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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