Australian Government
Australian Taxation Office

Capital gains tax on the sale of property

When selling or disposing of property, you need to consider if capital gains tax (CGT) applies.

As this is a complex topic, it may not meet your individual circumstances. If you're uncertain, get professional advice relevant to your circumstances.

About CGT when selling property

Capital gains tax (CGT) is the tax you pay on profits from disposing of assets, such as a rental property, vacant land or a holiday home. When you dispose of a property, such as by selling it, you may make a capital gain or loss.

You report capital gains and capital losses in your tax return and pay tax on your capital gains. Although it is referred to as 'capital gains tax', it is part of your income tax. It's not a separate tax.

If you bought property before 20 September 1985

You're exempt from CGT if you bought property before 20 September 1985. CGT came into effect from 20 September 1985.

Include pre-CGT disposals in your tax return

Reporting pre-CGT disposals won't affect your tax, but it may stop us from needing to contact you.

Include the pre-CGT asset exemption in the capital gains tax section in your tax return:

- under the heading **Capital gains tax exemption, rollover or additional discount type code**
- select **J: Capital gains disregarded as a result of the sale of a pre-CGT asset** from the drop-down list.

Work done on pre-CGT property

If you bought your property before 20 September 1985 and added to, or improved your property such as renovating it, those changes are major capital improvements.

This work is treated as a separate CGT asset if its original cost is both:

- more than 5% of the amount you receive when you dispose of the asset
- more than the improvement threshold for the income year you dispose of the asset. The improvement threshold can be found on ato.gov.au

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

When you dispose of your property – for example, you sell it, you may make a capital gain or capital loss.

- If you sell the property for more than it cost – you make a capital gain.
- If you sell the property for less than it cost – you make a capital loss.

Calculate your cost base

To calculate your capital gain, you need to work out the 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 that haven't already been deducted. The cost base is made up of 5 elements.

Element 1 – Money paid or property given for CGT asset

For example, the purchase price to acquire the asset.

Element 2 – Incidental costs of acquiring the CGT asset or that relate to the CGT event

For example, costs of advertising or marketing to find a seller or buyer, legal fees, valuation fees, borrowing expenses, such as loan application fees.

Element 3 – Costs of owning the CGT asset

For example, insurance costs, rates and land taxes.

Element 4 – Capital costs to increase or preserve the value of your asset or to install or move it

For example, costs for construction, renovation, and initial repairs that are not otherwise deductible.

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.

Capital works deductions

For a rental property, 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
- haven't claimed a deduction, but can still claim, because the period for amending the relevant income tax assessment has not expired.

Depreciating assets

A depreciating asset is considered a separate asset from the property for CGT purposes. They include things like flooring, air conditioners and white goods.

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 reduced cost base

If your calculations show that you have made a capital loss, some of the costs you included when working out your cost base need to be removed. Your cost base becomes a 'reduced cost base'.

How to calculate a reduced cost base:

- Include all elements of the cost base except element 3, which is replaced with the balancing adjustment amount – for example, the sale of depreciating assets in the rental property would be part of the balancing adjustment.
- Don't apply indexation to any elements of the reduced cost base.

How to calculate your capital gain or loss

To help you work out your capital gains or losses use the Capital gains tax record keeping tool or these steps to calculate the CGT yourself:

- **Step 1:** Work out what you received for the asset (capital proceeds). If you give the asset away or sell it for less than it is worth, your capital proceeds are the market value of the asset.
- **Step 2:** Work out your costs for the asset (your cost base). It is what it cost you to acquire, plus certain other costs you had to acquire, hold and dispose of the asset. If you have already claimed a deduction for an amount, such as capital works, it doesn't form part of the cost base.
- **Step 3:** Subtract the cost base from what you received. If the result is:
  - more than zero, you have made a capital gain
  - less than zero, you need to use the reduced cost base at step 2 to see if you have made a capital loss.

- **Step 4:** Repeat steps 1–3 for each CGT event you have had for this financial year.
- **Step 5:** Subtract capital losses from your capital gains.
- **Step 6:** If the remaining amount is:
  - more than zero, go to step 7
  - less than zero, go to step 8.
- **Step 7:** Apply the CGT discount (50%) for individuals and trusts to any remaining capital gains that are eligible (Australian resident and owned asset for at least 12 months).
- **Step 8:** Report your net capital gain or loss in your tax return.

Timing of a CGT event

The date of the CGT event for disposing of your property is the date you enter a **contract for the sale** of disposal, **not** the settlement date.

If there's no contract, the CGT event takes place when the change of ownership occurs.

The timing of a CGT event tells you the income year to report your capital gain or loss and may affect how you calculate your tax liability.

Inherited property

If you inherit property, there are special rules for calculating the cost base of inherited assets.

Apportioning gain or loss

If you are a co-owner of a property, any capital gain or loss must be apportioned to your share of the ownership interest in the property.

Main residence

If your rental property was your main residence

Generally, 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 6 years if it's used to produce income (the 6-year rule)
- indefinitely, if it's 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 6 months).

You make the choice to treat a property as your main residence, when preparing your tax return. Do this in the income year you enter a contract to sell the property and report the main residence exemption in the CGT section of your tax return.

