

BUDGET CHANGES TO CGT DISCOUNT

*What do they
mean to for you*



So, what do the Budget changes to the CGT discount mean to you?

And what these changes will do is to allow any capital gain that accrues up to 1 July 2027 to continue to be entitled to the 50% discount - but thereafter the assessable gain will be worked out under an inflation based indexation rule and gain itself will be subject to a minimum 30% tax rate.

But firstly, here are the specific rules regarding the proposed changes. In a nutshell:

Firstly, if you buy and sell an asset after 30 June 2027, the new rules apply (ie your gain will be calculated by reference to inflation based indexation only and a minimum 30% tax rate will apply to the gain).

Secondly, if you buy and sell an asset before 1 July 2027, the existing 50% discount rules will continue to apply and there is no minimum tax rate.

Thirdly, if you buy an asset before 1 July 2027 but sell it after that date (ie your ownership of the assets straddles this key date), then you will get the discount up to the asset's market value on 1 July 2027 and thereafter the gain is calculated under indexation and a minimum 30% tax rate will apply to the gain.

Importantly, the new rules apply to all assets (eg. shares) - and not just real estate.

A fundamental feature of this rule as it applies to the straddling situation, is the need to determine the asset's market value on 1 July 2027. This will be easy in some cases (eg publicly listed shares on the ASX). But harder in other cases - including real estate.

But here it is worth noting that the ATO currently takes the view that you do not have to get a professional valuer where the CGT rules requires a market value - and that a "comparative valuation" will do instead eg comparative sales of similar houses in the neighbour (and perhaps supported by a real estate agent's letter).

continued overleaf ➡

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However, if the Commissioner challenges your market valuation the onus will be on you to show that your valuation is better than the Commissioner's valuation!

Another key thing to bear in mind is whether the new indexation system will give you better advantage than the discount – which is possible especially if you have owned the asset for a long time. Also, if shares you have owned on the share-market have only risen in line with inflation, indexation may also give a better result.

The timing of sale is also important because it is better to realise a capital gain in an income year in which your other income is low (or you have capital losses or a tax loss) - so that you therefore pay less

tax on the gain. And with the minimum tax rate of 30% applying from 1 July 2027, this is an important matter – especially if you are considering retiring in the near future.

Suffice to say, these CGT discount matters are ones on which important planning decisions can be made. So, make an appointment to see us to discuss how they apply to your assets.

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