

Capital Gains Tax – Far better than income tax

The system is geared in favour of taxpayers who earn their income from capital appreciation.

Capital Gains Tax (CGT) was introduced and applies to capital assets purchased after 19 September 1995. There have been some changes to this tax since it arrived and, in the small business area, can provide some great benefits if managed properly. This is a complex area and the commentary below is very general. You will need to talk to your tax accountant to make sure you maximise your benefits and minimise your taxes.

The beauty of the CGT is that, as long as you have held the asset for 12 months and you make a capital gain, only 50% of the gain will be taxed. That's a big improvement on your other income which is all assessable.

Small business owners also can reduce their CGT when they sell their business by satisfying certain tests. The small business relief provides an additional 50% reduction on the sale of active assets and if the gain is rolled into superannuation another 50% discount can be applied. The end result is no CGT is payable.

For example assume a business is sold, including all plant and property, as a going concern and the small business tests are met. The gain is \$100,000. The initial 50% discount leaves \$50,000 as assessable income. The small business active assets 50% discount reduces the assessable amount to \$25,000 and by rolling over the gain into superannuation the assessable amount is reduced to \$ nil.

Let's also look at another opportunity and this is not a business one. Your principal place of residence – your home – is exempt from the CGT. Houses bought after 19th September, 1985 are subject to CGT but there is an exemption if you live in the house (with some qualifications that your tax adviser can go through with you). If you are trying to help your children and provide them with a house, make sure their name is on the deed or they can't get the CGT exemption and if your name is on the deed, you (not a resident of the house) will also be caught with the tax. By helping them into a house they might also be able to benefit from the first home owners grant as well.

Be careful if you are buying houses and living in them while renovating. If you do this year after year the Taxman might decide you are actually in the business of renovating houses for sale at a profit. If he decides that you are in business, you might have to fight hard to avoid some large tax bills and penalties.

Capital Gains Tax is a tax on inflation that you can use to your benefit. Please seek advice on your particular circumstances and save tax.

Be healthy, be productive, be happy and smile lots.

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