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CGT & MAIN RESIDENCE EXEMPTION RULES

Disclaimer

Many of the comments in this publication are general in nature and anyone intending to apply the information to practical circumstances should seek professional advice to independently verify their interpretation and the information's applicability to their particular circumstances.

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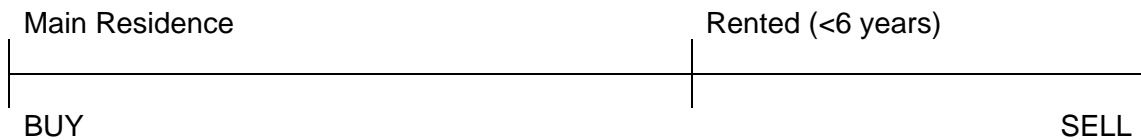
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CGT and Main Residence Exemption Rules

A number of adjustments may be available for taxpayers who sell a property that has been a main residence. The following examples provide a guide to calculating any gain on sale:

Main Residence ⇒ rented ⇒ sold

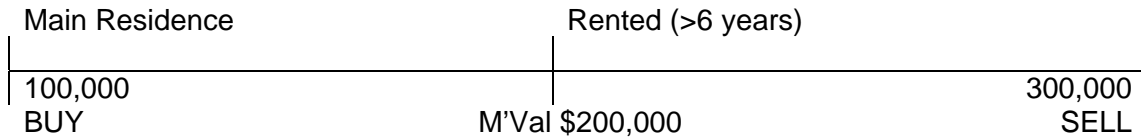
Rented for less than 6 years before being sold



If the client wants to claim full exemption under s118-145 (6 year rule), then the property can be sold with a full exemption (check effect on new main residence and explain to client the impact of improving market values and the sale of their home which has been their residence only).

If the client chooses NOT to apply the concessions in s118-145 (6 year rule), then they are able to use the special rules contained in s118-192. The cost base of the property can be the market value at the date the property first produced income. Deemed acquisition date in this case is the date it first produced income. Discounting may apply if more than 12 months between first produced income and sold.

Rented for more than 6 years and then sold



The taxpayer may be able to claim up to 6 years as main residence (eg if rented for 8 years and then sold, only 2/8 years will be subject to capital gains tax) under s118-145.

Market value rules under s118-192 can apply in addition.

In this example the profit of \$100,000 would result in an assessable profit of \$25,000 $((300,000 - 200,000) \times 2/8)$ which may in turn be eligible for the 50% discount.

Main residence ⇒ Rented ⇒ Main residence ⇒ Sold or Rented ⇒ Main Residence ⇒ Sold

If the taxpayer moves back into the property before it is sold, then the special rules in s118-192 (in relation to market value) cannot apply. The gain is calculated on the number of days rented out of the whole term of ownership. The concessions in s118-145 in relation to the 6 year rule may still apply.