



**Australian**  
**21/11/2007**  
**Page: 5**  
**Wealth**  
**Region: National Circulation: 133000**  
**Type: National**  
**Size: 84.00 sq.cms**  
**MTWTF**



**COULD you outline the main rules surrounding Capital Gains Tax (CGT) on investment properties? For example, does the 15-year exemption rule apply?**

BROADLY speaking, the capital gains tax regime for investment properties is similar to any other asset.

For properties purchased after September 19, 1985, tax is payable on capital gains arising from disposal of the property, unless it is your main residence. The gain is calculated as the difference between the cost base and net sale proceeds.

For investment properties, the cost base will include the purchase price, stamp duty and other transfer costs, capital improvements and professional advice fees. The net proceeds will be the sale price less costs of selling the property.

While capital gains tax can sometimes be reduced or deferred, the 15-year exemption you note in your question relates only to the active assets of a small business.

In most cases, a residential investment property won't be an active business asset. The only exception is if you manage several properties and can show you are running a rental property business. You would also need to show that:

You spend a large amount of time on related activities, such as interviewing prospective tenants, collecting rent and arranging property repairs and maintenance.

You have a high level of direct involvement in the management process.

Everything is handled in a businesslike manner – that is, you keep proper accounting records, intend to generate profits, have a business plan and formal proof of ownership, and profit-sharing arrangements.

If you can't do this, don't despair. There are other ways to minimise your capital gains tax liability.

For example, if you are self-employed you could make a tax-deductible superannuation contribution to partly offset the capital gain. The contribution is taxed at 15 per cent, but is more sensible than paying tax on the capital gain at your marginal rate.

You could defer a property sale until a time when your taxable income is lower, such as retirement. You can also offset the gain against previous capital losses or, depending on ownership, you may be to split the capital gain among more than one person.

Answer by Andrew Quinn CPA of Wren Investment Advisers.

Readers with questions can email these to [wealth@theaustralian.com.au](mailto:wealth@theaustralian.com.au)