If you use your former home to produce income for more than 6 years in one absence, it's subject to CGT for the period after the 6-year limit and you need to report a capital gain, or loss as well as the main residence exemption.

If you sold property as vacant land, including when you demolish your main residence, or intended to build on that land before selling – you're **not** entitled to a main residence exemption. Report the capital gain or loss when you sell the property.

Using your main residence to produce income

If you rent out part of your home or run a business from home, you don't get the full main residence exemption from CGT. You're **not** entitled to the full main residence exemption when:

- you acquire a property on or after 20 September 1985 and used it as your main residence, and
- you're allowed a deduction for interest on money borrowed to acquire the property (interest deductibility test).

Property value 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** 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 a partial exemption as you used the property to produce assessable income during the period you owned it (and the 6 year rule doesn't apply).

- 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.

Use our Capital gains tax property exemption tool to calculate the percentage of your exemption.

To determine the property's market value at the time of change of use, you should get a professional market valuation.

If you used your property to earn income and you're eligible for a CGT exemption or rollover, including the main residence exemption, make the election in your tax return at the CGT section.

For more information, see ato.gov.au/MREfactsheet.

Example: sale of a rental property

Brett purchased a residential rental property on 1 July 1998, for $350,000 of which $12,000 was attributed 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 and claimed them in the years they occurred:

Interest on money borrowed	$10,000
Rates and land tax	$8,000
Deductible (non-capital) repairs	$15,000
Total	**$33,000**

Brett can't include the expenses of $33,000 in the cost base, as he already claimed rental deductions for them.

When Brett decided to sell the property, a real estate agent advised him to spend $30,000 on renovations so the property would be valued at $900,000. The renovations were completed on 1 October 2024, costing $30,000, while the property was still rented.

On 1 February 2025 he sold the property for $900,000 ($4,000 was attributed to depreciating assets), 124 days after the completion of the renovations. Brett also incurred $12,000 in real estate agents fees and solicitor's fees on disposal.

Brett claims 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 ($350,000 – $12,000 [depreciating asset]) *plus*
- Pest and building inspections, stamp duty and solicitor's fees on purchase of the property ($20,000) *plus*
- Capital expenditure (renovations) ($30,000 – $254 [capital works deduction]) *plus*
- Real estate agent's fees and solicitor's fees on sale of the property ($12,000), *equals*
- **Cost base unindexed** – that is: **$338,000 + $20,000 +$29,746 + $12,000 = $399,746**

Brett deducts his cost base from his capital proceeds (sale price) by:

- Proceeds from selling the house, $896,000 ($900,000 – $4,000 [depreciating assets])
- Less cost base unindexed **$399,746**
- **Capital gain $496,254** ($896,000 – $399,746).

He decides the discount method gives him the best result, so he uses it to calculate his net capital gain: **$496,254 × 50% = $248,127**.

Example: partial main residence during part of the ownership period

Vrinda bought a house on 1 July 2009 for $350,000 and moved in immediately. On 1 July 2016 she bought a new house and moved into it on 1 December 2016 (5 months later) as her main residence and began to rent out her old house. She had a valuation done at the time for $500,000 for her old house.

She sold the old house (rental property) for $950,000. Its contract for sale was signed on 1 July 2024.

When Vrinda started renting out the old house on 1 December 2016, its market value was $500,000 (value at the time of first use for producing income).

Vrinda also had incidental costs for $15,000 for selling the property and made a capital gain of $435,000. Since she owned her old house for at least 12 months, she uses the discount method to calculate her net capital gain of $217,500.

$950,000 - $500,000 + $15,000 = $435,000 ÷ 50% = $217,500 net capital gain

She adds $217,500 in her tax return at **Net capital gain**.

Example: renting out part of a home

Thomas purchased a house 1 July 2009 and sold it on 30 June 2025. The house was his main residence for the entire time.

Throughout the period Thomas owned the home, a long-term tenant rented one bedroom (20% of the homes floorplan). Both Thomas and the tenant used the living room, bathroom, laundry and kitchen (30% of the homes floorplan). The rest of the home was only used by Thomas.

Thomas is entitled to a 35% (20% + half of 30%) rental deduction for interest on money borrowed to acquire his home.

Thomas made a capital gain of $120,000 when he sold the home. Of this total gain, he calculates the portion of the gain that isn't eligible for the main residence exemption. Thomas includes the taxable portion of the capital gain in his tax return, calculated as:

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.

Foreign residents, main residence and capital gains tax

There are special CGT rules if you're a foreign resident for tax purposes when you sell residential property in Australia.

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.

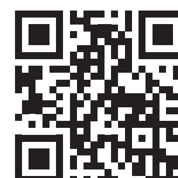
Records are generally required to be held for at least 5 years after the sale of the property (or year you declare a capital gain). If you make a capital loss, once you've offset the loss against a capital gain, keep your records for a further 2 years.

For more information, see see ato.gov.au/rentalrecords

This is a general summary only.

For more information:

- see ato.gov.au/rental
- watch our short videos at ato.gov.au/rentalvideos
- download our Rental properties guide at ato.gov.au/RPguide
- read our Capital gains tax guide at ato.gov.au/cgtguide.



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