital gain or loss.

A capital gain or 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), and
- capital proceeds (what you receive or the market value of what you receive) when you dispose of your cryptocurrency.

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

You can claim any current year net capital loss against 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 cryptocurrency. You will need to keep records for five years after you dispose of cryptocurrency.

Buying (acquiring)

- receipts of transactions, or
- documents that display:
  - the cryptocurrency
  - the purchase price in AUD
  - 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

Owning (holding)

- software costs related to managing your tax affairs
- digital wallet records and keys
- documents showing the date and quantity of cryptocurrency received via staking or airdrop

Selling (disposing)

- receipts of sale or transfer, or
- documents that display:
  - the cryptocurrency
  - the sale or transfer price in AUD
  - 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 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 cryptocurrency

Cryptocurrency is not a personal use asset if it is kept or used mainly as either:

- an investment
- part of a profit-making scheme
- in the course of carrying on a business.

Cryptocurrency is a personal use asset if you:

- acquire and use it within a short period of time
- directly exchange it for items you personally use or consume (see example 3).

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

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

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

Example 1: Disposing of cryptocurrency purchased with fiat currency (a currency established by a country's government regulation or law)

Tim purchases 400 USD Tether (USDT) for **$800** AUD. A few days later Tim exchanges his 400 USDT for 2 Ether (ETH). Tim needs to report his capital gain or loss from the disposal of the cryptocurrency (USDT) in his tax return.

Tim's receipt shows he:

- used **$800** AUD to purchase 400 USDT
- 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 does not include prices in AUD. According to his exchange records, Tim exchanged 400 USDT for 2 ETH on 25/06/2019 at 1:30pm.

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

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

Tim is not eligible for a discount or exemption.

Tim reports a net capital gain of **$95** in his 2019 tax return.

Example 2: Exchanging a cryptocurrency for another cryptocurrency

A few months later, Tim exchanges his 2 Ether (ETH) for 0.08 Bitcoin (BTC).

Tim's exchange records show he acquired 2 ETH on 25/06/2019 at 1:30pm for 400 USD Tether (USDT). At the time of the transaction, the USDT had a market value of **$900** AUD.

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

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

Tim's exchange provides a receipt for the acquisition 0.08 BTC but it does not include prices in AUD. Tim's receipt shows he disposed of his 2 ETH for 0.08 BTC on 13/07/2019 at 2:00pm.

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

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

Tim is not eligible for a discount or exemption.

Tim reports a net capital gain of **$145** in his 2020 tax return.

Example 3: Personal use asset

Josh pays **$50** to acquire cryptocurrency each fortnight. During each of the same fortnights, he uses the cryptocurrency to enter directly into transactions (there is no conversion to a fiat currency first) to acquire computer games. Josh does not hold any other cryptocurrency.

In one fortnight, Josh sees a computer game he wants to buy from an online retailer that doesn't accept cryptocurrency. Josh uses an online payment gateway to purchase the game. In these circumstances, the cryptocurrency (including the amount used through the online payment gateway) is a personal use asset for this isolated transaction.

Example 4: Investment in cryptocurrency

Rose has purchased cryptocurrency with the intention of selling at a favorable exchange rate. She decides to buy some goods and services directly with some of her cryptocurrency. Because Rose uses the cryptocurrency as an investment, the cryptocurrency is not a personal use asset.

This is a general summary only

For more information go to ato.gov.au/cryptocurrency and if you need help working out your capital gain go to ato.gov.au/CGT

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Information about Pay as you go instalments

The following page contains a fact sheet about Pay as you go instalments:

- **Pay as you go (PAYG) instalments**

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 making regular payments, you will reduce any potential amount you may have to pay when you lodge your tax return at the end of the income year.

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 how much to pay.

You can voluntarily enter using your myGov account linked to the ATO:

- 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**.

For more information on how to start paying PAYG instalments voluntarily, visit **ato.gov.au/paygientry** or speak to a registered tax agent.

Calculating your PAYG instalments

You can choose from two 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 regularly. 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.

Review your tax position regularly as you can vary your instalments multiple times throughout the year. The varied amount or rate will apply for the remaining instalments for the income year or until you make another variation.

For more information on varying PAYG instalments, visit **ato.gov.au/varypaygi** or speak to a registered tax agent.

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

Example

Fiona sells her home in 2018–19 and decides to rent while she invests her profits from the sale, rather than buying a new home straight away.

Fiona lodges her 2019–20 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 2021, 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 2021 because she continued to receive instalment income for the January–March 2021 quarter. She lodges her March 2021 quarter instalment notice on the due date of 28 April 2021.

For more information, visit **ato.gov.au/paygi** or speak to a registered tax agent.

This is a general summary only

For more information on PAYG instalments go to ato.gov.au/paygi
For more information on how to start paying PAYG instalments go to ato.gov.au/paygientry
For more information on varying PAYG instalments go to ato.gov.au/varypaygi

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