Capital Gains on a Rental Property

Capital Gains is a complex area and this article only gives a brief overview of what records you need to keep to allow your registered tax agent to calculate the amount of gain on sale of your rental property. Any more detailed advice specific to your circumstances speak with your qualified account.

My answers in this article cover the scenario that you have bought and then sold a piece of real estate and for the whole time in between those two dates it was rented out.

What is a Capital Gain?

Basically, if sale proceeds for the house are more than what is has cost you than that difference is your Gross Capital Gain.

1. **Work out what gain you have made:**

Capital Proceeds

- The sales price of the house less any costs for real estate fees, legal and conveyancing fees
- **NEED:** Settlement Statement from sale plus contract

Cost Base

- This is what you paid for the place plus any stamp duties and other fees you paid to acquire it
- **NEED**: Settlement statement from purchase

Gross Caital Gain

- = Capital Proceeds less Cost Base
- this is the profit you have made since you owned the property

For example, if I bought a rental in 2005 that cost me $250,000 (cost base) and received net sales proceeds of $400,000 my Gross Capital Gain would be $150,000 ($400,000 less $250,000)

TIP – Capital Gains Tax DOES NOT apply to your own home if you have never rented it out or used it for a business. Good News is that no matter how well you do in the property market with your own place the taxman get none of it.

2. **Work out if any Discounts or Capital Gain Concessions can apply to your sale:**
   For most residential real estate, so long as its not owned by a company or super fund, that you have had for more than 12 months will be eligible for the CGT discount of 50%.

How this works: Gross Gain		$150,000
	Less: 50% CGT Discount	($75,000)
	Equals: Net Capital Gain	$75,000

   There may be other discounts that could apply, but that's a question for your Certified Practicing Accountant to review for you.

3. **How much Capital Gains tax do I have to pay?**

   There isn't a set amount of capital gains tax that you must pay. What happens is the Net Capital Gain (from step 2) gets included in your tax return with all your other taxable income for that year and where ever that total Taxable Income falls in the tax brackets is how much total tax you will pay that year.

   For Example: if you had taxable income of $60,000 with out any net capital gain then the tax for that year would be $11,047. If we then add on a net capital gain of $75,000 that tax figure would go up to $37,447.

	Without Capital Gain	With Capital Gain
Employment Income	60,000	60,000
Net Taxable Gain	0	75,000
Total Taxable Income	60,000	135,000
Basic Income Tax Due	11,047	37,447

   TIP – if you have a choice always aim to sell a property in a year that you expect to have the least amount of total income to minimize your overall tax.

PLEASE NOTE: the figures above are just an example and the tax difference caused by having a Net Capital Gain to include into your own personal income tax return will be different.

As with all tax deductions the more records you have prepared to bring to your Registered Tax Agent the better your tax result will be.

For further Capital Gains advice call Exact Accounting 0458 421 878 to make an appointment.