

Using your home to produce income

In contrast to holiday homes, what happens where you use all or part of your home to produce assessable income? Well, there will be important capital gains tax (CGT) consequences – the most important of which is that you will be likely to lose some of your CGT exemption on the home. However, the rules about possible partial CGT exemptions on homes are quite complex and they will depend on how exactly you used your home to produce assessable income.

For example, in the simple case, if you vacated your home and rented it for a period of up to six years you can choose to use the “absence concession” to continue to treat it as your CGT-exempt home during this period of absence.

In other words, you won't lose your CGT exemption at all in this case.

But there is one important proviso: during this period of absence no other home can qualify as your CGT-exempt home.

Nevertheless, applying this rule is not entirely straightforward. There are important considerations to bear in mind.

On the other hand, if you only use a *part* of your home to produce assessable income then you cannot use this absence rule and in most cases you will generate a partial CGT liability on your home. This will typically occur when for example you rent a room in the home, carry on a business from part of the home (eg, a professional practice) or construct a granny flat and rent it out.

But note that if you only rent part of the home to a friend or a relative and do not charge commercial rent, you will not trigger this rule about losing part of your CGT exemption as you have not used the home to produce assessable income.



Also note that because you have used part of your home to run a business, you may be eligible to apply the CGT small business concessions to reduce, eliminate, or roll over any capital gain arising from the business use of your home.

However, it is not as easy as it seems to qualify for these concessions – and our advice should be sought on any such matter.

There is also another important rule which is often overlooked when a home is first used to produce assessable income – and that is that the home will be considered to have been reacquired for its market value at that time. This will help reduce the amount of the assessable capital gain that is calculated.

And finally, the 50% CGT discount is available to reduce the amount of any assessable gain from using part of your home to produce any form of assessable income – as long as you have owned it for at least 12 months.

So if you have this type of CGT issue in relation to probably your most valuable asset, come speak to us first before selling your home. 💰

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