

# Small-scale subdivision and property development



So, you have decided to knock down your home and to build a couple of townhouses instead – and maybe live in one (but will just wait and see how things pan out). Likewise, you may have decided to subdivide your large backyard to do a similar thing.

In another case, you may have bought yourself a large block of land down the coast or in the country on which to build a holiday home (or your dream retirement home), but have now decided to build some houses on it to sell as the market is hot in that region. (And you know how to manage a project; you have been doing it all your working life.)

In all of these scenarios, the ATO may take the view that you are engaging in small scale property development and that, as a result, your profits from this activity should be taxed as ordinary business profit (and possibly at the top rate of tax), and not just merely as a concessionally taxed capital gain.

Furthermore, where you may have “ventured” land into a property development project, the capital gains tax (CGT) laws will apply to capture any capital gain (or loss) made on that land up until that time (but provided the land was not exempt from CGT, such as in the case of a home).

But there is one big advantage in being taxed as a property developer – you can generally claim your deductible costs each year as you incur them, and particularly interest on any money borrowed for the venture.

On the other hand, if you are merely subdividing part of your backyard and selling it you will only

be subject to CGT in respect of any gain or loss you make – and, what’s more, you can’t claim the CGT exemption for a home in this case.

And in the case of a knockdown-rebuild of a home, where you move back into and make it your home in the required time periods, there will generally be no CGT consequences (albeit, one day the ATO may look more closely at this rule if it considers it to be badly exploited).

In relation to GST, it generally doesn’t apply to small-scale property developments unless you’re operating a business and registered for GST – or to put it another way, for one-off projects, GST is unlikely to apply, but subdividing and selling multiple lots could push you into GST territory.

But the application of GST to small-scale property developments is a complicated area.

In short, the issue of how small-scale property development activities are taxed is complex – and will depend on the exact circumstances of the case.



It’s vital to come and speak to us if you are considering undertaking such activity – or have already done so. 💰

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